

# Development market in Prague

## March and April 2017

### INTRODUCTION

Taking into account the previous development of the market, the assessed period brought nothing very surprising. The sales and offer of available apartments grew slightly, as did the average price and surface cost of apartments. It seems that in the current situation we are slowly approaching previously unexpected turning points or records. The average price of an available apartment as of 1 May 2017 exceeded CZK 7,000,000 and the price of m<sup>2</sup> of area exceeded CZK 90,000 per m<sup>2</sup>.

The offer of available apartments on the development market did not diminish in the monitored period, but from the perspective of economic parameters it is starting to resemble a very thick broth. It could be compared to the Dead Sea – the decrease in the number of apartments makes the price indicators “thicker”.

In less than two years (20 months, specifically) the development market dried out in terms of the number of apartments by more than 40% of the volume (dropping from 6,837 to 4,081 apartments). The decrease occurs at a rate of 138 apartments per month. At the same time, the average price per unit on the market grew by 45% (from CZK 4,841,875 to CZK 7,031,028). The rate of price increase for available apartments is approximately CZK 110 thousand per month. The price of apartment surface area did not grow as fast due to the increase in the area of available residual apartments, but it still increased by 34% (from CZK 67,483 per m<sup>2</sup> to CZK 90,392 per m<sup>2</sup>). The average monthly rate of growth is CZK 1,145 per m<sup>2</sup>.

**Demand in March and April 2017** was 25% higher than in the preceding period of January and February 2017. It increased by 203 units to 1,013 units, of which 991 were apartments and 23 non-residential units in residential projects. Since the average apartment price in the offer of available apartments at the beginning of the period was of

CZK 6,861,733 with the surface price of CZK 88,517 per m<sup>2</sup> and apartments in new projects in this period were priced at CZK 86,237 per m<sup>2</sup>, potential buyers did not have much choice. Demand as a whole therefore focused on smaller units, but for a higher price and higher price of m<sup>2</sup> of the surface area. The surface area of a unit sold thus decreased by 2.5% (1.7 m<sup>2</sup>), but surface price increased by 3.7% (to CZK 77,955 per m<sup>2</sup>).

**Supply in March and April 2017** was lower than in the same months of previous years and it is so far impossible to speak about the end of the trend of a supply decrease. A total of 1,059 new apartments were added directly to the market and the offer of available apartments increased slightly at the end of the period by 97 apartments, i.e. less than 2.5%. The annual deficit in new apartments is 394 compared with the same period in 2016, i.e. a decrease of 20%.

The number of new apartment projects saw a year-on-year increase from 15 to 20 projects whilst increasing in terms of the number of apartments from 517 apartments to 1,059 apartments on offer. Sales were finalised for 24 residential projects with 1,566 apartments in total, i.e. a decrease by 16.5%. Development companies placed projects with 1,097 apartments on the market in the monitored period, but only 1,059 apartments were put on the market – i.e. 96.5%. Three projects with detached houses with 63 units were also placed on the market.

In terms of all new apartments placed on the market, **March** saw higher supply than in the same period in 2016 and it was the richest month in the last five months. Ten apartment projects entered the market with 559 apartments (473 apartments in 2016), where the average number of apartments per project placed on the market was 56 and was lower than the long-term average of the number of apartments in new projects.

March's new offerings are characterised by an average apartment size of 63.9 m<sup>2</sup>, an average price of CZK 5,363,096 and surface area price parameter of CZK 83,856 per m<sup>2</sup>. In terms of the apartment structure, developers univocally opted for the 2-room layout, which accounted for 45.1% of the supply, followed by the 3-room layout with 23.3% and the one-room layout in the third place with 19.5%. Larger layout types were represented by four-room apartments with 11.4% and five-room apartments with 0.7%. The aggregate sales of new apartments in March amounted to approximately CZK 2.999 billion.

