

# Development market in Prague

## May and June 2017

### INTRODUCTION

The assessed period saw a dramatic decline in sales of almost 30%. In addition, the average price of a sold apartment significantly increased (by 15.5%) as did the average price per m<sup>2</sup> of its area (by 8.9%). In the previous assessment, we informed you of the fact that owing to the selling out of the market, we are nearing previously unexpected milestones or records. The above mentioned figures indicating a major increase in the price parameters of demand that occurred in the past two months are either a harbinger or proof of this. The upcoming period will be a highly unpleasant one in terms of the monitoring of market developments and determining of trends as the drying out of the market makes development companies behave in a non-standard way. For example, the greater share of non-public sales or the withdrawal of a project from the market marking it as sold and, if needed, returning the rest of the apartments on the market later. Therefore, it may be expected that the values will be volatile for the remainder of the year, namely in the context of demand.

During the assessed months, the development market contracted by 1.9%, ie by 80 units. Given that the number of non-residential units in housing projects grew from 108 to 113, the number of apartments was down by 85, i.e. 2.1%.

In less than two years (22 months, to be specific) the development market dried out in terms of the number of apartments by more than 41.6% of the volume (dropping from 6,837 to 3,996 apartments). The decrease occurs at a rate of 129 apartments per month. At the same time, the average price per unit on the market grew by 45.8% (from CZK 4,841,875 to CZK 7,061,074). The rate of the price increase for available apartments is approximately CZK 100.9 thousand per month. The price of the apartment surface area did not grow as fast due to the increase in the area of available residual apartments (an increase of 5m<sup>2</sup>), but it nonetheless increased by 35.7% (from CZK 67,483 per m<sup>2</sup> to CZK 91,577 per m<sup>2</sup>). The average monthly growth rate is CZK 1,095 per m<sup>2</sup>.

**Demand in May and June 2017** was 28.4% lower than in the preceding period of March and April 2017. It dropped by 288 units to 725, of which 708 were apartments and 17 were non-residential units in residential projects. Since the average apartment price as part of the supply of available apartments at the beginning of the period was CZK 7,091,427 with the surface area price of CZK 89,288 per m<sup>2</sup> and apartments in new projects in this period were priced at CZK 89,725 per m<sup>2</sup>, potential buyers did not again have much choice. In the previous period, demand focused on smaller units, but for a higher price, including a higher price per m<sup>2</sup> of surface area. This time, a radical leap in demand, which recurs periodically, had to materialise: after smaller, yet more expensive apartments are sold out, supply makes a leap to bigger, more expensive apartments. The leap often brings along a radical decrease in the number of sold apartments. This was the case of the assessed period. The apartments sold were 8.3% bigger (73.12 m<sup>2</sup>) and 15.5% more expensive (CZK 6,083,189), with the price per m<sup>2</sup> 8.9% higher (CZK 84,861 per m<sup>2</sup>).

**Supply in May and June 2017** in terms of available apartments dropped again and it is so far impossible to speak about the end of the trend of a supply decrease. A total of 655 new apartments were added directly to the market and the supply of available apartments decreased at the end of the period by 85 apartments, i.e. 2.1%. The annual deficit in new apartments is as high as 816 compared with the first six months in 2016, i.e. a decrease of 30%. In a mere two months, the slump thus deepened by 422 deficit apartments. Compared to 2014, the supply of new available apartments essentially amounts to half of what the supply was then.

The number of new apartment projects saw a year-on-year decrease from 20 to 16 projects, decreasing in terms of the number of apartments placed on the market from 1,059 to 655. Sales were finalised for 30 residential projects with 1,408 apartments in total.

Development companies placed projects with 920 apartments on the market in the monitored period, but only the above stated 655 apartments were put on the market – i.e. 71%. Other additions to the market also included 21 non-residential commercial units in housing projects.

In terms of all new apartments placed on the market, **May** saw a substantially lower number of offerings than the same month in prior years. Seven apartment projects entered the market with 322 apartments (719 apartments in 2016), where the average number of apartments per project placed on the market was 46 and was lower than the long-term average of the number of apartments in new projects. May's new offerings are characterised by an average apartment size of 59.46 m<sup>2</sup>, an average price of CZK 5,439,785 and surface area price parameter of CZK 91,134 per m<sup>2</sup>.

In terms of individual apartment layouts, May's offerings are strongly oriented towards the 2-bedroom layout (125 apartments). They accounted for 8% more than in April, amounting to 38.7%, which is almost equal to the overall representation of the layout in supply (the overall market share being 37.5%). After what has been a long time, the 1-bedroom layout (103 apartments) ended up second in line and was even above its overall market representation (the overall market share being 23.4%). This time, the 3-bedroom layout (68 apartments) is, with its 21.1% share, roughly within its sales possibilities. Bigger and more expensive layouts are also represented after a long time, including the 6-bedroom layout. Their shares are as follows: 4-bedroom layout: 6.8%, 5-bedroom layout: 0.3%; 6-bedroom layout: 1.2%.

