

# Development market in Prague

## BID AND BID PRICES in March and April 2019

### INTRODUCTION

The first four months, or a third of the year, have passed on Prague's residential development market. In comparing it to the same period in 2018, partial development indicators may be derived.

In terms of demand, all quantitative parameters recorded a decline:

- The number of sold apartments dropped from 2,037 to 1,786, i.e. to 87.7%;
- The surface area price parameters dropped from 129,286 m<sup>2</sup> to 108,417 m<sup>2</sup>, i.e. to 83.9%; and
- Sales of apartments dropped from CZK 12.186 billion to CZK 11.055 billion, i.e. to 90.7%.

The situation is different in respect of the qualitative parameters of sold apartments, yet expectable: the price parameters grew, but the size of a sold apartment dropped. The parameters are as follows:

- The size of a sold apartment dropped from 63.5 m<sup>2</sup> to 60.7 m<sup>2</sup>, i.e. by a little under 5%;
- The average price of a sold apartment grew from CZK 5,982,271 to CZK 6,189,904, i.e. by a little under 3.5%; and
- The average surface area price of a sold apartment grew from CZK 94,255 per m<sup>2</sup> to CZK 101,969 per m<sup>2</sup>, i.e. more than 8%.

From the perspective of the supply of available apartments on the market, the trend was the opposite. The quantitative parameters of available apartments on the market increased year-on-year as of 30 April 2019.

- The number of available apartments recorded a year-on-year increase at the end of the period of almost 20% to 5,775 apartments;
- The area of available apartments increased by 10.5% to 385,327 m<sup>2</sup>; and

- Sales of available apartments increased by more than 20% to CZK 38.583 billion.

The situation is different in respect of the quantitative parameters of available apartments: the size of an available apartment dropped, yet the price stagnated and the surface area price grew. The parameters were as follows:

- The size of an available apartment on the market dropped to 92.4% of the same period in 2018 at the end of the period, i.e. to 66.7 m<sup>2</sup>;
- The price of an available apartment stagnated year-on-year: it dropped by a little under 1% to CZK 7,070,418; and
- The surface area price of an available apartment grew by 7.7% to CZK 107,095 per m<sup>2</sup>.

At present, the market seems to be sending signals that the prices of new apartments will not significantly increase. Furthermore, the prices of available apartments will mirror those of the unsold expensive apartments of 2018, yet given the pricing policy in the past two months, it seems that developers will accede to significant price decreases.

### THE MARKET AND NEW APARTMENTS IN MARCH AND APRIL 2019

In terms of the new offerings, March and April were average months, with the supply amounting to 97% of prior years' average during the two months and recording a year-on-year increase of 3%. 1,184 new apartments were put on the market for direct sale with an average surface area price parameter of CZK 98,466 per m<sup>2</sup>. This time, apartments that formed part of renovation projects accounted for a slightly below-average 20% in terms of the number of apartments and their average surface area price parameter was CZK 127,601 per m<sup>2</sup>.

Therefore, new apartments in projects with new construction accounted for 80% of the new supply and the average surface area price was very low at CZK 93,890 per m<sup>2</sup>. It seems that the market has already started responding to the declining demand in the pricing policy, with the prices of sold apartments rather than the prices of available apartments regarded as decisive.

**In March and April 2019, the demand for units in residential projects** slightly increased compared to the two previous months. Compared to January and February 2019, it increased by 7.8%, i.e. by 57 units to 785. Sales of apartments also grew from 738 to 761 apartments (differential number). Sales of non-residential and commercial units in residential projects increased from 9 units to 24. Despite the period-on-period increase, demand recorded a substantial year-on-year decrease of 13.1%.

**In March and April 2019, the supply** of available units in residential projects increased in the analysed period by 8.5%, i.e. by 466 units from 5,448 to 5,916. Apartments in the supply of available units as of the end of the period themselves saw an increase of 327 apartments, numbering 5,775 apartments. Supply of available units remains relatively high thanks to the low demand and relatively good supply.

Compared to the prior period, **the number of new residential projects** saw a considerable increase: from 13 projects to 21. Sales were finalised in respect of 15 residential projects with a total of 850 apartments. A total of 9 projects with 142 detached houses were put up for sale. In contrast, one projects with 11 detached houses left the market.

