

# Development market in Prague

July and August 2016

## INTRODUCTION

The development market entered the holiday months under assessment with what has already been a long-term decrease in the supply of available apartments and steadily high demand. In July and August 2016, this drop in the supply slowed down or came to a halt - from the drop of 8.7 % in May and July 2016 to 0.2 % - i.e. the decrease in the supply of available departments of 12 units. However, the annual deficit of apartments in the market increased from 2,102 available apartments to 2,134 available apartments, i.e., almost a 31 % decline in the supply as compared to the same period in 2015 was observed. Compared to the previous two months, the demand dropped significantly to 67 % and when compared to the same period in 2015, it is approximately at 75 %.

Regarding new apartments, **July** accounted for a higher supply than in the same month in previous years but given a traditional holiday downturn, it is not a big issue. 6 new residential projects entered the market (9 projects in 2015) with 476 apartments in the market (487 apartments in 2015) - the average number of apartments in the project placed on the respective market was 80 apartments, being substantially higher than the long-term average of the number of apartments in new projects. For the new supply in July an average apartment area of 59.51 m<sup>2</sup> is typical, with an average price of CZK 3,616,604 and an area price parameter of 62,696 CZK/m<sup>2</sup>. In terms of the structure of the number of apartments, this time development companies unambiguously opted for the 1-bedroom layout, making 53 % of the supply followed by the 3-bedroom layout with 21.5 %, while the 2-bedroom layout accounted for less than 15 %. Numerically, it is the supply that should not stay out in the market for long. The total sales of the new apartments amount to approximately CZK 1.78 billion.

Regarding the supply, **August** is also a weaker month, in this month 7 residential projects entered the market (10 projects in 2015) with 238 apartments placed on the market, i.e., by 55 % less than in 2015. The average number of the apartments in the project placed on the market was the lowest in this year, dropping to 34 apartments in the project. The August supply is featured by an average apartment area of 61.15 m<sup>2</sup>, price of CZK 3,693,945 and area price parameter of CZK 63,028 per m<sup>2</sup>. In terms of the structure of the number of apartments, again development companies gave preference to the 1-bedroom layout - 35 %, followed by the 2-bedroom layout - 28 %

and the 3-bedroom layout with 22 % of apartments. The last type of the supply is the 4-bedroom layout with a 15 % share in the number.

The total sales of the new apartments are approximately CZK 0.92 billion. The total units placed on the market in July and August amount to approximately CZK 2.7 billion.

## PRINCIPAL CHANGES IN THE TOTAL SUPPLY IN JULY AND AUGUST 2016

In the period under review, **13 new apartment projects (apartments as well as detached houses) with 736 units in total** were placed on the market. In this period the supply did not include any detached house project. At the same time, the supply of the already existed projects expanded in this period. 10 projects were subjected to the change in the type of structure - creation of smaller apartments from the big ones that were not readily saleable - **27 new apartments**. And one project completed its supply with other **190 apartments**.

Development companies put 714 apartments from the new projects at their web sites and 217 apartments enlarged the existing supply. The area of the new average apartment project was 55 flats. The number of the projects completed in terms of sales reached **21 projects and 1,192 units (of which 1,157 were apartments) left the market**. During this period 878 units were sold and due to the impact of lower sales the drop in the number of available apartments in the supply was almost stopped. Compared to the previous period in which new projects were highly progressive in the price area (the average apartment price was by 17 % higher than the average price of the sold apartment in the same period), the new holiday projects are client-friendly. Even though the new projects are very well accepted for the market, their saleability was only 10 % on 1 September. It can be expected with a high degree of certainty that sales in September and October 2016 will substantially increase.

## Parameters of new apartment projects (July-August) in relation to the total (sold and available) apartment supply:

- the average price of unit: **CZK 3,639,489** – the total supply in the period: **CZK 4,423,303**
- the total area of unit: **60.06 m<sup>2</sup>** - the total supply in the period: **67.02 m<sup>2</sup>**
- the average parameter: **CZK 62,849 per m<sup>2</sup>** - the total supply in the period: **CZK 67,604 Kč per m<sup>2</sup>**

The layout structure of new apartment projects supported mostly the 1-bedroom layout, with the supply of 46.8 %

exceeding the total supply by 23 %. At the same time the new supply did not provide support to the 2-bedroom layout, a 19.2 % share was by 17 % lower than the aggregate share of the layout.

