

# Development market in Prague

September and October 2016

## INTRODUCTION

The development market entered the September-October period with what has already been a long-term decrease in the supply of available apartments. Although the pace of the decline almost came to a halt in July and August, only the following months will show whether this constitutes a change in the trend. September and October saw, indeed, a very slight increase in the number of available apartments - from a 0.2% drop in July-August 2016 to a minor increase of 0.1% - i.e. an increase in the supply of available departments of mere 7 units. The annual deficit of apartments on the market decreased from 2,134 available apartments to 1,980 available apartments, i.e. a 29% decline in supply as compared to the same period in 2015. Compared to the previous two months, demand recorded a marked increase from 878 sold apartments to 1,532 apartments, i.e. of 74.5%. Compared to the same period in 2015, it recorded an increase of under 18%.

**Regarding demand**, which has so far been the highest in this period compared to the rest of the year, it needs to be pointed out that its high value was influenced by two factors which manifested themselves more than in other periods. For one thing, three projects with a total of 114 apartments saw all the reservations sold and the sales finalised; and for another thing, four projects entered the market with a high number of sold apartments right upon market entry - approximately 140 apartments. This means that the September-October sales also include the sales of preceding periods which were not presented on the market for methodological or marketing reasons. From the perspective of the economic parameters of demand, the main feature is again the effort of new clients to maintain apartment prices at the level of the preceding period. The total average price of a sold apartment grew by a mere 0,6% to CZK 4,500,620; however, the size of a sold apartment fell by 2.3 m<sup>2</sup> to 65.39 m<sup>2</sup> and the area price parameter increased to CZK 68,517 per m<sup>2</sup>.

**Supply** recorded a substantial increase which, in essence, corresponded with the increased demand and, to a large extent, facilitated it. Compared to the preceding period, the number of apartment projects saw a major increase from 13 to 25 and, in terms of the number of apartments placed on the market, from 733 to 1,483. Simultaneously, the sales of a vast number of projects were finalised - 31 projects with a total number of 1,979 apartments. During the two months, development companies placed projects with 1,780 apartments on the market (with 1,483 apartments, i.e. 83%, placed on the market), which is a 13% increase from the 2015 figures. October 2015 was the last month before the drop in new offerings and since November 2015, it has been in steep decline. In terms of all new apartments placed on the market,

**September** saw greater supply than the same month in 2015. Nine apartment projects entered the market (seven in 2015) with 612 apartments on the market (526 apartments in 2015), where the average number of apartment per project placed on the market was 63 and was only slightly higher than the long-term average of the number of apartments in new projects (61.7 apartments). September's new offerings are characterised by an average apartment size of 64.76 m<sup>2</sup>, an average price of CZK 4,772,065 and an area price parameter of CZK 73,078 per m<sup>2</sup>. In terms of the apartment structure, developers univocally opted for the 2-bedroom layout, which accounted for 39% of the supply, followed by the 3-bedroom layout with 28% and the one-bedroom layout with 19%. The aggregate sales of new apartments amounted to approximately CZK 2.89 billion.

This time, **October** was a strong month, with 16 apartment projects entering the market (11 in 2015) and 871 apartments placed on the market, i.e. 11% more than in 2015.

The average number of apartments placed on the market per project was 54 and contributed to the long-term trend of a declining number of apartments in new offerings. The October offerings can be characterised by an average apartment size of 67.03 m<sup>2</sup>, a price of CZK 5,486,238 and an area price parameter of CZK 83,085 per m<sup>2</sup>. In terms of the apartment structure, developers again preferred the 2-bedroom layout, which accounted for 42%, followed by the 3-bedroom layout with 27% and the one-bedroom layout with 17.5%. The aggregate sales of new apartments amounted to approximately CZK 4.85 billion.

The total units placed on the market in September and October amounted to approximately CZK 7.71 billion.

#### **PRINCIPAL CHANGES IN THE TOTAL SUPPLY IN SEPTEMBER AND OCTOBER 2016**

In the period under review, **28 new apartment projects (apartments as well as detached houses) with 1,930 units in total** were placed on the market. A total of 1,565 units were placed on the internet market (apartments, detached houses, non-residential units), i.e. 81% of the total number of units in projects. The number of apartments in new projects placed on the market was 1,483 and the existing offering of projects was extended to include 46 additional apartments. The size of an average new apartment project was 59 apartments. Sales were finalised in respect of **35 residential projects, and 2,112 units (of which 1,979 were apartments) left the market**. During this period, 1,532 units were sold. As the total figures suggest, the sales were saturated with new apartments (the number of available apartments on the market grew by seven). Compared to the preceding period, when new projects were economically favourable towards clients, the offerings of the past two months are, on average, closer to the parameters of the apartments available to date, i.e. they are higher than the parameters of the apartments sold. As we anticipated in our assessment of the prior period, the increased sales were brought about by the apartments offered during the holiday months and, in contract, the new offerings lead to an increase in the economic parameters of available apartments.

