

# Development market in Prague

January and February 2017

## INTRODUCTION

The development market entered 2017 with unknown experience: significant excess of demand over supply along with the inability of development companies to balance this increasing gap. The existing situation started suddenly in October 2015 with a sharp decrease in new apartments supplied to the market. This meant, in average figures, that whilst 604 apartments per month were placed on the market in the first 10 months of 2015, the average monthly supply from October 2015 to December 2016 was only 439 apartments. The balance between supply and demand was last seen on the market at the beginning of 2016 with annual sales and new supplies accounting for 6,500 units. Throughout 2016, the gap between supply and demand gradually increased, with demand of approximately 7,400 units and an annual supply of approximately 5,750 units at year-end. The annual deficit between supply and demand thus reached 1,650 apartments.

**Developments in 2016** logically brought about the substantial sell-out of units which grew from 67% percent to 77% during the year. Demand for affordable apartments naturally resulted in the selling out of less expensive localities, such as Prague 10 – 85% of apartments sold out, Prague 9 – 83% sold out, as well as cheaper apartment layouts, such as one-bedroom layout – 85% sold out, two-bedroom layout – 80% sold out. As a result, the supply on the market predominantly involves apartments with higher price parameters, in terms of both absolute price and price per square meter. A year-on-year change in the economic parameters of the current supply of available apartments thus experienced an increase of 126% with respect to the average price of an available apartment and 120% as regards the price per m<sup>2</sup>.

**Demand in 2016** recorded high figures, with the exception of holiday months. In 2016, a total of 7,434 units in apartment projects were sold, which

is a year-on-year increase of more than 5%. Owing to the low supply of new apartments, demand may be considered very strong, especially in the context of growing prices of available apartments. The response of demand in 2016 to the existing situation is always the same, being noticeable especially in the periods from April to June 2016 and from November to December 2016. In order to retain the total price of an apartment even at the cost of increasing the price per square meter of the apartment area, a higher number of smaller apartments were sold, resulting in the more noticeable increase in the prices of purchased apartments in the subsequent period. In general, the price of a purchased apartment grew from CZK 4,410,225 in the period from January to February 2016 to CZK 5,181,894 in November-December 2016. In percentage terms, it is a 17% increase with the most substantial leap at the end of 2016 when the supply of available apartments saw the sharpest decrease. An area price parameter in the same period grew from CZK 64,215 per m<sup>2</sup> to CZK 76,547 per m<sup>2</sup> which is a 13.5% increase. The average area of a purchased apartment oscillated between 68.1 m<sup>2</sup> and 67.9 m<sup>2</sup>.

As it was already noted, 7,434 units were sold in the aggregate value of CZK 36.912 billion. The parameters of an average apartment sold in 2016 are as follows: the average size of a sold apartment was 67.2 m<sup>2</sup> (66.8 m<sup>2</sup> in 2015), the average price of a sold apartment was CZK 4,965,343 per m<sup>2</sup> (CZK 4,275,700 in 2015) and the average price per m<sup>2</sup> was CZK 73,844 (CZK 64,013 per m<sup>2</sup> in 2015). It is apparent that price parameters increased by 15.4% year-on-year with respect to the price of apartment area and 16.1% with respect to the total price of apartments.

In terms of individual Prague districts, the highest number of units were sold in Prague 9 (2,020 units), followed by Prague 10 (1,387 units) and Prague 5 (1,048 units).

These three Prague districts accounted for 60% of total demand. The sales of units in 2016 were realised by 170 development companies, with 75% of the units being sold by 23 development companies. By far the largest volume of sales was reported by Central Group which sold 1,214 units, ie 16.3% of total sales.

Due to the methodology of monitoring, sales also include projects without legally effective planning permission. The methodology builds on the actual market situation when a project which does not have a legally effective planning permission is offered by developers but clients are interested in buying and this potential "sale" must also be monitored. For this reason, Ekospol placed eighth in the ranking. For the purpose of comparison with a competitive methodology it should be noted that of the 241 units sold by Ekospol only 33 units were sold with planning permission which would place Ekospol in 46<sup>th</sup> place and the aggregate number of sold units would be 7,401.

**Supply in 2016**, as it was mentioned earlier, saw a gradual decrease from approximately 6,200 available apartments as of 1 January 2016 to 4,220 available units as of 1 January 2017. Throughout 2016, supply dropped by 1,980 units which is an almost 32% decrease. Due to demand for more affordable apartments, especially in terms of the total price of an apartment, larger and more expensive units remained on the market. For this reason, the decrease was only approximately 14% with respect to the total volume of sales of available apartments and approximately 18% in terms of the total area of available units.

