

# Development market in Prague

## BID AND BID PRICES in March and April 2018

### INTRODUCTION

From the perspective of their contribution to Prague's housing market, the third and fourth months of 2018 were completely different in nature. March continued to show an increased supply of new apartments, with the first quarter ending off with the best performance in the past five years: 1,799 new apartments. However, this positive trend was discontinued in April and, with 270 apartments placed on the market, it had been the worst April in five years. Overall, during the first four months of the year, 2,069 new apartments were added to the market, which has been the greatest number since 2015, yet the increase has significantly diminished.

**In March and April 2018, demand for units in residential projects** in terms of their number was 3.5% lower than in the prior period of January and February 2018. It fell by 33 units to 903, with apartment sales decreasing by 2.3% from 920 apartments to 899. The decrease in the sales of non-residential commercial units in residential projects was substantial: from 16 non-residential units to a mere 4 non-residential units. The assessment of demand including the comparison was affected by the following factors:

- During both months, the average surface area prices of new apartments placed on the market in this period exceeded CZK 100 thousand per m<sup>2</sup>. Regarding highly attractive projects (e.g. REZIDENCE CHURCHILL, REZIDENCE U NEGRELLIHO), where the surface area price is much higher, it was impossible to obtain the prices of 25% of sold apartments.
- In assessing demand in this period, the result is an unusually great difference between the average prices obtained from pricelists and the modelling values, where apartment prices are only additionally calculated based on the price levels of individual projects. This is owing to a high number of

expensive apartments sold without the disclosure of pricelist prices.

The ratio of new offerings to sales exceptionally exceeded 27%, which was also thanks to extraordinarily expensive apartments. My belief is that, in this case, the companies' marketing strategies played a significant role.

**In March and April 2018, the supply of available units** in residential projects also slightly decreased. It fell from 5,001 units to 4,964, i.e. by under 1%. The apartments in the supply of available units as of the end of the period saw a decrease of 55 apartments, numbering 4,827 apartments, i.e. a decrease of 1.1%

Compared to the prior period, the number of new residential projects saw another increase: from 21 projects to 23 projects. Sales were finalised in respect of 20 residential projects with a total of 1,230 apartments.

23 residential projects comprising 1,035 apartments and 20 non-residential units were placed on the market. 945 apartments, i.e. approximately 91% of the total offer, were put up for direct sale. In addition, companies placed two projects on the detached house market comprising 56 houses.

**The supply of new apartments in March** amounted to 675 apartments. A total of 14 residential projects entered the market, comprising 688 apartments. The new March offering is characterised by an average apartment size of 71.04 m<sup>2</sup>, an average price of CZK 8,430,969 and a pricelist surface area price parameter of CZK 105,512 per m<sup>2</sup>, which, if the prices of non-valued apartments are added, amounts to as much as CZK 118,680 per m<sup>2</sup>.

In terms of individual apartment layouts, the offerings were clearly oriented towards the 2-bedroom layout with a total of 286 apartments, i.e. 42.4% of March's total offerings. The 3-bedroom layout accounted for 25.2% and the 1-bedroom layout for 21.8%. In terms of city districts, Prague 10 (280 apartments) and Prague 5 (117 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in March amounted to approximately CZK 5.7 billion.

**New supply in April** was unusually low. A total of 9 residential projects with 347 apartments entered the market, with only 270 apartments put on sale. April's offering can be characterised by an average apartment size of 63.17 m<sup>2</sup>, an average price of CZK 6,850,114 and a pricelist surface area price parameter of CZK 104,480 per m<sup>2</sup>, which, if the prices of non-valued apartments are added, amounts to as much as CZK 108,434 per m<sup>2</sup>.

In terms of individual apartment layouts, this time, the offerings were oriented towards the 1-bedroom and 3-bedroom layouts, accounting for 69.7% of the total offering. The 3-bedroom layout numbered 96 apartments and the 1-bedroom layout 92 apartments. With 58 apartments accounting for 21.5% of the total offerings, the 2-bedroom layout placed third. In terms of city districts, Prague 4 (102 apartments) and Prague 8 (62 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in April amounted to approximately CZK 1.9 billion.

