

Development market in Prague

BID AND BID PRICES in January and February 2018

INTRODUCTION

The first two months of 2018 brought the highest supply in the last five years. The end of 2017 already indicated a recovery of new offers and it seems that the beginning of 2018 confirmed this fact and the market is finally pushing off the bottom.

In January and February 2018, demand for units in residential projects in terms of units was 7.1% higher than in the prior period of November and December 2017. It grew by 62 units to 936, with apartment sales increasing by 6.6% from 863 apartments to 920. The sales of non-residential commercial units in residential projects also recorded an increase: from 11 to 16 non-residential units. The assessment of demand including the comparison was affected by the following factors:

- Certain projects were put on the market with a higher number of apartments already sold;
- The February offer, especially of Finep, was very favourable in the current price situation and it led to an increase in sales.

In the prior period, new apartments accounted for 11% of apartments sold. This time, new offerings accounted for 20% of sales and as a matter of interest, it should be said the February offering alone represented 15.5% of apartments sold.

In January and February 2018 the supply of available units in residential projects also increased. It grew from 4,647 units to 5,001 units, i.e. by 7.6%. The apartments in the offer of available units as of the end of the period saw an increase of 351 apartments compared to the end of last year, numbering 4,882 apartments, i.e. an increase of 7.7%

Compared to the prior period, the number of new residential projects increased from 18 projects to 21

projects. Sales were finalised in respect of 16 residential projects with a total of 625 apartments.

21 residential projects comprising 1,130 apartments and 19 non-residential units were placed on the market. 1,120 apartments, i.e. more than 99% of the total offer, were put up for direct sale. In addition, companies placed four projects on the detached house market comprising 114 houses.

The supply of new apartments in January amounted to 501 apartments. A total of 9 residential projects entered the market, comprising 511 apartments (219 apartments in 2017). The new January offering is characterised by an average apartment size of 62.64m², an average price of CZK 5,864,232 and a surface area price parameter of CZK 93,622 per m².

In terms of individual apartment layouts, the offerings were clearly oriented towards the 2-bedroom and 3-bedroom layouts with a total of 353 apartments, i.e. 70.5% of January's total offerings. In terms of city districts, Prague 9 (214 apartments) and Prague 5 (134 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in January amounted to approximately CZK 2.4 billion.

New supply in February was unusually high. A total of 12 residential projects with 626 apartments (351 apartments in 2017) entered the market and 619 apartments were put on sale. February's offering can be characterised by an average apartment size of 62.83 m², an average price of CZK 5,145,142 and a surface area price parameter of CZK 81,889 per m².

In terms of individual apartment layouts, the offerings were again oriented towards the 2-bedroom and 3-bedroom layouts, accounting for 71.2% of the total offering. In terms of city districts, Prague 5 (257 apartments) and Prague 10 (209 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in February amounted to approximately CZK 3.2 billion.

In total, January and February saw units of approximately CZK 5.6 billion placed on the market, with a surface area price of CZK 87,128 per m² (in November and December 2017, the price was CZK 118,247 per m²).

CHANGES IN APARTMENT OFFERINGS IN JANUARY AND FEBRUARY 2018

In the monitored period, a total of **21 new residential projects with a total volume of 1,149 units** were placed on the market, of which **1,130 were apartments**. The number of residential projects whose sales were finalised amounted to **15 projects, with 641 units leaving the market, of which 625 were apartments**.

A total of 1,120 apartments in new projects were placed on the market. The balance of the total market offerings (sold, available) was positive in terms of the number of apartments in January and February, with 505 apartments added to the market. The volume of sales of available apartments on offer increased in the monitored period by CZK 1,943 million to CZK 31,247 million.

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

- The NUMBER of available apartments increased from 4,531 to 4,882, i.e. by 7.7%
- The AVERAGE SIZE of an apartment dropped from 71,8 m² to 71,3 m², i.e. by 0.6%
- The AVERAGE PRICE of an apartment decreased from CZK 7,004,925 to CZK 6,794,302, i.e. by 3%
- The AVERAGE SURFACE AREA PRICE of an apartment dropped from CZK 97,614 per m² to CZK 95,769 per m², i.e. by 1.9%

SALE OF UNITS IN JANUARY AND FEBRUARY 2018

Compared to the two previous months, the sale of units substantially increased, with the number of sold units (apartments and non-residential units in residential projects) growing by 7.1%. **The number of sold units was 936**, i.e. an increase of 62 units, of

which the total number of apartments sold was 920, having increased by 57 apartments compared to the previous period. The average sold apartment cost CZK 5,484,299 at CZK 89,977 per m² and was 61.0 m² in size. Total sales of apartments in the period amounted approximately to CZK 5.05 billion. This means that sales in this period saw a decrease in all monitored parameters.

