

Development market in Prague

BID AND BID PRICES in May and June 2018

INTRODUCTION

May and June saw the greatest number of apartments put on the market in this period since 2014. All major development companies released new projects (except for Finep which put its offerings on the market as early as in February and March). In addition, companies substantially stepped up their efforts to finalise the sales of remaining expensive apartments, primarily in finalised projects, which was reflected both in marketing events and the pricing policy in the period.

New projects comprised 1,449 new apartments, of which 90%, i.e. 1,305 apartments, were put on the market by companies. Compared to the two preceding months, the surface area price of an average new apartment did not exceed CZK 100 thousand per m² and amounted to CZK 97,422 per m². From the perspective of new apartments on the market, the first six months of this year have been the best since the end of the crisis: with 3,376 apartments directly placed on the market, it surpassed 2014, which recorded an all-time high, by 270 apartments.

In May and June 2018, demand for units in residential projects in terms of their number was 7.2% higher than in the prior period of March and April 2018. It grew by 65 units to 968, with apartment sales increasing by 5.9% from 899 apartments to 952. The sales of non-residential commercial units in residential projects again increased from 4 non-residential units to 16. The assessment of demand including the comparison was affected by the following factors:

- The projects put on the market had already been partially sold out prior to their placement on the market. This affected the calculation of average values since, owing to the selling out of cheaper

apartments, the additionally calculated price parameters are sometimes lower than the values only obtained from the prices disclosed in pricelists.

- The new offerings primarily comprised partial stages of major projects, with their structure corresponding to the overall structure of apartments on the market.

New apartments accounted for an even greater percentage of sales than in the preceding period, having grown from 27% to 32% (306 apartments). The fact that almost every third sold apartment came from the latest offerings is not only indicative of the relatively favourable price but also of the high percentage of apartments sold prior to the placement of the projects on the market.

In May and June 2018, the supply of available units in residential projects also increased during the analysed period. It grew from 4,964 units to 5,411, i.e. by 9%. Apartments in the supply of available units as of the end of the period themselves saw an increase of 442 apartments, numbering 5,269 apartments, i.e. an increase of more than 9%.

Compared to the prior period, the number of new residential projects saw another increase: from 23 projects to 27 projects. Sales were finalised in respect of 18 residential projects with a total of 1,020 apartments. In addition, three projects with 52 detached houses were put up for sale. Two projects with 10 detached houses left the market.

27 residential projects comprising 1,449 apartments and 29 non-residential units were placed on the market. 1,305 apartments, i.e. approximately 90% of the total offer, were put up for direct sale.

The supply of new apartments in May amounted to 473 apartments. A total of 13 residential projects entered the market, comprising 594 apartments. The new May offering is characterised by an average apartment size of 64.6 m², an average price of CZK 6,299,185 and a pricelist surface area price parameter of CZK 97,506 per m², which, if the prices of non-valued apartments are added, amounts to CZK 95,379 per m².

In terms of individual apartment layouts, the offerings were again clearly oriented towards the 2-bedroom layout with a total of 204 apartments, i.e. 43.1% of May's total offerings. The 1-bedroom layout accounted for 22.8% and the 3-bedroom layout for 22.6%. In terms of city districts, Prague 9 (226 apartments) and Prague 5 (194 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in May amounted to approximately CZK 2.9 billion.

The new supply in June was unusually high. A total of 17 residential projects with 855 apartments and 17 non-residential units entered the market, with 832 apartments put on sale, i.e. 97% of apartments. June's offering can be characterised by an average apartment size of 60.29 m², a price of CZK 5,948,482 and a pricelist surface area price parameter of CZK 95,254 per m², which, if the prices of non-valued apartments are added, amounts to as much as CZK 98,666 per m².

In terms of individual apartment layouts, the offerings were again clearly oriented towards the 2-bedroom layout, totalling 363 apartments and accounting for 43.6% of the total June offering. The 1-bedroom layout accounted for 25.2% and the 3-bedroom layout for 22.7%. In terms of city districts, Prague 4 (286 apartments), Prague 9 (189 apartments), Prague 5 (160 apartments) and Prague 10 (144 apartments) accounted for the greatest portion of the offerings.

