

Development market in Prague

BID AND BID PRICES in November and December 2017

INTRODUCTION

The last two months of 2017 brought the second smallest supply this year – 593 apartments. Following four months of growth, the fact again caused a decline in the number of available apartments on the market. Their number decreased from 4,733 apartments as of 1 November 2017 to 4,531 apartments as of 1 January 2018. The number of non-residential units in residential projects decreased from 119 units to 116 units and the supply of houses decreased from 298 to 283.

In November and December 2017, demand for units in residential projects was 5.4% lower than in the prior period of September and October 2017. It fell by 49 units to 874, with apartment sales decreasing by under 5% from 905 apartments to 863. The sales of non-residential commercial units in residential projects also recorded a decrease: from 19 to 11 non-residential units. The assessment of demand including the comparison was affected by the following factors:

- In late 2017, the sales status was published in respect of several projects, increasing the prior total sales in certain cases. Following this specification, apartment sales in the prior September-October 2017 period thus increased from 820 apartments to 905.
- In one instance, the sales for the prior six months were included in the November-December 2017 period, i.e. a sales increase of approximately 100 apartments.

The average price of an apartment from among the available supply was CZK 6,932,316 early in the period, with the surface area price of CZK 94,223 per m². In November and December, new apartments substantially exceeded the apartment surface area

price. The apartments placed on the market during the period were extremely small – 47.3 m² on average – yet, at the same time, very expensive in terms of the surface area price – CZK 118,247 per m². The average price of an apartment was a “mere” CZK 5,588,718; however, this was only owing to the small surface area of the apartments. In the prior period, new apartments accounted for 25% of apartments sold. This time, new offerings only accounted for 11% of sales. However, just as a matter of interest, it should be said that a total of 102 apartments from among the new offerings were sold, having an average surface area of 38.7 m² and a surface area price of CZK 116,734 per m².

In November and December 2017, the supply of available apartments declined. The number of new apartments that directly entered the market was 593 and the offering of available apartments was down by 202 apartments at the end of the period, i.e. by 4.3%. However, given the prior year's smaller offering in the same period, the annual deficit in new apartments decreased to 372 apartments compared to January-December 2016, i.e. only a 6% decline.

Compared to the prior period, the number of new residential projects decreased to 18 and the number of new apartments placed on the market decreased from 1,256 to 593 apartments. Sales were finalised in respect of 20 residential projects with a total of 1,021 apartments.

During the two assessed months, projects comprising 731 apartments were placed on the market by development companies, with the above stated 593 apartments entering the market, i.e. 81%. In addition, a total of 7 non-residential commercial units in residential projects and 24 terraced houses in two projects were placed on the market.

November was relatively rich in new apartments placed on the market. A total of 14 residential projects entered the market, comprising 495 apartments (502 apartments in 2016). The new November offering is characterised by an average apartment size of 46.73 m², an average price of CZK 5,292,247 and a surface area price parameter of CZK 113,407 per m². In terms of individual apartment layouts, the offerings were clearly oriented towards the 1-bedroom and 2-bedroom layouts with a total of 420 apartments, i.e. 85% of November's total offerings. In terms of city districts, Prague 10 (156 apartments) and Prague 1 (147 apartments) accounted for the greatest portion of the offerings. The aggregate sales of new apartments in November amounted to approximately CZK 2.6 billion.

As usual, **December** was poor in new apartments. A total of 6 residential projects with 98 apartments (18 apartments in 2016) entered the market. December's offering can be characterised by an average apartment size of 49.96 m², an average price of CZK 7,049,448 and a surface area price parameter of CZK 141,116 per m².

In terms of individual apartment layouts, the offerings were again oriented towards the 1-bedroom and 2-bedroom layouts, accounting for 82% of the total offering. In terms of city districts, Prague 8 (36 apartments) and Prague 7 (30 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in December amounted to approximately CZK 0.7 billion. In total, November and December saw units of approximately CZK 3.3 billion placed on the market, with a surface area price of CZK 118,247 per m² (in September and October 2017, the price was CZK 80,582 per m²).

CHANGES IN APARTMENT OFFERINGS IN NOVEMBER AND DECEMBER 2017

In the monitored period, a total of **20 new residential projects with a total volume of 762 units** were placed on the market, of which **731 were apartments**. The number of residential projects

whose sales were finalised amounted to **22 projects, with 1,099 units leaving the market, of which 1,021 were apartments**.

A total of 593 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 November and December, with 290 apartments disappearing from the market. The volume of sales of the apartments on offer decreased by CZK 1.1 million.