Qualitative parameters of sold units:

- The price of an average unit sold decreased by CZK 542,828 to CZK 5,576,151
- The average size of a sold unit decreased by 5.9 m² to CZK 61.45 m²
- The CZK/m² parameter increased by CZK 1,249 per m² to CZK 91,103 per m².

It seems that the market does not continue in the price increase and a period of price stagnation persists followed by a gradual limited decrease.

Development in demand in **January and February 2018** as compared to November and December 2017:

Kvantitativní ukazatele:

- The NUMBER of sold units increased by 62 units; +7.1%
- The SURFACE AREA of sold units increased by 1,549 m²; +2.4%
- The SALES of sold units increased by CZK 543,734,803; +11.2%

In the same period in 2017, the average apartment purchased by clients was 7.8 m² bigger, 7.9% cheaper (CZK 5,165,817) and the CZK/m² surface area price parameter was 21% lower (CZK 75,188 per m²). A year ago, a total of 810 units were sold, i.e. 15.6% less than this year.

SUPPLY OF UNITS AS OF 1 MARCH 2018

After a drop to 4,647 units in the preceding period, the aggregate offer of available units grew again to 5,001 units. Of this, the number of available apartments increased by 351 apartments, i.e. by 7.7% to 4,882 apartments.

Qualitative parameters of the units on offer:

- The price of an average unit on offer decreased by CZK 67,757 to CZK 6,805,653
- The average surface area decreased to 72.27 m², i.e. by 0.5 m²
- The CZK/m² parameter decreased by CZK 115 per m² to CZK 94,925 per m²

In the monitored period, the qualitative indicators of the available units on offer thus saw a decline in size, unit price and exceptionally also in the unit surface area price. This was primarily due to the nature of the new apartment offerings in February.

The change in the supply of available units for **January and February 2018 as compared to the period of November and December 2017:**

Quantitative indicators:

- The NUMBER of units on offer increased by 354 units; +7.6%
- The SURFACE AREA of units on offer increased by 23,120 m²; +6.8%
- The SALES of units on offer increased by CZK 1,943 million; +6.5%

Supply also offers an interesting comparison with the previous period in 2017. In that period, clients were offered 891 fewer units for purchase. The average unit was 8.1 m² larger, 1.7% more expensive (CZK 6,925,075) and the CZK/m² price parameter was 8.8% lower (CZK 87,231 per m²). The market clearance and radical increase in prices had already been in full swing.

DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN JANUARY AND FEBRUARY 2018

In terms of the pricing policy of development companies, the monitored period may be regarded as strong, which is typical for the beginning of the year. An increase in prices affected 677 units, which is almost 50% more than in the previous period. The decrease in prices was even more marked in terms of the number of units, affecting 242 units.

As regards the reduction of apartment prices, the price change only applied to 4.8% of the supply). However, the discount in this period substantially increased, amounting to an average of CZK 392 thousand per discounted apartment (CZK 174 thousand in the prior period). In absolute terms, discounts amounted to CZK 94.8 million. The high amounts are due primarily to the decrease in the prices of more expensive apartments and the efforts to complete their sale.

The price increased in respect of 13.5% of the units on offer (i.e. 677 units), on average by CZK 275 thousand (in the prior period, the increase amounted to CZK 174 thousand). As a result, the absolute amount gained from increased prices was CZK 186 million.

In terms of the pricing policy, the total balance for the period thus brought about increased sales arising from changes in the prices of units of CZK 91.4 million.

In terms of adherence to the purchase agreement, clients' behaviour was below the average. On an annual average, the number of apartments repeatedly placed on sale amounted to approximately 10%. In this period, 14% of the 1,049 apartments sold in absolute terms (129 apartments) were again placed on sale. This time, withdrawal from sale was saturated only in 26% of cases by renewed reservations and a total of 73% of apartments became available again.

In the preceding period, I did not forecast sales at the beginning of 2018, but the high number of reservations indicated good results. It is true that 15.5% of sales were represented by new apartments from the offerings of February 2018. However, their moderate prices are not the beginning of a trend of decreasing prices and we can expect that the offer prices in the following months will be higher. The sales model so far anticipates sales from 835 to 885 apartments in March and April, so let's see how it turns out.

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