

Development market in Prague

BID AND BID PRICES in July and August 2018

INTRODUCTION

In terms of the supply of new apartments, July and August once again saw a lack of available housing in Prague. Only 387 new apartments were put on the market for direct sale with an average surface area price of CZK 106,467 per m². Almost half of the new apartments (47.8%) formed part of reconstruction projects, with an average surface area price of CZK 130,971 per m². As opposed to the prior period of May and June, during which the new offerings substantially boosted sales, the new supply of apartments did not have such an effect in this period and was one of the principal reasons for the substantial decrease in sales during the summer holidays.

New projects comprised 470 new apartments, with only 82%, i.e. 387 apartments, entering the market. Concurrently, in August, Central Group increased the number of apartments on offer within the older project "Rezidence U radnice" by 60 apartments. Consequently, their average surface area price was also higher, amounting to CZK 130,473 per m².

In July and August 2018, demand for residential projects suffered a sharp decrease of 40%, i.e. a drop of 386 units to 582, in comparison with the previous period (May and June 2018). Sales of apartments fell from 952 to a mere 570. Sales of non-residential and commercial units in residential projects dropped from 16 units to 12.

Assessment of demand – factors causing the decrease:

The major decrease in demand during the summer holiday months was extremely surprising this time. At least the same activity as in the prior period was generally anticipated given the more-stringent mortgage criteria coming into effect as of 1 October 2018. Nevertheless, if the situation is assessed retrospectively, the decline is no longer so surprising.

- In the prior period, 32% of sold apartments were part of the new supply for the period consisting of 952 new apartments. A total of 306 apartments were sold from the new supply, with 647 apartments sold from projects of previous periods.

- The difference between the proposed surface area price and the surface area price of sold units decreased to a mere CZK 2,418 in late June, i.e. 2.4% of the proposed prices. This has been the slightest difference recorded for this indicator since 2014. In economic terms, demand in May and June clearly achieved its maximum, indicating its current possibilities and abilities.

- The decrease in final sales was also affected by a higher percentage of apartments repeatedly placed on sale, which comprised 18% of total sales (692 apartments sold in total). Apartments repeatedly placed on sale comprise approximately 10%, i.e. almost 70 apartments.

- Sales in July and August only included 54 apartments from the new supply, which results from its economic parameters and size, and 638 apartments from older projects; nevertheless, considering the high percentage of apartments repeatedly placed on sale, this figure is a mere 516 apartments. As a result, sales of apartments in older projects dropped by 20%.

The decrease in demand is attributable to the lower sales of older projects (19%), the above-average number of apartments repeatedly placed on sale (16%) and the extremely low and high-priced new offerings (65%).

In July and August 2018, the supply of available units in residential projects stagnated in the analysed period, decreasing from 5,411 units to 5,410. Apartments in the supply of available units as of the end of the period themselves saw an increase of 2 apartments, numbering 5,271 apartments.

Compared to the prior period, the number of new residential projects saw a decrease: from 27 projects to 13 projects. Sales were finalised in respect of 13 residential projects with a total of 707 apartments. In addition, two projects with 17 terraced houses were put up for sale. One project with 51 terraced houses left the market.

A total of 13 residential projects comprising 470 apartments and 9 non-residential units were placed on the market. A total of 387 apartments, i.e. approximately 82% of the total offerings, were put up for direct sale.

The supply of new apartments in July amounted to a mere 134 apartments. A total of 7 residential projects entered the market, comprising 148 apartments. The new July offering is characterised by an average apartment size of 65.04 m², an average price of CZK 7,547,597 and a surface area price parameter of CZK 116,048 per m².

In terms of individual apartment layouts, the offerings principally corresponded to the structure of the total market supply. With 50 two-bedroom apartments put on the market, this layout constituted the largest proportion of the total supply, specifically 38.2%. The one-bedroom layout followed with 32 apartments, which is a 24.4% share. The three-bedroom and four-bedroom layouts only constituted 23.7% (31 apartments) and 9.9% (13 apartments) of the total supply, respectively. The five-bedroom layout represented 3.8% of the aggregate offerings (5 apartments).

Apartments in new projects increased the offering in six city districts, including Prague 1, 4, 5, 6, 7 and 10. The largest portion of apartments was recorded by Prague 10: with 44 new apartments entering the market, i.e. a 5.8% increase, Prague 10 accounted for 34% of the total supply. Prague 7 also did well, seeing 24 apartments placed on the market, which corresponds to an 18% share in the total supply and a 10.3% increase in the new apartments offered. With a 15% share in the new supply, Prague 1 placed third, recording a 13.2% increase in available apartments (i.e. 20 apartments).

Prague 4 took fourth place, accounting for 13% of the total supply and increasing the number of available apartments by 1.9%. The next-to-last Prague 6 only offered 14 new apartments (an 11% share in the new supply) whereby the number of available apartments in this city district grew by 7.3%. With only 12 new apartments corresponding to a 9% share in the total supply, Prague 5 ended up last.

