

# Development market in Prague

## September and October 2017

### INTRODUCTION

The first two months of the autumn supply brought the greatest number of apartments since October 2016. With 1,256 new apartments placed on the market, the number of available apartments on the market saw an increase for the fourth month in a row. Their number increased from 3,996 apartments as of 1 July 2017 to 4,731 apartments as of 1 November 2017. The number was up by 735 available apartments in the past four months, which is an increase of more than 18%. Following a decrease, the number of non-residential units in residential projects increased during the same period from 113 units to 119 units and the supply of detached houses decreased from 315 houses to 298 houses.

**In September and October 2017, demand for units in residential projects** was 15% higher than in the prior period of July and August 2017. It grew by 110 units to 838 units, with apartment sales increasing by 114 apartments to 820. In contrast, the sales of non-residential commercial units in residential projects recorded a minor decrease from 22 units to 18 non-residential units. This time, the amount of demand was affected by three factors:

- Several projects made a collective change in their sales status from reserved to sold, which was owing to the completion of their construction and receipt of the final construction clearance.
- The number of units in respect of which the status changed from sold to available substantially increased during the period. This was mainly affected by units in Ekospol's projects which were returned to the market as new although they had been marked as sold in the prior period's statistics. A total of 1,002 apartments were sold during the period in absolute terms, but 182 sold apartments saturated the return of the previously sold

apartments to the available status. The above-mentioned firm accounted for 30% of this.

- The new sales were also affected, to an unusually high degree, by September and October's new apartment offerings.

The average price of an apartment from among the available supply was CZK 7,090,553 early in the period, with the surface area price of CZK 93,473 per m<sup>2</sup>, for which reason it seemed that prospective buyers would not have much choice again. However, September and October's new apartment offerings were a pleasant surprise in terms of the values. The average price of an apartment was a "mere" CZK 4,940,575 and the average surface area price was CZK 80,582 per m<sup>2</sup>. The new apartments thus led to the greater increase in sales, accounting for 25% of the apartments sold. By way of conclusion, we assumed in the previous analysis that a maximum number of 620 apartments would be sold from among the offerings as of 1 September 2017: in fact, the resulting sales were 629 apartments from among the initial offerings.

**In September and October 2017, supply of available apartments** grew again. The number of new apartments that directly entered the market was 1,256 and the offering of available apartments was up by 407 at the end of the period, i.e. by almost 9.5%, which is a greater increase than in the prior period. However, given the prior year's greater offering in the same period, the annual deficit in new apartments increased to 640 apartments compared to January-October 2016, i.e. a 12% decline.

Compared to the prior period, the number of new residential projects increased to 22 and the number of new apartments increased from 1,011 to 1,256 apartments placed on the market. Sales were finalised in respect of 24 residential projects with a total of 1,149 apartments.

During the two assessed months, projects comprising 1,370 apartments were placed on the market by development companies, with the above stated 1,256 apartments entering the market, i.e. a little less than 92%. In addition, a total of 32 non-residential commercial units in residential projects and 13 terraced houses in one project were placed on the market.

**September** was relatively rich in new apartments placed on the market. A total of 9 residential projects entered the market, yet they comprised 552 apartments (613 apartments in 2016). The new September offering is characterised by an average apartment size of 57.67 m<sup>2</sup>, an average price of CZK 4,294,112 and a surface area price parameter of CZK 74,925 per m<sup>2</sup>.

In terms of individual apartment layouts, September's offerings are again strongly oriented towards the 2-bedroom layout (230 apartments). They accounted for 4.0% more than the overall representation of the layout in supply (the overall market share being 37.7%). Accounting for 26.4%, the 3-bedroom layout (146 apartments) ended up second in line and was slightly above its overall market representation (the overall market share being 25.9%). This time, the 1-bedroom layout (145 apartments) is, with its 26.3% share, above its market share by about 2.7%. Bigger and more expensive layouts are also represented: the 4-bedroom layout with 5.1% and the 5-bedroom layout with 0.5%.

