

Development market in Prague

Bid and bid prices in November and December 2018

INTRODUCTION

The assessed period covered the second and third month from the start of mortgage lending restrictions. It is still too soon to judge its overall impact on the market situation, yet it is already possible to characterise certain changes and, at the same time, identify steady trends.

- Since July 2018, there has been a perceptible decline in sales and the sales for November and December 2018 are the lowest in the past five years. Their decrease compared to the same period in 2017 is 40%.
- In approximately the past six months, the proportion of apartments repeatedly placed on sale is above-average and, since July 2018, it has not dropped below 15% of the number of apartments sold in absolute terms – the 2017 average was 10%. Now the level of apartments put back on sale out of the total apartments sold during the period is 16.2%.
- There was no price impact of the measure in the form of a decrease in apartment prices in November and December – the prices of new apartments increase and the ratio of increase and decrease in apartment prices on the market is approx. 3:1.

In terms of the supply of new apartments, November and December were slightly above average, with the supply amounting to 105% of prior years' average during the two months. 703 new apartments were put on the market for direct sale with an average surface area price parameter of CZK 109,945 per m². This time, apartments that formed part of reconstruction projects accounted for a significant 45% of apartments and their average surface area price parameter was CZK 119,341 per m².

Apartments in reconstruction projects became a significantly strengthening market segment in 2018.

Their share increase in the last few years amounts to approximately 5% and they currently represent 22% of all available apartments and even 35% of one-room apartments. The parameters of apartments from reconstructions are the cause of changes in apartment parameters in 2018, e.g. decrease in the average apartment size.

New projects comprised 841 new apartments, of which almost 84% were placed by companies on the market, i.e. the above-mentioned 703 apartments.

In November and December 2018, the demand for units in residential projects significantly decreased compared to the two previous months. Compared to September and October 2018, it decreased by 32.2%, i.e. by 247 units to 519. Sales of apartments also declined from 739 to 507. Sales of non-residential and commercial units in residential projects decreased from 27 units to 12. The latter half of the year is the period with the worst sales since 2014.

In November and December 2018, the supply of available units in residential projects grew in the analysed period by 9.5%, i.e. by 544 units from 5,737 to 6,281. Apartments in the supply of available units as of the end of the period themselves saw an increase of 527 apartments, numbering 6,114 apartments. After a growth since July 2017, the supply of available units thus reached levels comparable with the number of available units as of 1 January 2016. This means that after 1.5 years of the decrease in the number of available units and 1.5 years of growth, the same level has now been attained.

Over these three years of decrease and subsequent growth in the number of available units, with 6,279 available units as of 1 January 2016 and 6,281 as of 1 January 2019, i.e. a difference of only two units, a significant change has occurred in their parameters, both quantitative and qualitative.

With the same number of units, the difference in the content of the CURRENT supply compared to the supply as of 1 January 2016 is as follows:

- TOTAL SURFACE AREA of the units decreased by 10%
- TOTAL SALES of the units increased by 28.9%
- SIZE of the average unit decreased from 75.95 m² to 68.27 m², i.e. to 90%
- PRICE of the average unit increased from CZK 5,354,991 to CZK 7,100,179, i.e. to 133%
- AREA PRICE of the average unit increased from CZK 71,450/m² to CZK 104,854/m², i.e. to 147%

Compared to the prior period, **the number of new residential projects** saw a slight decrease: from 24 projects to 23. Sales were finalised in respect of 16 residential projects with a total of 1,042 apartments. In addition, five projects with 54 detached houses were put up for sale. Three projects with 92 detached houses left the market.

A total of 23 residential projects comprising 841 apartments and 31 non-residential units were placed on the market. A total of 703 apartments, i.e. approximately 84% of the total offerings, were put up for direct sale.

The supply of new apartments in November amounted to a mere 510 apartments. A total of 15 residential projects entered the market, comprising 589 apartments and 25 non-residential units. The new November offering is characterised by an average apartment size of 66.2 m², an average price of CZK 7,243,530 and a surface area price parameter of CZK 109,413 per m².

In terms of individual apartment layouts, the offerings favoured the two-room layout.

With 222 two-room apartments put on the market, this layout constituted the largest proportion of the total supply, specifically 43.5%. The one-room layout followed with 119 apartments, which is a 23.3% share. The three-room and four-room layouts only constituted 18.8% (96 apartments) and 12.9% (66 apartments) of the total supply, respectively. The five-room layout represented 1.2% of the aggregate

offerings (6 apartments). Only one six-room apartment appeared.