**April** was somewhat weaker than March. 10 apartment projects entered the market with 500 apartments put on the market, i.e. 52% less than in April 2016 (1,034 apartments 2016). The average number of apartments in a project placed on the market was 50 apartments and contributed towards the long-term trend of decreasing the number of apartments in new offers. The April offer can be characterised by the average apartment size of 72.0 m<sup>2</sup>, price of CZK 6,381,380 and surface area price parameter of CZK 88,616 per m<sup>2</sup>. In terms of structure of the number of apartments, developers gave a slight preference to the three-room layout with 32.6%, followed by the two-room layout with 31.4% and one-room layout with 19.4%. The four-room layout had a relatively high representation of 15.6%. The five-room layout corresponded to 1% of the new offer. Total sales of new apartments amounted approximately to CZK 3.191 billion. In total, April and March saw units of approximately CZK 6.190 billion placed on the market, with a surface area price of CZK 86,237 per m<sup>2</sup>

#### **PRINCIPAL CHANGES IN THE TOTAL SUPPLY IN MARCH AND APRIL 2017**

In the period under review, **23 new residential projects (apartments as well as detached houses), with 1,166 units in total, were placed on the market.** A total of 1,124 units were placed on the internet market (apartments, detached houses, non-residential units), i.e. 96.4% of the total number of units in new projects. Sales were finalised for **25 residential projects, and 1,602 units (of which 1,566 were apartments) left the market** (of which 1,498 apartments so far placed on the market). 1,059 apartments in new projects were placed on

the market. The balance of the total market offer (sold, available) for the period of April and March was negative in terms of the number of apartments – apartments on the market decreased by 493. In terms of sales, the balance was positive due to the increase in prices – the volume of sales of all apartments on offer grew by CZK 180 million.

The volume and structure of available apartments was affected by the sale of 1,068 units, of which 1,044 apartments. 55 units were put back on sale, of which 53 apartments. In terms of balance (difference between the beginning and end of the period), 1,013 units were sold and removed from offer, of which 991 were apartments.

Compared to the previous two-month period, new projects were significantly smaller (by 2.9 m<sup>2</sup>), slightly cheaper (by CZK 93,319), but the surface area price grew again (by CZK 2,301 per m<sup>2</sup>). New projects had an average apartment price of CZK 5,843,873; after cheaper apartments sold out in less than two months of the period, affecting the total offer of available apartments, the average price amounted to CZK 6,266,761.

#### **Parameters of new apartment projects (March-April) in relation to the total (sold and available) apartment supply:**

- The average price of unit: CZK 5,843,873 – the total supply in the period: CZK 5,243,878
- The total surface area of unit: 67.8 m<sup>2</sup> - the total supply in the period: 67.4 m<sup>2</sup>
- The average parameter: CZK 86,237 per m<sup>2</sup> - the total supply in the period: CZK 77,738 per m<sup>2</sup>

The layout structure of new apartment projects mostly supported the 2-room layout, with the new supply of 38.6 % exceeding the total supply by 0.9%. The new supply of the 3-room layout was also higher, with 17.7%, i.e. 2.2% more than in the total supply. At the same time, the new supply did not provide support to the 1-room layout: the 19.5% share was 4% lower than the aggregate share of the layout.

### SALE OF UNITS IN MARCH AND APRIL 2017

Compared to the two previous months, the sale of units saw an increase of 25.1%. **The number of sold units was 1,013**, i.e. a drop of 203 units was recorded, of which the total number of apartments sold was 991, increasing by 191 apartments, i.e. 23%, compared to the previous period. The total surface area of sold units grew by 11.6% to 7,501 m<sup>2</sup>. The pricelist sales increased to CZK 5,314 million – by 11.5%.

#### Qualitative parameters of sold units:

- The price of an average unit sold increased by CZK 101,098 to CZK 5,266,915
- The average area of a sold unit decreased by 1.7 m<sup>2</sup> to CZK 67.49 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 2,766 per m<sup>2</sup> to CZK 77,954 per m<sup>2</sup>.

In the period under review, the market still endeavoured to retain purchase parameters at the same level as in late 2016, when their increase was recorded. In this period, it attempted to regulate the economic parameters by purchasing smaller apartments, albeit more expensive in terms of surface area price.