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

By **October** was the richest month since October 2016. A total of 13 residential projects with 704 apartments (876 apartments in 2016) entered the market. October's offering can be characterised by an average apartment size of 64.43 m<sup>2</sup>, an average price of CZK 5,447,461 and a surface area price parameter of CZK 84,599 per m<sup>2</sup>.

In terms of individual apartment layouts, October's offerings are strongly oriented towards the 2-bedroom layout, having a 42.5% share (299 apartments). Its representation is 4.8% higher than its overall market supply of 37.7%. With its 23.4% share, the 1-bedroom layout (165 apartments) is second in line and is level with its overall market representation of 23.6%. This time, the 3-bedroom layout (152 apartments) is, with its 21.6% share, below its overall representation of 25.9%. Bigger and more expensive layouts account for approximately the same shares as in the overall supply: 4-bedroom layout – 12.4%; 5-bedroom layout – 0.1%.

The aggregate sales of new apartments in October amounted to approximately CZK 3.8 billion.

In total, September and October saw units of approximately CZK 6.2 billion placed on the market, with a surface area price of CZK 80,582 per m<sup>2</sup> (in July and August 2017, the price was CZK 102,496 per m<sup>2</sup>).

## CHANGES IN APARTMENT OFFERINGS IN SEPTEMBER AND OCTOBER 2017

In the monitored period, a total of **22 new residential projects with a total volume of 1,402 units** were placed on the market, of which **1,370 were apartments**. The number of residential projects whose sales were finalised amounted to **24 projects, with 1,151 units leaving the market, of which 1,149 were apartments**.

A total of 1,256 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 September and October, with 20 apartments added to the market. Given the reasonably priced new offerings, the balance was negative in terms of sales: the volume of sales of all apartments on offer decreased by CZK 343 million.

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

- The **NUMBER** of available apartments grew from 4,324 to 4,731, i.e. by 9.4%
- The **AVERAGE SIZE** of an apartment dropped from 75.7 m<sup>2</sup> to 73,76 m<sup>2</sup>, i.e. by 2.6%
- The **AVERAGE PRICE** of an apartment dropped from CZK 7,090,533 to CZK 6,899,067, i.e. by 2.7%
- The **AVERAGE SURFACE AREA PRICE** of an apartment dropped from CZK 93,472 per m<sup>2</sup> to CZK 93,111 per m<sup>2</sup>, i.e. by 0.4%

## SALE OF UNITS IN SEPTEMBER AND OCTOBER 2017

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) increasing by 15.1%. **The number of sold units was 838**, i.e. an increase of 110 units, of which the total number of apartments sold was 820, increasing by 114 apartments compared to the previous period. The average sold

apartment cost CZK 5,663,373 at CZK 84,150 per m<sup>2</sup> and was 67.3 m<sup>2</sup> in size. During the period, sales thus recorded a substantial decline in economic parameters compared to the holiday months.

### Qualitative parameters of sold units:

- The price of an average unit sold decreased by CZK 705,612 to CZK 5,811,164
- The average size of a sold unit decreased by 5.5 m<sup>2</sup> to CZK 69.34 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter decreased by CZK 4,076 per m<sup>2</sup> to CZK 83,219 per m<sup>2</sup>.

It seems that the market hit the price ceiling during the summer months and we are in for a period of price stagnation followed by a gradual limited decrease.

Development in demand in **September and October 2017** as compared to July and August 2017:

### Quantitative indicators:

- The **NUMBER** of sold units increased by 110 units; +15,1 %
- The **SURFACE AREA** of sold units increased by 12,940 m<sup>2</sup>; +22,3 %
- The **SALES** of sold units increased by CZK 786,064,326; +16,3 %

**In the same period in 2016, the average apartment purchased by clients was 3.9 m<sup>2</sup> smaller, 33.0% cheaper (CZK 4,500,620) and the CZK/m<sup>2</sup> surface area price parameter was 21.5% lower (CZK 68,517 per m<sup>2</sup>). A year ago, a total of 1,532 units were sold, i.e. 45% more than this year.**

## SUPPLY OF UNITS AS OF 1 NOVEMBER 2017

After what had been a very long time, the aggregate supply of available units substantially increased for the second time in a row: from 4,432 units to 4,850. Of this, the number of available apartments increased by 407 in terms of the number of units, i.e. by 9.4% to 4,731 apartments.