Apartments in new projects increased the offering in seven city districts, including Prague 2, 4, 5, 6, 7, 8 and 10. The largest portion of new apartments was recorded by Prague 7: with 209 new apartments entering the market, i.e. a 53% increase in the available apartments, Prague 7 accounted for 41% of the total supply. Prague 5 came second, seeing 91 apartments placed on the market, which corresponds to a 18% share in the total supply and a 5% increase in the number of available apartments. With a 17% share in the total supply, Prague 10 placed third, recording 85 new apartments and a marked 11% increase in available apartments. Prague 4 took fourth place, accounting for 11% of the new supply and increasing the number of available apartments by 6.4%, i.e. 55 apartments. Prague 8 with 39 apartments and a 8% share in the supply increased its available apartments by 18.5%. A noticeable increase of 11.3% was also seen by Prague 6 with 25 new apartments and a 5% share in the total supply.

In November, the aggregate sales of new apartments amounted to approximately CZK 3.695 billion. If apartments that are not publicly traded are added, sales amounted to approx. CZK 4.273 billion.

The new supply in December reached slightly above-average figures with regard to the number of apartments compared to previous years. A total of 8 residential projects including 251 apartments and 6 non-residential units entered the market, with 193 apartments put on sale, i.e. 77% of the total new supply of apartments. December's offering can be characterised by an average apartment size of 51.62 m², an average price of CZK 5,768,233 and a surface area price parameter of CZK 111,747 per m².

In terms of individual apartment layouts, the structure of offerings focused on one- and two-room apartments, which represented 96% of the supply.

In respect of individual layouts, offerings comprised five types. With 84 one-room apartments entering the market, the layout accounted for 43.5% of the total supply and represented the greatest portion of the offerings. With 82 apartments, the two-room layout accounted for 42.5%, followed by the three-room layout accounting only for 8.3% (16 apartments). In addition, 10 four-room apartments (a 5.2% share in the supply) were put on the market. Five-room apartments saw one apartment added (a 0.5% share).

Apartments in new projects increased the supply in six city districts – Prague 2, 3, 4, 5, 9 and 10. The greatest number of new apartments was seen in Prague 3 and Prague 10, where 56 new apartments entered the market in each district, i.e. 29% of the total supply and an increase of 14.5% in available apartments for Prague 3 and 7.2% for Prague 10. With 36 apartments, a 19% share of the total supply and an increase in available apartments of almost 3.5%, Prague 9 placed second. Third place was occupied by Prague 4 with 13% of the total supply: 25 apartments and an increase in available apartments of 2.9%. Prague 12 placed fourth, accounting for 8% of the supply of new units and having increased the number of available apartments by a full 7.4% (16 apartments). With only 4 apartments and a 2% share in the new offering, Prague 5 placed fifth.

The aggregate sales of new apartments reached approximately CZK 1.113 billion in December. If apartments that are not publicly traded are added, sales amounted to CZK 1.445 billion.

In total, November and December saw apartments of approximately CZK 5.718 billion placed on the market, with a surface area price parameter of CZK 109,945 per m². In terms of sales, the greatest proportion is attributable to the two-room layout (36.8%), followed by the three-room (21.7%) and four-room (19.1%) layouts, and the one-bedroom layout generated 17.8% of the total sales. In terms

of the number of apartments in individual layouts, the two-room layout represented a high proportion of 43.2%, which accounts for 36.1% of the total offerings.

In terms of city districts, the largest number of new apartments was added in Prague 7. With 209 new apartments put up for sale (30.0% of the total supply), available apartments in this district grew by 52.6%. In total, the number of available apartments increased by 11%.

CHANGES IN APARTMENT OFFERINGS IN NOVEMBER AND DECEMBER 2018

In the monitored period, a total of **23 new residential projects** were placed on the market with a total volume of **872 units, of which 841 were apartments**, and earlier projects were extended to include 90 additional apartments. In the aggregate, **931 new apartments entered the market** in projects, and **793 apartments entered the market directly**. Sales were finalised in respect of **16 residential projects, with 1,011 units leaving the market, of which 1,001 were apartments**.

The number of available apartments on offer grew by 527 apartments to 6,114 apartments, and the volume of their sales increased in the monitored period by CZK 3,939 million to CZK 40,227 million.

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

- The NUMBER of available apartments grew from 5,587 to 6,114, i.e. by 527 apartments (9,4%);
- The AVERAGE SIZE of an apartment fell from 67.84 m² to 67.46 m², i.e. by 0,4 m² (0.6%)
- The AVERAGE PRICE of an apartment recorded an increase from CZK 6,990,595 to CZK 7,107,196, i.e. of CZK 116,601 (1.7%); and
- The AVERAGE SURFACE AREA PRICE of an apartment grew from CZK 104,096 per m² to CZK 106,072 per m², i.e. by CZK 1,976 per m² (1.9%)

SALE OF UNITS IN NOVEMBER AND DECEMBER 2018

Compared to the two previous months, the sale of units significantly decreased, with the number of sold units (apartments and non-residential units in residential projects) dropping by 32.2%. **The number of sold units was 519**, i.e. a decrease of 247 units, of which the total number of sold apartments was 507, having decreased by 232 apartments compared to the previous period, i.e. 31.4%.