Dramatic market changes were recorded for the parameters of an average available apartment. The average size of an apartment rose from 76.0 m<sup>2</sup> to 79.5m<sup>2</sup> and, what is more, the total average price of a sold unit increased dramatically from CZK 5,350,000 to CZK 6,680,000, ie almost by 25%. The same, yet slightly lower increase was recorded by the CZK/m<sup>2</sup> parameter which grew from CZK 71,450 per m<sup>2</sup> to CZK 85,320 per m<sup>2</sup>, which is almost a 20% increase. These trends were reported by the market as a whole but are not as univocal for individual municipal districts. For example, a different development, that of a decrease in supply, may be seen in Prague 1, Prague 2 and Prague 7 where the annual change reached positive figures, which means increased supply. Concurrently, a sharp

increase in the economic parameters of apartments is recorded especially by municipal districts with more attractive localities, such as Prague 6 and districts reporting high sell-out (Prague 9, Prague 10). Given the existing situation, it is possible to anticipate stagnation or a further moderate decrease in the supply of available apartments in 2017. This will be largely affected by the market ability to absorb the already high economic parameters of apartments. We believe that sales in 2017 will be largely realised in close relation to the new supply of units on offer. The sell-out of individual projects of development companies substantially levelled out the share of development companies in available units. The dominant position of Central Group in the first half of 2016 accounting for 20% decreased to 8% at year end. At present, 75% of the supply of available apartments account for the aggregate supply of 38 companies.

**Demand in January and February 2017** was almost 30% lower than in the same months in 2016, decreasing by 302 units to 810 units, of which 800 were apartments and 10 non-residential units in residential projects. The market responded similarly as in mid-2016. An increase in the economic parameters of sold apartments is followed by a period with lower sales in absolute terms.

**Supply in January and February 2017** was lower than in the same months in 2016. Nevertheless, the new trend of decreasing supply has not yet been confirmed. Despite being lower than in previous periods, the sales achieved at the beginning of the year (800 units) still recorded high figures. A total of 517 new units were directly placed on the market and the supply of available apartments saw a further decrease. Available apartments in residential projects dropped by 236 apartments, ie a 6% decrease for two months (from 4,220 apartments to 3,984 apartments). The annual deficit is 2,165 units, ie 32.5% of supply as of 1 January 2016.

The number of new apartment projects saw a year-on-year decrease from 17 to 15 projects whilst stagnating in terms of the number of apartments – an increase from 506 apartments to 517 units on offer. Sales were finalised for 27 residential projects with 1,880 apartments in total.

In terms of all new apartments placed on the market, **January** saw lower supply than in the same period in 2016. Four apartment projects entered the market (five in 2016) with 219 apartments on the market (309 apartments in 2016), where the average number of apartment per project placed on the market was 55 and was lower than the long-term average of the number of apartments in new projects. January's new offerings are characterised by an average apartment size of 66.1 m<sup>2</sup>, an average price of CZK 5,315,193 and an area price parameter of CZK 80,445 per m<sup>2</sup>. In terms of the apartment structure, developers univocally opted for the 2-bedroom layout, which accounted for 55.3% of the supply, followed by the 3-bedroom and 4-bedroom layout with 16.0% and the one-bedroom layout at a mere 12.3%. The aggregate sales of new apartments amounted to approximately CZK 1.164 billion.

#### PRINCIPAL CHANGES IN THE TOTAL SUPPLY IN JANUARY AND FEBRUARY 2017

In the period under review, **16 new apartment projects (apartments as well as detached houses), 646 units in total, were placed on the market.** A total of 531 units were placed on the internet market (apartments, detached houses, non-residential units), ie 82% of the total number of units in projects. The number of apartments in new projects placed on the market was 517. The size of an average new apartment project was 34.5 apartments. Sales were finalised in respect of **27 residential projects, and 1,880 units (of which 1,830 were apartments) left the market.** During this period, 810 units were sold (of which 800 were apartments). As the total figures suggest, not even 65% of the sales were saturated with new apartments. Compared to the preceding two-month period, when the average economic parameters of new projects were lower than the average of available apartments, the new offering in January and February approximated this level but is lower in terms of average parameters.

**Parameters of new apartment projects (November-December) in relation to the total (sold and available) apartment supply:**

- The average price of unit: CZK 5,937,192 – the total supply in the period: CZK 5,023,722
  - The total area of unit: 70.7 m<sup>2</sup> - the total supply in the period: 67.0 m<sup>2</sup>
  - The average parameter: CZK 83,936 per m<sup>2</sup> - the total supply in the period: CZK 74,984 per m<sup>2</sup>
- The layout structure of new apartment projects mostly supported the 2-bedroom layout, with the new supply of 44.9% exceeding the total supply by 8.2%. At the same time, the new supply did not provide support to the 1-bedroom layout: the 13.7% share was 10.7% lower than the aggregate share of the layout.