A total of 21 residential projects comprising 1,311 apartments and 7 non-residential units were placed on the market. A total of 1,184 apartments, i.e. approximately 90.3% of the total offerings, were put up for direct sale.

**The supply of new apartments in March** amounted to 919 apartments, including the offering of a project already on sale. A total of 12 new residential projects entered the market, comprising 932

apartments and one non-residential unit. A total of 875 apartments from new projects were directly placed on the market. The new March offering is characterised by an average apartment size of 57.79 m<sup>2</sup>, an average price of CZK 5,786,203 and a surface area price parameter of CZK 100,119 per m<sup>2</sup>.

In terms of new apartment layouts in March, namely the one-room layout was favoured compared to the market offerings.

In terms of layouts, supply affected five types. With 317 two-room apartments put on the market, this layout constituted the largest proportion of the total supply, specifically 34.5%. The one-room layout followed with 310 apartments, which is a 33.7% share of the supply. The three-room and four-room layouts constituted 26.6% (244 apartments) and 4.7% (43 apartments) of the total supply, respectively. The five-room layout only totalled five apartments.

Apartments in new projects increased the offering in seven city districts. The largest portion of new apartments was recorded by Prague 4: with 261 new apartments entering the market, i.e. 28% of the total supply and an increase in the available apartments of 35.5%. Prague 3 came second, recording a 21% share of the supply and 193 new apartments. Third place was taken by Prague 2 with 17% (154 apartments) of the total supply and an increase in available apartments by as much as 71.6%. Fourth place was taken by Prague 9 with 149 apartments, 16% of the supply and an increase in available apartments of 13.3%. Prague 7 came fifth with a 14% share of the supply, 127 apartments and an increase in the number of available apartments in the district of 32.2%. Last place was occupied by Prague 5 and Prague 6, recording 2% of the supply and 18 and 17 new apartments, respectively.

In March, the aggregate sales of new apartments amounted to approximately CZK 5.37 billion.

**The new supply in April** reached significantly below-average figures with regard to the number of apartments compared to previous years: 47% of the previous five years' average. A total of 9 residential projects including 379 apartments and 6 non-residential units entered the market, with 309 apartments put on sale, i.e. 81.5% of the total new supply of apartments. April's offering can be characterised by an average apartment size of 63.01 m<sup>2</sup>, an average price of CZK 5,955,537 and a surface area price parameter of CZK 94,929 per m<sup>2</sup>.

In terms of new apartment layouts in April, the structure of offerings clearly favoured the two-room layout. The one-room layout accounted for approximately one third of the market supply.

In respect of individual layouts, offerings comprised five types. With 164 two-room apartments entering the market, the layout accounted for 53.1% of the total supply and represented the greatest portion of the offerings. With 74 apartments, the three-room layout accounted for 23.9%, followed by the three-room layout accounting for 12.3% (38 apartments). In addition, 31 one-room apartments (a 10.0% share in the supply) were put on the market. Lastly, five-room apartments only saw two apartments added.

Apartments in new projects only increased the supply in five city districts. The greatest number of new apartments was again seen in Prague 5, where 138 new apartments entered the market, i.e. 45% of the total supply and an increase of 8.2% in available apartments. With 104 apartments and a 34% share of the total supply, Prague 10 placed second, increasing its supply of available apartments by 17%. Third place was occupied by Prague 3 with 10% of the total supply: 154 apartments and an increase in available apartments of 5.6%. Fourth place was taken by Prague 9 with 23 apartments, 7% of the supply and an increase in the number of available apartments of 1.8%. Fifth and last place was taken by Prague 2 with a 4%

share in the supply, 13 apartments and an increase in the number of available apartments of 3.6%.

The aggregate sales of new apartments reached approximately CZK 2.26 billion in April.

In total, March and April saw apartments of approximately CZK 7.63 billion placed on the market, with a surface area price parameter of CZK 98,466 per m<sup>2</sup>. In terms of sales, the greatest proportion is attributable to the two-room layout (36.0%), followed by the three-room (34.5%) and one-room (16.1%) layouts. The four-room layout generated 12.1% of the total sales. In terms of the number of apartments in individual layouts, the two-room layout represented the highest proportion – of 39.3%, which accounts for 38.9% of the total offerings.

In terms of city districts, the largest number of new apartments was again added in Prague 4. With 261 new apartments put up for sale (22.0% of the total supply), available apartments in this district grew by 30.7%. In total, the number of available apartments increased by 18.4%.