The aggregate sales of new apartments in May amounted to approximately CZK 1.75 billion. In numerical terms, **June** was essentially as "generous" as May. Nine apartment projects entered the market with 333 apartments put on the market (358 apartments in 2016). The average number of apartments in a project placed on the market was 37 apartments and contributed towards the long-term trend of decreasing the number of apartments in new offerings. The June offerings can be characterised by the average apartment size of 73.7 m<sup>2</sup>, price of CZK 6,559,380 and the surface area

price parameter of CZK 89,049 per m<sup>2</sup>.

In terms of individual apartment layouts, June's offerings are strongly oriented towards the 3-bedroom layout, having a 38.6% share (128 apartments). They accounted for 13% more than its overall market supply of 25.4%. With its 34.6% share, the 2-bedroom layout (115 apartments) is second in line and is slightly below its overall market representation of 37.6%. This time, the 1-bedroom layout (49 apartments) is again well below its sales possibilities with a 14.8% share. Bigger and more expensive layouts account for approximately the same shares as in the overall supply: 4-bedroom layout – 10.2%; 5-bedroom layout – 1.8%.

Total sales of new apartments amounted approximately to CZK 2.18 billion in June.

In total, May and June saw units of approximately CZK 3.93 billion placed on the market, with a surface area price of CZK 89.725 per m<sup>2</sup>.

#### **PRINCIPAL CHANGES IN THE TOTAL SUPPLY IN MAY AND JUNE 2017**

In the period under review, **16 new residential projects with 941 units in total** were placed on the market. A total of 670 units (apartments, non-residential units) were placed on the internet market, i.e. only 71% of the total number of units in new projects. Sales were finalised for **30 residential projects, and 1,620 units (of which 1,408 were apartments) left the market** (1,150 apartments had still been placed on the market).

655 apartments in new projects were placed on the market. The balance of the total market supply (sold, available) for the period of May and June was negative in terms of the number of apartments – apartments on the market decreased by 495. In terms of sales, the balance was also negative – the volume of sales of all apartments on offer dropped by CZK 1,866 million.

The volume and structure of available apartments was affected by the sale of 832 units, of which 815 were apartments. 107 units – apartments – were put back up for sale. In balance terms (difference between the beginning and the end of the period), 725 units were sold and removed from the offering of available units, of which 708 were apartments.

Change in the offering of available apartments may be characterised as follows:

- The NUMBER of available apartments dropped from 4,081 to 3,996, i.e. by 2.1%
- The AVERAGE SIZE of an apartment dropped from 78.6m<sup>2</sup> to 77.85 m<sup>2</sup>, i.e. by 1%
- The AVERAGE PRICE of an apartment grew from CZK 7,031,028 to CZK 7,061,074, i.e. by 0.4%
- The AVERAGE SURFACE AREA PRICE of an apartment grew from CZK 90,393 per m<sup>2</sup> to CZK 91,577 per m<sup>2</sup>, i.e. by 1.3%

#### SALE OF UNITS IN MAY AND JUNE 2017

Compared to the two previous months, the sale of units saw a dramatic decline of 28.4%. **The number of sold units was 725**, i.e. a drop of 288 units was recorded, of which the total number of apartments sold was 708, decreasing by 283 apartments, i.e. 28.6%, compared to the previous period. The total surface area of sold units decreased by 15.6% to 60,834m<sup>2</sup>. The pricelist sales decreased to CZK 4,939 million – by 7.1%.

#### Qualitative parameters of sold units:

- The price of an average unit sold increased by CZK 816,274 to CZK 6,083,189
- The average area of a sold unit increased by 5.6 m<sup>2</sup> to CZK 73.12 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 6,905 per m<sup>2</sup> to CZK 84,861 per m<sup>2</sup>.

In the period under review, the market was no longer able to retain purchase parameters at the same level as in late 2016, when their increase was recorded. Contrary to the period of March and April, when it attempted to regulate the economic parameters by purchasing smaller apartments, albeit more expensive in terms of surface area price, May and June recorded a strong demand-driven increase not only in the surface area parameters of the purchased apartments, but also in the total price and the apartment surface area price.