The aggregate sales of new apartments in April amounted to approximately CZK 4.9 billion.

In total, May and June saw units of approximately CZK 7.9 billion placed on the market, with a surface area price of CZK 97,422 per m² (CZK 96,137 per m² if only the pricelist prices are taken into account). Compared to the preceding period, the nature of projects changed. A critical portion of the new offerings comprised new stages of major projects that had already been on offer and, in one instance, the first stage of a new major project. For this reason, the price and surface area parameters of the new apartments were lower and, in terms of structure, corresponded more closely to the layout structure of the whole market. The 2-bedroom layout thus accounted for the greatest portion of sales of new apartments, specifically for 38.0%, i.e. approximately CZK 2,991 million. It was followed by the 3-bedroom layout accounting for 27.3%, i.e. CZK 2,144 million, and the 1- and 4-bedroom layouts accounting for 13.7% and 13.1% of sales, respectively.

CHANGES IN APARTMENT OFFERINGS IN MAY AND JUNE 2018

In the monitored period, a total of **27 new residential projects with a total volume of 1,478 units** were placed on the market, **of which 1,449 were apartments**. The number of residential projects whose sales were finalised amounted to **18 projects, with 1,036 units leaving the market, of which 1,002 were apartments**. In addition, two projects with 84 apartments were taken out of the market (only 6 apartments from these projects were placed on the market).

A total of 1,305 apartments in new projects were placed on the market. The balance of the total market offerings (sold, available) was positive in terms of the number of apartments in May and June, with 287 apartments added to the market. The number of available apartments on offer grew by CZK 442 apartments to 5,269 apartments; however, the volume of their sales increased in the monitored period by CZK 3,226 million to CZK 35,372 million. If non-valued apartments are included in the calculation, sales amount to CZK 38,783 million.

The change in the offering of available apartments may be characterised as follows based on pricelist prices:

- The NUMBER of available apartments grew from 4,827 to 5,269, i.e. by 9.2%
- The AVERAGE SIZE of an apartment fell from 72.2 m² to 71.95 m², i.e. by 0.4%
- The AVERAGE PRICE of an apartment recorded a minor increase from CZK 7,134,018 to CZK 7,137,197, i.e. by CZK 3,179
- The AVERAGE SURFACE AREA PRICE of an apartment grew from CZK 99,441 per m² to CZK 100,294 per m², i.e. by under 1%

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 7,360,668 and the surface area of an average apartment to CZK 102,305 per m².

SALE OF UNITS IN MAY AND JUNE 2018

Compared to the two previous months, the sale of units significantly increased, with the number of sold units (apartments and non-residential units in residential projects) rising by 7.2%. **The number of sold units was 968**, i.e. an increase of 65 units, of which **the total number of sold apartments was 952**, having increased by 53 apartments compared to the previous period.

The price parameters of sold apartments as described above are affected by a high proportion of sold apartments in new projects. According to pricelist prices only, the average sold apartment cost CZK 6,164,837 at CZK 97,427 per m² and was 63.3 m² in size. Total pricelist sales of apartments in the period amounted approximately to CZK 6.658 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 slightly higher. The average price for a sold apartment increases to CZK 6,210,405, the surface area price to CZK 97,957 per m² and the average size of a sold apartment to 63.3 m². Total modelling sales of apartments for the period amounted to approximately CZK 6.781 billion.

It may be stated that the situation in the prior period, when the difference between the pricelist and additionally modelled parameters was high, has passed, and the shift in the above listed values has returned to normal.

Qualitative parameters of sold units (both apartments and non-residential units) BASED ON PRICELIST PRICES:

- The price of an average unit sold increased by CZK 337,170 to CZK 6,149,133
- The average size of a sold unit decreased by 2.1 m² to CZK 63.81 m²
- The CZK/m² parameter increased by CZK 6,654 per m² to CZK 96,991 per m².

Development in demand in **May and June 2018** as compared to March and April 2018:

Quantitative indicators:

- The NUMBER of sold units increased by 65 units; +7.2%
- The SURFACE AREA of sold units increased by 6,233 m²; +9.7%
- The SALES of sold units increased by CZK 1,548 million; +29.9%

In the same period in 2017, the average apartment purchased by clients was 9.3 m² bigger and only 1% cheaper (CZK 6,083,189), but the CZK/m² surface area price parameter was at least 14% lower (CZK 84,860 per m²). A year ago, a total of 725 units were sold, i.e. almost 13% fewer than this year.