The offering of new apartments in March and April 2019 may be characterised as follows:

**Quantitative parameters:**

- NUMBER of new apartments 184
- AREA of new apartments 70,029 m<sup>2</sup>
- SALES of new apartments placed on the market CZK 6,945,431,118

**Qualitative parameters:**

- AVERAGE SIZE of an apartment 59.1 m<sup>2</sup>
- AVERAGE PRICE of apartments CZK 5,823,844
- AVERAGE SURFACE AREA PRICE of an apartment CZK 98,466 per m<sup>2</sup>

## AVAILABLE APARTMENTS AT THE END OF THE MARCH AND APRIL 2019 PERIOD

In the monitored period, a total of **28 new residential projects** were placed on the market with a total volume of **1,460 units, of which 1,311 were apartments**. Sales were finalised in respect of **15 residential projects, with 764 units leaving the market, of which 750 were apartments**.

The offering of available apartments at the end of the period may be characterised as follows:

### Quantitative parameters:

- NUMBER of new apartments 5,775
- AREA of new apartments 385,327 m<sup>2</sup>
- SALES of new apartments placed on the market CZK 38,583,271,032

### Qualitative parameters:

- AVERAGE SIZE of an apartment 66.72 m<sup>2</sup>
- AVERAGE PRICE of apartments CZK 7,070,418
- AVERAGE SURFACE AREA PRICE of an apartment CZK 107,095 per m<sup>2</sup>

## SALE OF APARTMENTS IN MARCH AND APRIL 2019

In absolute terms, 915 apartments were sold, yet 154 apartments saturated the number of apartments repeatedly placed on sale on the whole market. In early 2019, the share of saturation is also high – in the current period, it accounts for 16.8% of the total number of sold apartments.

Id apartments may be characterised as follows:

### Quantitative parameters:

- NUMBER of sold apartments - a total of 915 / saturation of 154 / balance of 761
- AREA of sold apartments - a total of 53,468 m<sup>2</sup> / saturation of 9,158 m<sup>2</sup> / balance of 44,310 m<sup>2</sup>
- SALES of sold apartments - a total of CZK 5,358 million / saturation of CZK 981 million / balance of CZK 4,377 million

### Qualitative parameters of apartments sold in total:

- AVERAGE SIZE of an apartment 58.4 m<sup>2</sup>
- AVERAGE PRICE of apartments CZK 5,855,668
- AVERAGE SURFACE AREA PRICE of an apartment CZK 100,208 per m<sup>2</sup>

## **DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN MARCH AND APRIL 2019**

During the two assessed months, the pricing policy of companies considerably changed. This time, major price reductions occurred. The ratio of price increases to reductions has been approximately at 2:1 for a long time. This time, it is the opposite at approximately 1:2.

An increase in prices only affected 432 units and was 32% lower than in the preceding period. It amounted to CZK 85.760 million, i.e. an increase of CZK 198,520 per unit.

Price decreases affected 548 units on offer, which is an increase of 76%. The discount amounted to an average of CZK 266,247 per discounted apartment (in the prior period, the decrease amounted to CZK 288 thousand). As a result, the absolute amount of reduction was CZK 145.9 million.

An increase in prices applied to 7.3% units and a decrease this time to 9.3% of units. The absolute amount of the adjustment of prices amounted to CZK (60.142) million.

In terms of adherence to the purchase agreement, clients' behaviour has deteriorated year by year. On average, the number of apartments repeatedly placed on sale amounted to approximately 7.8% in 2016. In 2017 and 2018, 10.6% and 13.5% of the total apartments sold were repeatedly placed on sale, respectively. This means that the percentage of apartments repeatedly placed on sale has been on the rise for the past three years at a rate of approximately 3%. Therefore, it may be expected that it will amount to 15–16% in 2019.

In the monitored period, the proportion of units repeatedly placed on sale was 16.8% of the 915 apartments sold in absolute term, with 154 apartments saturating the returned apartments and the returned sum accounting for 18.3% of sales.

This time, 10% of withdrawals from sale were saturated with renewed bookings, and 90% were repeatedly designated as available. Apartments returned from the market had a surface area price of CZK 105,138 per m<sup>2</sup> in respect of bookings, and the parameter in respect of apartments repeatedly designated as available was CZK 107,368 per m<sup>2</sup>.

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