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

- The **NUMBER** of available apartments dropped from 4,733 to 4,531, i.e. by 4.3%
- The **AVERAGE SIZE** of an apartment dropped from 73.5 m² to 71.8 m², i.e. by 2.4%
- The **AVERAGE PRICE** of an apartment grew from CZK 6,934,076 to CZK 7,004,925, i.e. by 1%
- The **AVERAGE SURFACE AREA PRICE** of an apartment grew from CZK 94,290 per m² to CZK 97,614 per m², i.e. by 3.5%

SALE OF UNITS IN NOVEMBER-DECEMBER 2017

Compared to the two previous months, the sale of units substantially decreased, with the number of sold units (apartments and non-residential units in residential projects) falling by 5.4%. **The number of sold units was 874**, i.e. a drop of 49 units, of which the total number of apartments sold was 863, having decreased by 42 apartments compared to the previous period. The average sold apartment cost CZK 5,916,825 at CZK 92,923 per m² and was 63.7 m² in size. During the period, sales thus recorded a drop in the size of a sold apartment, but a rise in price parameters.

Qualitative parameters of sold units:

- The price of an average unit sold increased by CZK 307,814 to CZK 6,118,979
- The average size of a sold unit decreased by 1.8 m² to CZK 67.51 m²
- The CZK/m² parameter increased by CZK 6,533 per m² to CZK 89,752 per m².

Development in demand in **November and December 2017** as compared to September and October 2017:

Quantitative indicators:

- The NUMBER of sold units decreased by 49 units; -5.4 %
- The SURFACE AREA of sold units decreased by 6,867 m²; -9.7%
- The SALES of sold units decreased by CZK 731,255,042; -13.1 %

We are slowly approaching a period where the comparison with the year before loses its attractiveness. In the same period in 2016, the average apartment purchased by clients was 0.4 m² bigger, 18.0% cheaper (CZK 5,182,000) and the CZK/m² surface area price parameter was 17% lower (CZK 76,546 per m²). A year ago, a total of 1,112 units were sold, i.e. 21% more than this year.

SUPPLY OF UNITS AS OF 1 JANUARY 2018

Following four months of growth, the aggregate supply of available units dropped from 4,850 units to 4,647. Of this, the number of available apartments decreased by 202 in terms of the number of units, i.e. by 4.3% to 4,531 apartments.

qualitative parameters of the units on offer:

- The price of an average unit on offer decreased by CZK 36,782 to CZK 6,873,411
- The average surface area decreased to 72.81 m², i.e. by 2.2 m²
- The CZK/m² parameter increased by CZK 2,676 per m² to CZK 95,040 per m²

In the monitored period, the qualitative indicators of the available units on offer thus saw a decline in size and the unit price, yet a substantial increase in the unit surface area price. This was primarily owing to the nature of the new apartment offerings in the monitored period.

The change in the supply of available units for **November and December 2017:**

Quantitative indicators:

- The NUMBER of units on offer decreased by 203 units; -4.2 %
- The SURFACE AREA of units on offer decreased by 25,841 m²; -7.1 %
- The SALES of units on offer decreased by CZK 568 million; -1.9 %

Supply also still offers an interesting comparison with the previous period in 2016. In that period, clients were offered three hundred fewer units for purchase. The average unit was 6.6 m² larger, 3% cheaper (CZK 6,682,343) and the CZK/m² price parameter was 11% lower (CZK 85,323 per m²). The market clearance and radical increase in prices had already been in full swing in November and December 2016.

DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN NOVEMBER AND DECEMBER 2017

In terms of the pricing policy of development companies, the monitored period may be regarded as moderate. It seems that the major portion of price adjustments took place in the prior period. The number of discounted units again decreased.

As regards the reduction of apartment prices, the price change only applied to 56 apartments (1.2% of supply). However, the discount in this period substantially decreased, amounting to an average of CZK 174 thousand per discounted apartment (CZK 415 thousand in the prior period). In absolute terms, discounts amounted to CZK 9.7 million.

The price increased in respect of 10% of the units on offer (i.e. 464 apartments), on average by CZK 184 thousand (in the prior period, the increase amounted to CZK 530 thousand). As a result, the absolute amount gained from increased prices was CZK 85 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 75.3 million.

In terms of adherence to the purchase agreement, clients' behaviour was slightly above the average. On an annual average, the number of apartments repeatedly placed on sale amounted to approximately 10%. In this period, only 8% of the apartments sold in absolute terms (73 apartments) were again placed on sale. This time, withdrawal from sale was saturated only in 37% of cases by renewed reservations and a total of 63% of apartments became available again.

By way of conclusion to the prior period report, I assumed a total of 675 apartments would be sold in the November-December 2017 period. Taking into

account the inclusion of approximately 100 apartments in the accumulated sales from prior months in this period, I underestimated clients' interest by another 100 apartments. I would rather not forecast anything for early 2018, but, to support good sales, let me state that the number of bookings as of 1 January 2018 was the highest in the entire year, accounting for 27% of the total offerings.

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