Development in demand in **May and June 2017** as compared to March and April 2017:

#### Quantitative indicators:

- The NUMBER of sold units decreased by 288 units (-28.4%)

- The SURFACE AREA of sold units decreased by 11,247 m<sup>2</sup> (-15.6%)
- The SALES of sold units decreased by CZK 374,767,615 (-7.1%)

**In the same period in 2016, the average apartment purchased by clients was 4.3 m<sup>2</sup> smaller, 30.4% cheaper (CZK 4,665,412) and the CZK/m<sup>2</sup> surface area price parameter was 23.9% lower (CZK 68,482 per m<sup>2</sup>).**

#### SUPPLY OF UNITS AS OF 1 JULY 2017

After a minor increase in the previous two months, the aggregate supply of available units again decreased by 80 units, i.e. by 1.9% to 4,109 units. The number of available apartments actually decreased by 85 in terms of the number of units, i.e. by 2.1% to 3,996 apartments, once again coming below the threshold of 4,000 available apartments.

#### Qualitative parameters of the units on offer:

- The price of an average unit on offer increased by CZK 27,722 to CZK 7,119,150
- The average surface area decreased to 79.73, i.e. by 0.7 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 1,054 per m<sup>2</sup> to CZK 90,343 per m<sup>2</sup>

The qualitative indicators of the available units on offer saw an increase in the monitored period only in economic parameters and their increase was, thanks to the behaviour of demand, only minor – from 1.2% in respect of the unit surface area price to 0.4% in respect of the price of an average unit.

#### Change in the supply of available units for May and June 2017:

##### Quantitative indicators:

- The NUMBER of units on offer decreased by 80 units (-1.9%)
- The SURFACE AREA of units on offer decreased by 9,514 m<sup>2</sup> (-2.8%)
- The SALES of units on offer decreased by CZK 323 million (-1.1%)

Supply also offers an interesting comparison with the previous period in 2016. In that period, clients were offered 743 units more for purchase. The average unit was 1 m<sup>2</sup> smaller, 24.1% cheaper (CZK 5,736,878) and the CZK/m<sup>2</sup> price parameter was 19.5% lower (CZK 75,587 per m<sup>2</sup>).

#### **DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN MAY AND JUNE 2017**

Regarding the pricing policy of development companies, it seems that a minor shift in behaviour is occurring. The unit price reduction amount has increased substantially by 94%. The price increased for 13.1% of the units on offer, i.e. 538 apartments, on average by only CZK 279 thousand (an almost identical increase in the prior period - 13.6% of units). The absolute amount gained from the price increases amounted to approximately CZK 150 million. The largest volume of price increase – 16.8% of the total, is for the third time again attributable to EKOSPOL. The Company increased the prices of 25 apartments by CZK 25.245 million.

As regards the reduction of apartment prices, the price change applied to 124 apartments (3.0% of supply). On average, the discount in this period substantially increased and amounted to the average of CZK 690 thousand per reduced apartment (CZK 301 thousand in the prior period). In absolute terms, discounts amounted to CZK 85.5 million.

In terms of adherence to the purchase agreement, clients' behaviour considerably deteriorated in this period. In order to compensate for the decrease in sales, it had been necessary in the previous period to sell 55 units, now it was 107 units while sales were lower. Withdrawal from the sale was saturated in 98% by renewed reservations and 2% of apartments became available again. The number of current reservations for the period decreased by 86 reservations in absolute terms and the success rate in the realisation of sales decreased to 62%. The decline in the success rate of reservations is subject to an increase in the number of sales directly from the 'available' status.

**The projection expressed in the previous evaluation regarding the developments of demand and its decline turned out to be true. If I were to**

characterise the probable development of demand in the next period, everything indicates that it will decline again. Naturally, this will only apply if a project "year" with a strong offer does not enter the market which, given the vacation months, may be almost excluded.

The parameters of the units sold in the assessed period also speak against an increase in demand. Demand rose up and accepted the apartment price parameters in such an amount that it would be surprising if it was able to maintain the level.

It can therefore be expected that demand will stagnate at best. However, if it behaves in an economic manner, sales during the summer months should amount to around 600-650 apartments.

#### **BASIC ASSESSMENT OF THE FIRST SIX MONTHS OF 2017**

The assessment of May and June also opens up the possibility of looking into the basic data for the first six months of the year and making a brief assessment of the changes that occurred. Alternately, a year-on-year comparison with the same period may be made.

The **AGGREGATE SUPPLY OF APARTMENTS** (sold and available) was experiencing a decline during the whole of the first six months of 2017. As of 1 January 2017, a total of 16,731 apartments in housing projects with a single unsold apartment were on offer. As of 30 June 2017, the number dropped to 14,796 apartments, i.e. by 1,935 apartments – a drop of 11.6%. The aggregate volume of the sales of offerings subsequently decreased from CZK 83.8 billion to CZK 80.3 billion, i.e. a drop of 4.2%.

As the aggregate supply declined, so did the number of development companies on the market and the number of projects. The number of projects decreased from 288 as of 1 January 2017 to 266 projects as of 30 June 2017, i.e. by 22 projects – a drop of 7.6%. The number of developers decreased from 160 companies as of 1 January 2017 to 148 companies as of 30 June 2017, i.e. by 11 companies – a drop of 6.9%.