In total, March and April saw units of approximately CZK 7.6 billion placed on the market, with a surface area price of CZK 115,991 per m<sup>2</sup> (CZK 105,312 per m<sup>2</sup> if only the pricelist prices are taken into account). Given the nature of new projects, e.g. projects in the inner parts of the city with a greater volume of apartments, this time, developers also placed a greater emphasis on higher-category apartments. After a long time, the 3-bedroom layout thus accounts for the greatest portion of sales of new apartments, specifically for 38.5%, i.e. approximately CZK 2,953 million. The 2-bedroom

layout only accounts for 29.7%, i.e. CZK 2,016 million.

## CHANGES IN APARTMENT OFFERINGS IN MARCH AND APRIL 2018

In the monitored period, a total of **23 new residential projects with a total volume of 1,105 units** were placed on the market, **of which 1,035 were apartments**. The number of residential projects whose sales were finalised amounted to **20 projects, with 1,243 units leaving the market, of which 1,282 were apartments**. In addition, one project with 97 apartments and 4 non-residential units was taken out of the market.

A total of 950 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 March and April, with 344 apartments disappearing from the market. The number of available apartments on offer decreased by CZK 55 apartments to 4,877 apartments; however, the volume of their sales increased in the monitored period by CZK 899 million to CZK 32,146 million.

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

- The **NUMBER** of available apartments dropped from 4,882 to 4,827, i.e. by 2.1%
- The **AVERAGE SIZE** of an apartment grew from 71.3 m<sup>2</sup> to 72.2 m<sup>2</sup>, i.e. by 1.3%
- The **AVERAGE PRICE** of an apartment grew from CZK 6,794,302 to CZK 7,134,018, i.e. by 5.0%
- The **AVERAGE SURFACE AREA PRICE** of an apartment grew from CZK 95,769 per m<sup>2</sup> to CZK 99,441, i.e. by 3.8%

By way of information, it needs to be said that if the prices of apartments not valued in pricelists are added, the price parameters of supply slightly increase based on the relations of individual projects. The average apartment price to CZK 7,309,431 and the surface area of an average apartment to CZK 101,185 per m<sup>2</sup>.

## SALE OF UNITS IN MARCH AND APRIL 2018

Compared to the two previous months, the sale of units slightly decreased, with the number of sold units (apartments and non-residential units in residential projects) falling by 3.5%. **The number of sold units was 903**, i.e. a decrease of 33 units, of which **the total number of apartments sold was 899**, having decreased by 21 apartments compared to the previous period.

The price parameters of sold apartments as described above are affected by a high proportion of apartments in new attractive projects sold without disclosing prices. According to pricelist prices only, the average sold apartment cost CZK 5,737,479 at CZK 89,592 per m<sup>2</sup> and was 64.0 m<sup>2</sup> in size. Total pricelist sales of apartments in the period amounted approximately to CZK 4.682 billion.

If apartment sales without the disclosure of pricelist prices are modelled based on the price levels of individual projects, the price parameters of an average sold apartment are substantially higher. The average price for a sold apartment increases to CZK 6,438,657, the surface area price to CZK 97,894 per m<sup>2</sup> and the average size of a sold apartment to 65.8 m<sup>2</sup>. Total modelling sales of apartments for the period amounted to approximately CZK 5.788 billion.

### Qualitative parameters of sold units BASED ON PRICELIST PRICES:

- The price of an average unit sold increased by CZK 235,812 to CZK 5,811,963
- The average size of a sold unit increased by 4.4 m<sup>2</sup> to CZK 65.92 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter decreased by CZK 766 per m<sup>2</sup> to CZK 90,336 per m<sup>2</sup>.

### Qualitative parameters of sold units BASED ON MODELLED PRICES:

- The price of an average unit sold increased by CZK 853,952 to CZK 6,430,105
- The average size of a sold unit increased by 4.4 m<sup>2</sup> to CZK 65.92 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 6,448 per m<sup>2</sup> to CZK 97,551 per m<sup>2</sup>.

Despite the finding that apartments with their prices disclosed essentially sustain the price stagnation in respect of the market supply, it needs to be said that this was not true of the March-April period. In objective terms, apartments were sold or declared as sold in locations where apartment prices are currently more than CZK 120 thousand per m<sup>2</sup>. It can be reliably concluded that, in March and April, the surface area price of a sold apartment exceeded CZK 95 thousand per m<sup>2</sup> at minimum.

