

Development market in Prague

Bid and bid prices in September and October 2018

INTRODUCTION

During the assessed period, the restrictions for receiving mortgage loans started to apply. It may be too soon to judge its overall impact on the market situation, yet it is already possible to characterise certain exceptions compared to the previous periods and, at the same time, identify steady trends.

- Since July 2018, there has been a perceptible decline in sales and the beginning of this year's latter half had been the worst in the past five years.
- In approximately the past six months, the proportion of apartments repeatedly placed on sale is above-average and, since July 2018, has not dropped below 15% of the number of apartments sold in absolute terms – the 2017 average was 10%.
- The price impact of the measure in the form of a decrease in apartment prices was only recorded in a limited period of time before September 2018, when the reduction in the prices of apartments on the market was most pronounced, yet the pricing policies of companies in September and October again veered toward price increases.
- No decreases were recorded in the prices of new apartments placed on the market, including November.
- The increase in the price of construction work in respect of projects that are yet to be covered by a contract also plays a role.

In terms of the supply of new apartments, September and October were substantially poorer than in previous years, with the supply only accounting for 63% of prior years' average during the two months. 965 new apartments were put on the market for direct sale with an average surface area price parameter of CZK 102,196 per m². This time, apartments that formed part of reconstruction projects only accounted for 13.5% of apartments and their average surface area price parameter was

CZK 133,233 per m². A significant factor in this period was the increase in the number of apartments in projects introduced on the market in the previous months of this year. Development companies increased their offerings to include 230 additional apartments. Thanks to this, the total supply of apartments amounted to 5,015 new apartments this year and, after two years, exceeded the threshold of 5,000 apartments per year.

New projects comprised 1,051 new apartments, of which almost 92% were placed by companies on the market, i.e. the above-mentioned 965 apartments.

In September and October 2018, demand for units in residential projects significantly increased compared to the two holiday months. Compared to the previous period (July and August 2018), it increased by 31.6%, i.e. by 184 units to 766. Sales of apartments also grew from 570 to 739. Sales of non-residential and commercial units in residential projects grew from 12 units to 27. Despite the increase, the four months of this year's latter half have, as a period, recorded the worst sales since 2014.

In September and October 2018, the supply of available units in residential projects grew in the analysed period by 6%, i.e. by 327 units from 5,410 to 5,737. Apartments in the supply of available units as of the end of the period themselves saw an increase of 316 apartments, numbering 5,587 apartments.

Compared to the prior period, **the number of new residential projects** also saw an increase: from 13 projects to 24. Sales were finalised in respect of 15 residential projects with a total of 769 apartments. In addition, four projects with 85 detached houses were put up for sale. Two projects with 123 detached houses left the market.

A total of 24 residential projects comprising 1,051 apartments and 28 non-residential units were placed on the market. A total of 965 apartments, i.e. approximately 92% of the total offerings, were put up for direct sale.

The supply of new apartments in September amounted to a mere 382 apartments and was the lowest compared to this month in the past five years. A total of nine residential projects entered the market, comprising 383 apartments and 10 non-residential units. The new September offering is characterised by an average apartment size of 57.78 m², an average price of CZK 5,956,616 and a surface area price parameter of CZK 103,097 per m².

In terms of individual apartment layouts, the offerings strongly favoured the one-bedroom layout. With 162 one-bedroom apartments put on the market, this layout constituted the largest proportion of the total supply, specifically 42.2%. The two-bedroom layout followed with 117 apartments, which is a 30.6% share. The three-bedroom and four-bedroom layouts only constituted 17.8% (68 apartments) and 8.1% (31 apartments) of the total supply, respectively. The five-bedroom layout represented 1.0% of the aggregate offerings (4 apartments).

Apartments in new projects increased the offering in five city districts, including Prague 3, 4, 5, 6 and 9. The largest portion of new apartments was again recorded by Prague 5: with 124 new apartments entering the market, i.e. an 8.2% increase in the available apartments, Prague 5 accounted for 32% of the total supply. Prague 9 came second, seeing 96 apartments placed on the market, which corresponds to a 25% share in the total supply and a 9.2% increase in the number of available apartments. With a 20% share in the total supply, Prague 4 placed third, recording 75 new apartments and a 9.1% increase in available apartments. Prague 3 took fourth place, accounting for 19% of the new supply and increasing the number of available apartments by a full 78.7%, i.e. 74 apartments. With only 13 apartments and a 3% share in the total supply, Prague 6 ended up last.