In July, the aggregate sales of new apartments amounted to approximately CZK 1.117 billion.

The new supply in August reached average figures with regard to the number of apartments. A total of 6 residential projects including 322 apartments and 9 non-residential units entered the market, with 253 apartments put on sale, i.e. 79% of the total new supply of apartments. August's offering can be characterised by an extremely small average apartment size of 41.49 m², a low average price of CZK 4,087,192 and a surface area price parameter of CZK 98,512 per m².

In terms of individual apartment layouts, the offerings were exceptionally oriented towards the one-bedroom layout.

With 126 apartments entering the market, the one-bedroom layout accounted for 49.8% of August's supply which was concurrently the greatest portion of the offerings. With 86 apartments, the two-bedroom layout accounted for 34.0%, followed by the three-bedroom layout accounting for 12.3% (31 apartments). Only 9 four-bedroom apartments (a 3.6% share in the new supply) and one five-bedroom apartment (a 0.4% share) were put on the market in August. The preference for the one-bedroom layout results from a single reconstruction project dominating the market.

Apartments in new projects increased the supply in four city districts – Prague 2, 5, 6 and 10. The greatest number of apartments was seen in Prague 5: 159 new apartments entered the market, i.e. a 63% of the total supply and an increase of 10.9% in available apartments. Prague 10 also recorded favourable results, offering 59 new apartments (a 23% share in the supply of new apartments) which is a 7.4% increase. Prague 2 placed third, accounting for 10% of the supply of new units and having increased the number of available apartments by 14.5% (25 apartments). With only 10 apartments and a 4% share in the new offering, Prague 6 came in last.

The aggregate sales of new apartments reached approximately CZK 2.164 billion in August.

In total, July and August saw apartments of approximately CZK 3.281 billion placed on the market, with a surface area price of CZK 106,467 per m². In terms of sales, the greatest proportion is attributable to the two-bedroom layout (34.0%), followed by the three-bedroom (26.3%) and one-bedroom (21.3%) layouts. The four-bedroom and five-bedroom layouts generated 12.1% and 5.2% of the total sales, respectively. In terms of the number of apartments in individual layouts, the one-bedroom layout unusually represented 41%, which accounts for almost 25% of the total offerings.

In terms of city districts, the largest number of new apartments was added in Prague 5. With 171 new apartments put up for sale (44% of the total supply), available apartments in this district grew by 12.4%. Prague 10 experienced the greatest increase of available units within a city district, specifically 16.4% (103 new apartments).

CHANGES IN APARTMENT OFFERINGS IN JULY AND AUGUST 2018

In the monitored period, a total of **13 new residential projects** were placed on the market **with a total volume of 479 units, of which 470 were apartments**, and one earlier project was extended to include 60 additional apartments. In the aggregate, **520 new apartments entered the market**. Sales were finalised in respect of **13 residential projects, with 712 units leaving the market, of which 707 were apartments**.

A total of 387 apartments in new projects were placed on the market. The balance of the total market offerings (sold, available) was negative in terms of the number of apartments in July and August, with a decrease of 180 apartments on the market. The number of available apartments on offer grew by 2 apartments to 5,271 apartments; however, the volume of their sales increased in the monitored period by CZK 95.2 million to CZK 35,277 million.

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

- The NUMBER of available apartments grew from 5,269 to 5,271, i.e. by 0.04%
- The AVERAGE SIZE of an apartment fell from 71.95 m² to 70.61 m², i.e. by 2.0%
- The AVERAGE PRICE of an apartment recorded a slight decrease from CZK 7,137,197 to CZK 7,112,244, i.e. of CZK 24,954; and
- The AVERAGE SURFACE AREA PRICES of an apartment grew from CZK 100,294 per m² to CZK 102,131 per m², i.e. by CZK 1,837 per m² (1.83 %)

SALE OF UNITS IN JULY AND AUGUST 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) falling by 39.9%. **The number of sold units was 582**, i.e. a decrease of 386 units, of which the total number of sold apartments was 570, having decreased by 382 apartments compared to the previous period. The decrease in sales, as described above, was attributable to the low and economically unfavourable supply of new apartments during the summer holidays (having a 65% share in the decline), utilisation of older offerings falling within the acceptable limit (a 19% share) and an above-average rate of repeatedly placing apartments on sale (16%).

Qualitative parameters of sold units (both apartments and non-residential units):

- The price of an average unit sold decreased by CZK 571,699 to CZK 5,577,434;
- The average size of a sold unit decreased by 3.1 m² to CZK 60.61 m²; and
- The CZK/m² parameter decreased by CZK 4,242 per m² to CZK 92,748 per m²

Development in demand in the monitored period of **July and August 2018** as compared to May and June 2018:

Quantitative indicators:

- The NUMBER of sold units decreased by 386 units (-39.9%)
- The SURFACE AREA of sold units decreased by 28,034 m² (-39.6%)
- The SALES of sold units decreased by CZK 2,816 million (-41.4%)

A decrease in both economic parameters of demand in a single analysed period is exceptional, possibly indicating an economic limit.