#### **Parameters of new apartment projects (September-October) in relation to the total (sold and available) apartment supply:**

- The average price of unit: CZK 5,191,515 – the total supply in the period: CZK 4,720,454
- The total area of unit: 66.1 m<sup>2</sup> - the total supply in the period: 66.09 m<sup>2</sup>
- The average parameter: CZK 78,994 per m<sup>2</sup> - the total supply in the period: CZK 71,133 per m<sup>2</sup>

The layout structure of new apartment projects mostly supported the 2-bedroom layout, with the new supply of 40.9% exceeding the total supply by 3.5 %. At the same time the new supply did not provide support to the 1-bedroom layout: the 18.2% share was 5.7% lower than the aggregate share of the layout.

#### **SALE OF UNITS IN SEPTEMBER AND AUGUST 2016**

Compared to the two previous months, the sale of units saw a sharp increase of 74.5 %. **The number of sold units was 1,532**, i. e. a drop of 654 units was recorded. The total area of sold units grew by 62.1 % to 106,001 m<sup>2</sup>. The pricelist profits increased to CZK 7,075 million - by 66.8%.

#### **Qualitative parameters of sold units:**

- The price of an average sold apartment increased by CZK 27,610 to CZK 4,500,620
- The average area of a sold unit decreased by 2.3 m<sup>2</sup> to CZK 65.39 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 743 per m<sup>2</sup> to CZK 68,516 per m<sup>2</sup>.

As the supply prices rose during the period under review, this allowed clients to maintain or slightly increase the economic parameters of the units bought. This manner of dealing with the steep increase taking place in May and June is a parallel to last year's autumn. It will be interesting to watch how clients will respond in late 2016 unless cheaper apartments enter the market.

#### **Development in demand in September and October 2016 as compared to September and October 2015: Quantitative indicators:**

- The NUMBER of sold units grew by 229 pieces (17.6 %)
- The AREA of sold units grew by 9,170 m<sup>2</sup> (9.5%)
- The SALES of sold units grew by CZK 1,340,099,730 (23.4 %)

One year ago, the average apartment purchased by clients was 0.5m<sup>2</sup> larger but 13.2% cheaper (CZK 3,977,028) and the CZK/m<sup>2</sup> area price parameter was 11.8% lower (CZK 61,282 per m<sup>2</sup>).

#### **SUPPLY OF UNITS AS OF 31 OCTOBER 2016**

After a long time, the aggregate supply of available units did not decline but modestly increased. During the monitored period it increased by 0.1% , i.e., by 7 units to 4,847 units in total. The aggregate surface area and the price of units on offer recorded an increase: 1% for area and 9.5% for aggregate unrealised sales.

#### **Qualitative parameters of units on offer:**

- The price of an average unit on offer increased by CZK 501,918 to CZK 6,176,022
- The average area grew by 0.6m<sup>2</sup> to 78.24 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 5,324 per m<sup>2</sup> to CZK 80,954 per m<sup>2</sup>.

The significant increase in the price parameters of unsold apartments was brought about by two factors. For one thing, the number of more expensive apartments on offer built in the wider city centre was higher and, at the same time, apartment prices were made public for more expensive projects to a greater extent.

#### **Change in the supply of available apartments for September and October 2016:**

##### **Quantitative indicators:**

- The NUMBER of units on offer increased by 7 pieces (+ 0.1%)
- The AREA of units on offer increased by 3,801 m<sup>2</sup> (+ 1.0%)
- The SALES of units on offer increased by CZK 2,491,946,205 (+7.0%)

Supply also offers an interesting comparison with the previous period in 2015. In that period, the average apartment offered to clients was 2.7m<sup>2</sup> smaller, 19.7% cheaper (CZK 5,158,354) and the CZK/m<sup>2</sup> price parameter was 16.3% lower (CZK 69,600 m<sup>2</sup>)

#### **DEVELOPMENT IN THE PRICE POLICY AND THE CLIENT ENVIRONMENT IN SEPTEMBER AND OCTOBER 2016**

This time, the pricing policy of development companies recorded a more significant increase in the prices of apartments on the market. The price increased for 19.7% of the units on offer, i.e. almost a fifth (953 apartments), on average by CZK 290 thousand. The absolute amount gained from the price increases amounted to approximately CZK 276 million. Regarding apartment price decreases, the number of apartments the price of which decreased grew from 125 to 163 (3.4% of the supply). The average discount per apartment amounted to CZK 75,000 in the period. The absolute amount pertaining to discounts reached CZK 121million.

In terms of continued purchases, the behaviour of clients turned slightly for the better in this period. In order to compensate for the decrease in sales, it had been necessary in the previous period to sell 87 units, while in the respective period it was 93 units. Taking into account the substantially greater sales, the indicator improved by 4 %. Withdrawal from the sale was much more favourable this time as 92% was saturated by renewed reservations and 8% of apartments became available again. The number of current reservations for the period increased only by 19 reservations in absolute terms with the success rate in the realisation of sales increasing to 85 %. However, such a high rate of reservations put to sale is an exception given the number of whole projects that had been sold or the sales of which had been finalised. This is given by the methodology used by development companies in reporting the extent to which the sales are binding.

So far it seems that development companies are gradually catching their breath and the client appetite is not in decline. In spite of this, it is probable that the sales of the assessed period will not be surpassed and that clients are likely to perform the second price jump this year.