Development in demand in March and April 2017 as compared to November - December 2016:

#### Quantitative indicators:

- The NUMBER of sold units increased by 203 units (+25.1%)
- The AREA of sold units increased by 7,501 m<sup>2</sup> (+11.6%)
- The SALES of sold units increased by CZK 546,286,524 (+11.5%)

**In the same period in 2016, the average apartment purchased by clients was 0.6 m<sup>2</sup> smaller, 19.4% cheaper (CZK 4,412,429) and the CZK/m<sup>2</sup> surface area price parameter was 15.5% lower (CZK 67,469 per m<sup>2</sup>).**

### SUPPLY OF UNITS AS OF 1 MAY 2017

After a decrease in the previous six months, the aggregate supply of available units further increased by 79 units, i.e. 1.9% to 4,189 units. The number of available apartments increased by 97 in terms of the number of units, i.e. by 2.4% to 4,081

apartments, once again exceeding the threshold of 4,000 available apartments. The aggregate surface area and the price of units on offer also recorded an increase: 1.9% for surface area and 5.3% for aggregate unrealised sales.

#### Qualitative parameters of units on offer:

- The price of an average unit on offer increased by CZK 166,351 to CZK 7,091,427
- The average area remained the same – 80.48 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 2,057 per m<sup>2</sup> to CZK 89,288 per m<sup>2</sup>.

The qualitative indicators of available units on offer saw an increase in the monitored period only in economic parameters. The increase was not as dramatic as in late 2016, increasing around 2.4% for price and 2.4% for surface area price.

#### Change in the supply of available units for March and April 2017:

#### Quantitative indicators:

- The NUMBER of units on offer increased by 19 units (+ 1.9%)
- The AREA of units on offer increased by 6,440 m<sup>2</sup> (+ 1.9%)
- The SALES of units on offer increased by CZK 1,435 million (+ 5.3%)

**Supply also offers an interesting comparison with the previous period in 2016. In that period, clients were offered 1,125 units less for purchase. The average unit was 3.3 m<sup>2</sup> smaller, 27.6% cheaper (CZK 5,556,147) and the CZK/m<sup>2</sup> price parameter was 21.5% lower (CZK 73,507 per m<sup>2</sup>).**

### DEVELOPMENT IN THE PRICE POLICY AND THE CLIENT ENVIRONMENT IN MARCH AND APRIL 2017

The pricing policy of development maintained the structure of the previous period. The price increased for 13.6% of the units on offer, i.e. 571 apartments, on average by only CZK 279 thousand (an increase of CZK 248 thousand in the prior period).

The absolute amount gained from the price increases amounted to approximately CZK 159 million. The largest volume of price increase – 15.5% of the total, is once again attributable EKOSPOL.

As regards the reduction of apartment prices, the number of apartments with reduced prices increased from 108 apartments to 146 apartments (3.5% of the aggregate offer). On average, the amount of discount in this period was CZK 301 thousand per reduced apartment. In absolute terms, discounts amounted to CZK 43.9 million. The most significant price reduction is attributable to PRAŽSKÁ SPRÁVA NEMOVITOSTÍ's projects, which account for 25% of the aggregate amount of the discount.

With respect to adherence to the purchase agreement, clients' behaviour improved considerably in this period. In order to compensate for the decrease in sales, it had been necessary in the previous period to sell 122 units, now it was only 55 units while sales were higher. Withdrawal from the sale was saturated in 95% by renewed reservations and 5% of apartments became available again. The number of current reservations for the period decreased by 49 reservations in absolute terms and the success rate in the realisation of sales decreased to 76%, but still remains high.

**In the previous evaluation, we anticipated that sales should stagnate and remain between 800 and 900 apartments for the period under review. The result of the new period is not very different from our expectations. In the monitored period, 854 apartments were sold as early as 1 March 2017, 190 apartments were sold from new projects placed on the market at present. In total, 1,044 apartments were sold, but 53 apartments were returned to the market. The resulting sales for the period amount to 991 apartments sold on balance. If I were to characterise the probable development of demand in the next period, everything indicates that it will decline. Naturally, only if a project "year" with strong offer does not come to the market. So far, nothing indicates that it will. The**

**factors against an increase in demand include:**

Bank measures and increase in interest rates on mortgages, stagnation of available units along with a growth of their financial parameters, decreasing ability of the demand to accept particularly the total price of a unit. Today, the demand accepts 75% of the average price per unit on offer and it has been so at least since 2014.

It can therefore be expected that the demand will stagnate at best and in a limited period it could be increased by the publication of "under-the-counter" projects that are currently more significantly represented on the market.

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