#### SALE OF UNITS IN JULY AND AUGUST 2016

Compared to the two previous months, the sale of units saw a decrease of 33.1 %. **The number of sold units was 878, i.e., the drop by 434 pieces was recorded.** The total area of sold units decreased by 33.4 % to 65,393 m<sup>2</sup>. The pricelist profits dropped to CZK 4,240 million - a drop of 34.2 %.

##### Qualitative parameters of sold units:

- The price of an average sold apartment **decreased by CZK 192,403 to CZK 4,473,009**
- The average area of a sold unit **decreased by 0.9 m<sup>2</sup> to CZK 67.76 m<sup>2</sup>**
- The parameter CZK/m<sup>2</sup> **decreased by CZK 709 per m<sup>2</sup> to CZK 67,773 per m<sup>2</sup>.**

The limited supply in the monitored period allowed clients to keep or decrease in a very limited way the economic parameters of bought units. This manner of tackling with the jump increase taking place in May and July is a parallel to last year's autumn.

#### Development in the demand in the monitored two months July and August 2016 as compared to May and June 2016:

- The NUMBER of sold units **dropped by 434 pieces (33.1 %)**
- The AREA of sold units **dropped by 32,784 m<sup>2</sup> (33.4 %)**
- The SALES of sold units dropped by **CZK 2,207,187,177 (34.2 %)**

#### SUPPLY OF UNITS AS OF 31 August 2016

The aggregate supply of available units declined again but thanks to the decreased demand only slightly. During the monitored period it dropped by 0.2 %, i.e., by 12 units to 4,840 units in total. The aggregate surface area and the price of units on offer recorded a drop: 1.7 % for an area and 1.0 % for aggregate unrealised sales.

##### Quantitative parameters of units on offer:

- The price of an average unit on offer **decreased by CZK 62,774 to CZK 5,674,104**
- The average area **decreased by 1.1 m<sup>2</sup> to 77.57 m<sup>2</sup>**
- The parameter CZK/m<sup>2</sup> **increased by CZK 42 per m<sup>2</sup> to CZK 75,629 per m<sup>2</sup>**

The prior period recorded an intake of a higher number of economically accepted apartments, in particular in the total sale price. This fact allowed for all three basic parameters of the supply being kept at the level of the prior period.

#### Change in the supply of available apartments for the monitored two months July and August 2016:

- THE NUMBER of units on offer **decreased by 12 pieces (0.2 %)**
- THE AREA of units on offer **decreased by 62,774 m<sup>2</sup> (1.7 %)**
- SALES of units on offer decreased by **CZK 254,841,465 Kč (1.0 %)**

#### CHANGE IN THE CLIENT ENVIRONMENT IN JULY AND AUGUST 2016

The pricing policy of development companies recorded the same movement triggered (to a greater part) by the change in the layout structure of the apartments already under sale that are not saleable. A more noticeable division of big apartments and formation of small apartments was implemented.

A minor increase in the prices of apartments already placed on the market was observed, whereby 13.9 % of the units on offer went up in prices, by CZK 208 thousand on average. The absolute amount received from the increased prices reached approximately CZK 140 million.

In terms of apartment discounts, an increase was seen in the number of discounted apartments from 116 to 125 apartments. The absolute amount pertaining to discounts reached CZK 39 million and CZK 311 thousand per one discounted apartment.

In terms of continued purchases, the behaviour of clients turned slightly for the worse in this period. In order to compensate for the decrease in sales, it had been necessary in the previous period to sell 113 units, while in the respective period it was 87 units. Taking into account the lower sales, an indicator got worse by 1 %. Withdrawal from the sale was much more favourable this time as 52 % was saturated by a renewed reservation and 48 % returned to the status of available apartments. The number of current reservations for the period increased by 225 reservations in absolute terms with the success rate in the realisation of sales increasing to 65 %.

It seems that despite a low offer, good conditions were originated for September and October 2016 for the realisation of the demand of over 1,000 apartments again.

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