The decrease in sales compared to the two post-holiday months is considerable and even lower than sales in July and August.

Qualitative parameters of sold:

- The price of an average unit sold decreased by CZK 200,213 to CZK 5,968,638;
- The average size of a sold unit decreased by 2.7 m² to CZK 63.47 m²; and
- The CZK/m² parameter decreased by CZK 858 per m² to CZK 95,001 per m².

Development in demand in the monitored period of **November and December 2018** as compared to September and October 2018:

Quantitative indicators:

- The NUMBER of sold units decreased by 247 units; -32.2%
- The SURFACE AREA of sold units decreased by 20,510 m²; -33.9%
- The SALES of sold units decreased by CZK 1,710 million; -31.5%

In the development of demand, a decrease in economic parameters and its repeated increase is cyclical with a six-month cycle. The prediction that the economic parameters of demand for November and December 2018 would rise did not come true and the parameters decreased. This means that the demand of clients was more strongly limited by

price, which is evidenced by low sales.

In the same period in 2017, the average apartment purchased by clients was 3.9 m² larger (+5.8%) and 2.5% more expensive (CZK 6,118,979), and the CZK/m² surface area price parameter was the only lower one, by 5.7% lower (CZK 89,853 per m²). A year ago, a total of 874 units were sold, i.e. 32% more than this year.

SUPPLY OF UNITS AS OF 31 DECEMBER 2018

The aggregate offer of available units recorded another increase from 5,737 units to 6,281, i.e. an increase of 544 units (9.5%). Of this, the number of available apartments grew by 527 apartments to 6,114.

Qualitative parameters of the units on offer:

- The price of an average unit on offer increased by CZK 103,325 to CZK 7,100,179, i.e. by 1.5%;
- The average surface area decreased by 0.6 m² to 68.27 m², i.e. by 0.9%; and
- The CZK/m² parameter increased by CZK 2,111 per m² to CZK 104,854 per m², i.e. by 2.1%.

In the monitored period, the qualitative indicators of the available units on offer once again changed in terms of the system: the greatest decline was recorded in respect of the unit size, along with an increase in the surface area price parameter. The decline in the unit size was not significant enough to result in a decline in the average price.

The change in the supply of available units for **November and December 2018** compared to September and October 2018:

Quantitative indicators:

- The NUMBER of units on offer increased by 544 units; 9.5%
- The SURFACE AREA of units on offer increased by 33,591 m²; 8.5%
- The SALES of units on offer increased by CZK 4,016 million; 10.8%

Supply also offers an interesting comparison with the previous period in 2017. In that period, clients were offered 1,634 fewer units for purchase. The average unit was 4.5 m² larger, CZK 90,490 cheaper (CZK 6, 873,411) and the CZK/m² price parameter was 10.3% lower (CZK 95,040 per m²).

DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN NOVEMBER AND DECEMBER 2018

During the two assessed months, the pricing policy of companies did not change. No price reductions occurred and the market maintains price increases higher than the discounts, with the figures similar to the former half of the year, i.e. at a ratio of approximately 3:1.

An increase in prices only affected 706 units and was only slightly higher than in the preceding period. It amounted to CZK 128.5 million, i.e. an increase of CZK 182,072 per unit.

Price decreases affected 198 units on offer, with the discount amounting to an average of CZK 249,963 per discounted apartment (in the prior period, the decrease amounted to CZK 223 thousand). As a result, the absolute amount of reduction was CZK 49.5 million.

An increase in prices applied to 11% units and a decrease only to 3.2% of units, with the absolute amount of the adjustment of prices amounting to CZK 79.049 million.

In terms of adherence to the purchase agreement, clients' behaviour has, since April and May 2018, steadily recorded a high percentage of units repeatedly placed on sale. On average, the number of apartments repeatedly placed on sale amounted to approximately 7.8% in 2016. In 2017, 10.6% of the total apartments sold were repeatedly placed on sale. However, in the most recent six months of this year, their proportion has not dropped below 15%. In this period, 17.5% of the 629 apartments sold in absolute terms were repeatedly placed on sale (110 units saturated the apartments repeatedly placed on sale); in sales, the returned value amounted to 12%. This time, withdrawal from sale was only saturated in 35% of cases by renewed reservations and a total of 65% of apartments became available again. The surface area price of apartments returned from the market amounted to CZK 82,765 per m² in bookings. In respect of apartments repeatedly placed on sale, the price amounted to CZK 105,793 per m².

The forecast for the last two months of the year predicted sales of 700-750 apartments. Unfortunately, the reality was significantly lower, even without taking into account the saturation of apartments returned to the market – a total of 605 apartments sold.

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