#### SALE OF UNITS IN JANUARY AND FEBRUARY 2017

Compared to the two previous months, the sale of units saw a decrease of 27.2%. **The number of sold units was 810**, ie a drop of 302 units was recorded. The total area of sold units lowered by 19.8% to 64,580 m<sup>2</sup>. The pricelist sales decreased to CZK 4,768 million - by 21.8%.

##### Qualitative parameters of sold units:

- The price of an average sold apartment decreased by CZK 16,077 to CZK 5,165,817
- The average area of a sold unit increased by 1.3 m<sup>2</sup> to CZK 69.29 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter decreased by CZK 1,358 per m<sup>2</sup> to CZK 75,188 per m<sup>2</sup>.

In the period under review, the market endeavoured to retain purchase parameters at the same level as in the previous period when their increase was recorded. The change, therefore, fluctuated around +/- 2%.

#### Development in demand in January and February 2017 as compared to January and February 2016:

##### Quantitative indicators:

- The NUMBER of sold units dropped by 302 pieces (-27.2%)
- The AREA of sold units decreased by 15,970 m<sup>2</sup> (-19.8%)
- The SALES of sold units decreased by CZK 1,325,858,368 (-21.8%)

In the same period in 2016, the average apartment purchased by clients was 1.2m<sup>2</sup> smaller but 17.1% cheaper (CZK 4,412,299) and the CZK/m<sup>2</sup> area price parameter was 17.0% lower (CZK 64,251 per m<sup>2</sup>).



**SUPPLY OF UNITS AS OF 28 FEBRUARY 2017**

After a sharp decrease of 10.3%, ie to 4,347 units, in the prior period, the aggregate supply of available units further declined by 237 units to 4,110 units, which is a 5.5% decrease. The number of available apartments dropped to 3,894 apartments, which was, for the first time, less than 4,000 apartments. Naturally, the aggregate surface area and the price of units on offer also recorded a decrease: 4.3% for area and 2.3% for aggregate unrealised sales.

**Qualitative parameters of units on offer:**

- The price of an average unit on offer increased by CZK 242,732 to CZK 6,925,075
- The average area grew by 1.3m<sup>2</sup> to 80.46 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 1,907 per m<sup>2</sup> to CZK 87,230 per m<sup>2</sup>

All qualitative parameters of available units on offer saw an increase in the monitored period. Nevertheless, the increase was not as dramatic as in the preceding period, oscillating from an increase of 1.3% for surface to 3.6% for average price.

**Change in the supply of available apartments for January and February 2017 under review:****Quantitative indicators:**

- The NUMBER of units on offer decreased by 237 pieces (- 5.5%)
- The AREA of units on offer decreased by 14,682 m<sup>2</sup> (- 4.3%)
- The SALES of units on offer decreased by CZK 631,588,983 (-2.3%)

Supply also offers an interesting comparison with the previous period in 2016. In that period, the average apartment offered to clients was 3.6 m<sup>2</sup> smaller but 27.3% cheaper (CZK 5,440,477) and the CZK/m<sup>2</sup> area price parameter was 20.3% lower (CZK 72,492 per m<sup>2</sup>).

**DEVELOPMENT IN THE PRICE POLICY AND THE CLIENT ENVIRONMENT IN JANUARY AND FEBRUARY 2017**

The pricing policy of development companies recorded a more significant increase in the prices of apartments than in the previous period. The price increased for 16.2% of the units on offer, ie 666 apartments, on average by only CZK 248 thousand

(an increase of CZK 150 thousand in the prior period). The absolute amount gained from the price increases amounted to approximately CZK 165 million. Almost 15% of this amount is attributable to the PANORAMA KYJE VII project by EKOSPOL which increased the prices of apartments returned by clients and offered for re-sale by up to 40%.

As regards the reduction of apartment prices, the number of apartments with reduced prices decreased from 151 apartments to 108 apartments (2.6% of the aggregate offer). On average, the amount of discount in this period was CZK 45 thousand per reduced apartment. In absolute terms, discounts amounted to CZK 48.3 million. The most significant price reduction is attributable to the CENTRAL GROUP's project which accounts for 80% of the aggregate amount of the discount.

With respect to adherence to the purchase agreement, the clients' behaviour decreased in this period. In order to compensate for the decrease in sales, it had been necessary in the previous period to sell 74 units, while in the respective period, when the volume of sale was significantly lower, it was 122 units. Withdrawal from the sale was saturated in 87% by renewed reservations and 13% of apartments became available again. The number of current reservations for the period only increased by 34 reservations in absolute terms with the success rate in the realisation of sales remaining high, more precisely increasing to 80%.

Indeed, the anticipated dramatic decrease in the number of sold apartments at the beginning of 2017 occurred. The calculation model of future sales for March and April 2017 shows that future sales are likely to stagnate, fluctuating around 800-900 apartments in the period under review. This estimate shall apply unless an exceptional number of new apartments enter the market.

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