In September, the aggregate sales of new apartments amounted to approximately CZK 2.275 billion. If the offerings from previous projects extended to include new apartments are calculated in, sales amounted to CZK 2.916 billion.

The new supply in October reached slightly below-average figures with regard to the number of apartments. A total of 15 residential projects including 668 apartments and 18 non-residential units entered the market, with 583 apartments put on sale, i.e. 87% of the total new supply of apartments. October's offering can be characterised by an average apartment size of 60.17 m², an average price of CZK 6,115,163 and a surface area price parameter of CZK 101,629 per m².

In terms of individual apartment layouts, the structure of offerings corresponded with the overall market offerings.

In respect of individual layouts, offerings comprised all six types. With 221 two-bedroom apartments entering the market, the layout accounted for 38.0% of the total supply and represented the greatest portion of the offerings. With 171 apartments, the one-bedroom layout accounted for 29.4%, followed by the three-bedroom layout accounting for 24.8% (144 apartments). In addition, 41 four-bedroom apartments (a 7.1% share in the supply) were put on the market. Five-bedroom and six-bedroom apartments equally saw two apartments added (a 0.3% share).

Apartments in new projects increased the supply in all ten city districts. However, 75% of the offerings were located in five city districts. The greatest number of new apartments was again seen in Prague 5, where 144 new apartments entered the market, i.e. 25% of the total supply and an increase of 8.3% in available apartments. With 100 apartments, a 17% share of the total supply and an increase in available apartments of almost 60%, Prague 3 placed second.

Third place was occupied by Prague 9 with 15% of the total supply: 85 apartments and an increase in available apartments of 7.5%. Prague 10 placed fourth, accounting for 9% of the supply of new units and having increased the number of available apartments by a full 7.6% (55 apartments). With only 54 apartments and a 9% share in the new offering, Prague 4 came in fifth. Of the remaining districts, the offering in Prague 1 with 48 new apartments is of interest as it increased the number of available apartments in the district by 30%.

The aggregate sales of new apartments reached approximately CZK 3.553 billion in October. If the offerings from previous projects extended to include new apartments are calculated in, sales amounted to CZK 3.923 billion.

In total, September and October saw apartments of approximately CZK 5.828 billion placed on the market, with a surface area price parameter of CZK 102,196 per m². In terms of sales, the greatest proportion is attributable to the two-bedroom layout (32.4%), followed by the three-bedroom (29.7%) and one-bedroom (22.3%) layouts. The four-bedroom and five-bedroom layouts generated 13.4% and 1.6% of the total sales, respectively. In terms of the number of apartments in individual layouts, the one-bedroom layout again represented a relatively high proportion of 34.5%, which accounts for almost 26.5% of the total offerings.

In terms of city districts, the largest number of new apartments was again added in Prague 5. With 299 new apartments put up for sale (31% of the total supply), available apartments in this district grew by 19.3%. Prague 3 experienced the greatest increase of available units within a city district amounting to 174, which is an increase of almost 120%.

CHANGES IN APARTMENT OFFERINGS IN SEPTEMBER AND OCTOBER 2018

In the monitored period, a total of **24 new residential projects** were placed on the market **with a total volume of 1,079 units, of which 1,051 were apartments**, and earlier projects were extended to include 230 additional apartments. In the aggregate, **1,281 new apartments entered the market in projects, and 1,195 apartments entered the market directly**. Sales were finalised in respect of **15 residential projects, with 776 units leaving the market, of which 769 were apartments**.

A total of 385 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 an increase of 426 apartments in the total market offerings. The number of available apartments on offer grew by 316 apartments to 5,587 apartments, and the volume of their sales increased in the monitored period by CZK 1,012 million to CZK 36,288 million.

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

- The **NUMBER** of available apartments grew from 5,271 to 5,587, i.e. by 316 apartments (6.0%);
- The **AVERAGE SIZE** of an apartment fell from 70.61 m² to 67.84 m², i.e. by 2.6 m² (4.0%);
- The **AVERAGE PRICE** of an apartment recorded a decrease from 7,112,244 to CZK 6,990,595, i.e. of CZK 121,649 (1.7%); and
- The **AVERAGE SURFACE AREA PRICE** of an apartment grew from CZK 102,131 per m² to CZK 104,096 per m², i.e. by CZK 1,966 per m² (1.9%).