Development in demand in **March and April 2018** as compared to January and February 2018:

### Quantitative indicators:

- The NUMBER of sold units decreased by 33 units; -3.5%
- The SURFACE AREA of sold units decreased by 1,041 m<sup>2</sup>; -1.6%
- The SALES of sold units increased by CZK 880,620,312; +16.2%

In the same period in 2017, the average apartment purchased by clients was 1.5 m<sup>2</sup> bigger, at least 10% cheaper (CZK 5,811,963) and the CZK/m<sup>2</sup> surface area price parameter was at least 16% lower (CZK 77,954 per m<sup>2</sup>). A year ago, a total of 1,013 units were sold, i.e. 11% more than this year.

During the first four months of this year unit sales were, in fact, a bit higher than in 2017. The total number of units sold was 1,893, while in the same period in 2017 the number was 1,823.

## SUPPLY OF UNITS AS OF 1 MAY 2018

After an increase to 5,001 units in the preceding period, the aggregate offer of available units again slightly decreased to 4,964 units, i.e. by 37 units. Of this, the number of available apartments also decreased by 55 apartments, i.e. by 1.1% to 4,827 apartments.

### Qualitative parameters of the units on offer:

- The price of an average unit on offer increased by CZK 334,395 to CZK 7,140,048
- The average surface area increased to 73.14 m<sup>2</sup>, i.e. by 0.8 m<sup>2</sup>
- The CZK/m<sup>2</sup> parameter increased by CZK 3,597 per m<sup>2</sup> to CZK 98,523 per m<sup>2</sup>.

In the monitored period, the qualitative indicators of the available units on offer thus saw a rise in size, unit price and exceptionally also unit surface area price. This was primarily due to the nature of the new apartment offerings in March: projects in the inner city parts and reconstruction projects.

The change in the supply of available units for **March and April 2018:**

### Quantitative indicators:

- The NUMBER of units on offer decreased by 37 units, -0.7%
- The SURFACE AREA of units on offer increased by 1,617 m<sup>2</sup>; +0.4%
- The SALES of units on offer increased by CZK 1,057 million; +3.3%

Supply also offers an interesting comparison with the previous period in 2017. In that period, clients were offered 775 fewer units for purchase. The average unit was 7.3 m<sup>2</sup> larger, 0.7% cheaper (CZK 7,091,427) and the CZK/m<sup>2</sup> price parameter was 10.3% lower (CZK 89,289 per m<sup>2</sup>). The market clearance and radical increase in prices was still in full swing.

## DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN MARCH AND APRIL 2018

In terms of the pricing policy of development companies, the monitored period may be regarded as strong, primarily in respect of price increases. An increase in prices affected 738 units, which is almost 10% more than in the previous period. Compared to the prior period, the decrease in prices was at 40%, affecting 97 units.

As regards the reduction of apartment prices, the price change only applied to 2.0% of the supply). However, the discount in this period slightly increased, amounting to an average of CZK 398 thousand per discounted apartment (CZK 392 thousand in the prior period). In absolute terms, discounts only amounted to CZK 38.6 million.

The price increased in respect of 14.9% of the units on offer (i.e. 738 units), on average by CZK 285 thousand (in the prior period, the increase amounted to CZK 275 thousand). As a result, the absolute amount gained from increased prices was CZK 210 million.

In terms of the pricing policy, the total balance for the period thus brought about increased sales arising from changes in the prices of units of CZK 171.8 million.

In terms of adherence to the purchase agreement, clients' behaviour was above average. On an annual average, the number of apartments repeatedly placed on sale amounted to approximately 10%. In this period, 7.3% of the 970 apartments sold in absolute terms (71 apartments) were again placed on sale. This time, withdrawal from sale was saturated only in 20% of cases by renewed reservations and a total of 80% of apartments became available again.

In the previous analysis, the sales model predicted March and April sales in the amount of up to 885 apartments. The actual number was 899 apartments, departing from the forecast by only 1.5%. The current calculations expect a substantial decline in sales of up to 10% (to 812 apartment), with the maximum number of 862 apartments. This will also be significantly affected by the issue of what the new apartment offerings will be like: last May and June a total of 962 apartments were put on the market. Given that major players have, more or less, already placed their projects on the market, the number of new apartments is likely to be substantially lower.

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