In the same period in 2017, the average apartment purchased by clients was 14.3 m² larger (19.1%)

and 14.4% more expensive (CZK 6,516,777), but the CZK/m² surface area price parameter was 6.2% lower (CZK 87,285 per m²). A year ago, a total of 728 units were sold, i.e. almost 20.1% more than this year.

During the first eight months of this year, unit sales were, in fact, still higher than in 2017. The total number of units sold was 3,389, while in the same period in 2017, the number was 3,276 units, i.e. an increase of a mere 3.4%.

SUPPLY OF UNITS AS OF 31 AUGUST 2018

Following an increase to 5,411 units in the preceding period, the aggregate offer of available units stagnated at 5,410 units, i.e. a decrease of 1 unit. Of this, the number of available apartments also stagnated at 5,271 apartments, corresponding to an increase of 2 apartments

Qualitative parameters of the units on offer:

- The price of an average unit on offer decreased by CZK 27,728 (0.4%) to CZK 7,113,320;
- The average surface area decreased by 1.4 m² to 71.31 m², i.e. by 1.9%; and
- The CZK/m² parameter increased by CZK 1,804 per m² to CZK 101,213 per m², i.e. by 1.8%.

In the monitored period, the qualitative indicators of the available units on offer once again saw a minimal change, with the price reduced by 1.9 % and the surface area price increased by 1.8%.

The change in the supply of available units for **July and August 2018** compared to May and June 2018:
Kvantitativní ukazatele:

- The NUMBER of units on offer decreased by 1 unit (-0.04%)
- The SURFACE AREA of units on offer decreased by 7,918 m² (-2.0%)
- The SALES of units on offer decreased by CZK 156 million (0.4%)

Supply also offers an interesting comparison with the previous period in 2017. In that period, clients were offered 978 fewer units for purchase. The average unit was 6.0 m² larger, CZK 3,503 cheaper (CZK 7,109,817) and the CZK/m² price parameter was 9.4% lower (CZK 92,490 per m²). The increase in prices was already in full swing a year ago.

DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN JULY AND AUGUST 2018

During the two assessed months, the pricing policy was primarily characterised by efforts to sell particularly costly apartments in the existing older projects. For the first time, the amount corresponding to the reduction of the apartment cost substantially exceeded the amount obtained as a result of a price increase. The reduction of apartment cost amounted to CZK 132.7 million, with 55% of this amount (i.e. CZK 73,573) being only used to reduce two costly projects. Moreover, the surface price on the market decreased from CZK 160 thousand per m² to a mere CZK 144 thousand per m².

In terms of the pricing policy of development companies, the monitored two months may be regarded to be a period of a minimal price increase, despite the above-specified price reduction. An increase in prices only affected 303 units, which was the lowest figure in the last five years, amounting to CZK 73.5 million, i.e. an increase of CZK 242,333 per unit. The unit value corresponds to the former average but the number of units with an increased price is very low.

The price decrease also affected 303 units on offer, on average by CZK 437 thousand per unit (in the prior period, the decrease amounted to CZK 349 thousand). As a result, the absolute amount of reduction was, as already stated above, CZK 132.7 million.

An increase as well as a decrease in prices equally applied to 5.6% of units, with the absolute amount of the adjustment of prices achieving the negative value of CZK (59.2) million for the first time.

In terms of adherence to the purchase agreement, clients' behaviour substantially deteriorated during the summer months. On an annual average, the number of apartments repeatedly placed on sale amounted to approximately 10%. In this period, 17.6% of the 692 apartments sold in absolute terms (122 apartments repeatedly placed on sale) were again placed on sale; in sales, the percentage was as high as 17.8%. This time, withdrawal from sale was only saturated in 17% of cases by renewed reservations and a total of 83% of apartments became available again. The surface area prices of apartments returned from the market amounted to CZK 89,764 per m² in bookings; however, in respect of apartments repeatedly placed on sale, the price amounted to CZK 11,269 per m² following a price increase.

The sales forecast in the prior period anticipated an increase in demand due to the tightening of the mortgage loan criteria. Nevertheless, this forecast proved to be erroneous, with the anticipated number of apartments being different from real figures. The summer holiday months indicate that the economic power of purchasers as recorded in the period before the summer months was exhausted. Concurrently, the pricing policies of developers clearly indicate that even developers themselves admit certain limits of apartment prices, whereby reducing the apartment surface area while increasing the surface price is not a solution forever. The sales model anticipates the sale of 650 apartments in September and October 2018. We can do nothing but await the actual results.

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