SALE OF UNITS IN SEPTEMBER AND OCTOBER 2018

Compared to the two previous months, the sale of units significantly increased, with the number of sold units (apartments and non-residential units in residential projects) growing by 31.6%. **The number of sold units was 766**, i.e. an increase of 184 units, **of which the total number of sold apartments was 739**, having increased by 169 apartments compared to the previous period.

The increase in sales compared to the two holiday months seems considerable, yet, given its decline in the period, the most recent sales have been the second lowest this year.

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

- The price of an average unit sold increased by CZK 591,417 to CZK 6,168,851;
- The average size of a sold unit increased by 5.6 m² to CZK 66.26 m²; and
- The CZK/m² parameter increased by CZK 3,111 per m² to CZK 95,860 per m².

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

Quantitative indicators:

- The **BUMBER** of sold units increased by 184 units; +31.6 %
- The **SURFACE AREA** of sold units increased by 17,702 m²; +41.4 %
- The **SALES** of sold units increased by CZK 1,525 million; +39.0 %

In the development of demand, a decrease in economic parameters and its repeated increase is cyclical with a six-month cycle. If it recurs, the economic parameters of demand for November and December 2018 should continue rising.

In the same period in 2017, the average apartment purchased by clients was 3.0 m² smaller (-4.3%) and 6.2% cheaper (CZK 5,811,164), and the CZK/m² surface area price parameter was as much as 15.2% lower (CZK 83,219 per m²). A year ago, a total of 838 units were sold, i.e. 8.6% more than this year.

During the first ten months of this year, unit sales were lower than in 2017. The total number of units sold was 4,155, while in the same period in 2017, the number was 4,255 units, i.e. an increase of 2.5%.

SUPPLY OF UNITS AS OF 31 OCTOBER 2018

Following the stagnation in the preceding period, the aggregate offer of available units recorded a substantial increase from 5,410 units to 5,737, i.e. an increase of 327 units (6.0%). Of this, the number of available apartments itself grew by 316 apartments to 5,587.

qualitative parameters of units on offer:

- The price of an average unit on offer decreased by CZK 116,466 to CZK 6,996,845, i.e. by 1.6%;
- The average surface area decreased by 2.5 m² to 68.89 m², i.e. by 3.5%; and
- The CZK/m² parameter increased by CZK 1,529 per m² to CZK 102,742 per m², i.e. by 1.5%.

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 substantial and also resulted in a minor decline in the average price.

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

Quantitative indicators:

- The NUMBER of units on offer increased by 327 units; +6.0 %
- The SURFACE AREA of units on offer increased by 8,996 m²; +2.3 %
- The SALES of units on offer increased by CZK 1,151 million; +3.2 %

Supply also offers an interesting comparison with the previous period in 2017. In that period, clients were offered 887 fewer units for purchase. The average unit was 6.1 m² larger, CZK 86,660 cheaper (CZK 6,910,193) and the CZK/m² price parameter was 11.2% lower (CZK 92,364 per m²). A year ago, the price increase was shortly before the leap to CZK 95,000 per m² and more.

DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN SEPTEMBER AND OCTOBER 2018

During the two assessed months, the pricing policy of companies substantially changed. The price reductions prior to the introduction of mortgage restrictions were discontinued and the price increases were again greater 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 676 units and was more than twice the amount in the preceding period. It amounted to CZK 199.1 million, i.e. an increase of CZK 294,410 per unit.

Price decreases affected 279 units on offer, with the discount amounting to an average of CZK 223,629 per discounted apartment (in the prior period, the decrease amounted to CZK 438 thousand). As a result, the absolute amount of reduction was CZK 62.4 million.

An increase in prices applied to 11% units and a decrease only to 4.9% of units, with the absolute amount of the adjustment of prices amounting to CZK 136.65 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, 16.0% of the 912 apartments sold in absolute terms (146 units saturated the apartments repeatedly placed on sale) were repeatedly placed on sale; in sales, the returned value was as high as 13%. This time, withdrawal from sale was only saturated in 25% of cases by renewed reservations and a total of 75% of apartments became available again. The surface area price parameters of apartments returned from the market amounted to CZK 125,177 per m² in bookings. In respect of apartments repeatedly placed on sale, the price amounted to CZK 107,934 per m².

Sales projected by the sales model for September and October 2018 amounted to 650 apartments. Of the offerings, 675 apartments were sold in the end, with the new supply for September and October 2018 accounting for 64 sold apartments. As already stated, the total number was 739 apartments. Regarding the two last months of the year, the model anticipates sales of 700-750 apartments. We have yet to see what the new offerings will be like and whether the number of apartments repeatedly placed on sale will decline.

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