### Qualitative parameters of the units on offer:

- The price of an average unit on offer decreased by CZK 199,623 to CZK 6,910,193
- The average surface area decreased to 75.09 m<sup>2</sup>, i.e. by 2.3 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter decreased by CZK 125 per m<sup>2</sup> to CZK 92,364 per m<sup>2</sup>

In the monitored period, the qualitative indicators of the available units on offer thus saw a decline in all basic parameters. This was primarily owing to the nature of the new apartment offerings in the monitored period.

The change in the supply of available units for **September and October 2017:**

### Quantitative indicators:

- The NUMBER of sold units on offer increased by 418 units; +7,9 %
- The SURFACE AREA of sold units on offer increased by 21,147 m<sup>2</sup>; +6,2 %
- The SALES of sold units on offer increased by CZK 1,199 million; +4,1 %

**Supply also offers an interesting comparison with the previous period in 2016. In that period, clients were offered only three more units for purchase. The average unit was 3.0 m<sup>2</sup> larger, 12% cheaper (CZK 6,176,022) and the CZK/m<sup>2</sup> price parameter was 14% lower (CZK 80,954 per m<sup>2</sup>). Judging from how the market has developed, it is clear that in comparing the two periods the price relations of available apartments do not seem as dramatic as**

**in the preceding comparison of the 2016 and 2017 holiday months, the reason being that the market clearance and radical increase in prices entered its second stage in September and October 2016.**

## DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN SEPTEMBER AND OCTOBER 2017

In terms of the pricing policy of development companies, the monitored period may be regarded as non-standard. The unit discount amount remained basically unchanged, yet the number of discounted units decreased from 153 to 84. The result is that the average discount per unit substantially increased. The amount gained from price increases recorded substantial growth to more than double the previous amount, yet the number of units whose price increased only grew by 17%.

As regards the reduction of apartment prices, the price change applied to 84 apartments (1.7% of supply). However, the discount in this period substantially increased, amounting to an average of CZK 415 thousand per reduced apartment (CZK 220 thousand in the prior period). In absolute terms, discounts amounted to CZK 34.9 million.

The price increased in respect of 12.8% of the units on offer (i.e. 620 apartments), on average by CZK 530 thousand (in the prior period, the increase only amounted to CZK 281 thousand). As a result, the absolute amount gained from increased prices amounted to CZK 328 million. For the third time this year, the greatest price increase was made by Ekospol in placing the apartments "sold" earlier on the market again: of CZK 82.3 million, i.e. 25% of the total increase. The firm increased the price only in respect of a little less than 9% of the retained apartments (55 units), yet on average by CZK 1.5 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 293.6 million.

In terms of adherence to the purchase agreement, clients' behaviour was affected by the great number of apartments placed on sale again on account of previous project issues. In the prior periods, the number of apartments repeatedly placed on sale amounted to approximately 10%. In absolute terms, a total of 1,024 units were sold during the period (of which 1,002 were apartments), yet 186 units (of which 182 were apartments) were placed on sale again. In order to compensate for the decrease in sales, it had been necessary in the previous period to sell 47 units, now it was 186 units, i.e. an 18% decline. Withdrawal from the sale was saturated only in 44% by renewed reservations and a total of 56% of apartments became available again.

**The projection expressed in the previous evaluation regarding the developments of demand turned out to be true in relation to the supply as of 1 September 2017. Its absolute increase was thus primarily brought about by the comprehensive "roll-forward" of reserved apartments in certain projects and the unexpectedly favourable new offerings.**

Therefore, it may be assumed that demand may retain its present higher level; however, it is necessary to account for the fact that the last two months of the year are weak sales-wise. Demand models for November and December 2017 anticipate that 675 apartments will be sold.

*For more information, please visit [www.CenovaMapa.org](http://www.CenovaMapa.org) in the „About Projects“ section.*