During the first six months of this year, unit sales were, in fact, substantially higher than in 2017. The total number of units sold was 2,807, while in the same period in 2017 the number was 2,548, i.e. an increase of 10%.

SUPPLY OF UNITS AS OF 1 JULY 2018

After a decrease to 4,964 units in the preceding period, the aggregate offer of available units again substantially increased to 5,411 units, i.e. by 447 units and 9%. Of this, the number of available apartments also increased by 442 apartments, i.e. by 9% to 5,269 apartments.

Qualitative parameters of the units on offer:

- The price of an average unit on offer only increased by CZK 2,648 to CZK 7,142,048
- The average surface area decreased to 72.84 m², i.e. by 0.2 m²
- The CZK/m² parameter increased by CZK 885 per m² to CZK 99,409 per m².

In the monitored period, the qualitative indicators of the available units on offer only saw a minimal change, with the surface area reduced by 0.3% and the surface area price increased by 0.9%. The minimal change in parameters is primarily owing to the structure of units in new projects, which exactly copies the existing state of the overall market supply.

The change in the supply of available units for May and June 2018:

Quantitative indicators:

- The NUMBER of sold units increased by 447 units; +9.0%
- The SURFACE AREA of sold units increased by 31,083 m²; +8.6%
- The SALES of sold units increased by CZK 3,255 million; +9.9%

Supply also offers an interesting comparison with the previous period in 2017. In that period, clients were offered 1,302 fewer units for purchase. The average unit was 6.8 m² larger, 0.3% cheaper (CZK 7,119,150) and the CZK/m² price parameter was 10.0% lower (CZK 90,343 per m²). The market clearance and radical increase in prices was still in full swing a year ago.

DEVELOPMENT IN THE PRICING POLICY AND THE CLIENT ENVIRONMENT IN MAY AND JUNE 2018

During the two assessed months, the pricing policy was primarily characterised by efforts to sell leftover apartments in older projects, even at the cost of significant partial discounts. This was namely visible in relation to finalised projects. At the same time, the marketing of some companies was marked by a substantial increase in discounts and discount benefits.

In terms of the pricing policy of development companies, the monitored period may be regarded as strong, primarily in respect of price decreases. A decrease in prices affected 277 units, which is almost three times as many as in the previous period (97 discounted units). Price increases were less numerous in terms of the number of units, having affected 532 units (in the prior period, price increases affected 738 units).

As regards the reduction of apartment prices, the price change applied to 5.1% of the supply. The discount in this period slightly decreased, amounting to an average of CZK 349 thousand per discounted apartment (CZK 398 thousand in the prior period). In absolute terms, discounts only amounted to CZK 96.7 million.

The price increased in respect of 9.8% of the units on offer, on average by CZK 254 thousand (in the prior period, the increase amounted to CZK 285 thousand). As a result, the absolute amount gained from increased prices was CZK 135 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 38.914 million (CZK 171.8 million in the prior period).

In terms of adherence to the purchase agreement, clients' behaviour slightly deteriorated. On an annual average, the number of apartments repeatedly placed on sale amounted to approximately 10%. In this period, 12.8% of the 1,092 apartments sold in absolute terms (140 apartments returned) were again placed on sale; in sales, the percentage was as high as 15.4%. This time, withdrawal from sale was saturated in only 46% of cases by renewed reservations and a total of 54% of apartments became available again. The surface area prices of apartments returned from the market amounted to CZK 92,337 per m² in bookings; however, in respect of apartments repeatedly placed on sale, the price amounted to CZK 113,463 per m² following a price increase.

In the previous analysis, the sales model predicted May and June sales in the amount of up to 862 apartments based on the known offerings. The actual number was 952 apartments, departing from the forecast by as much as 10.5%. The departure from the forecast was brought about by the unexpectedly high June offerings. Of June apartments, a total of 121 apartments were sold during the month, i.e. 15% of the total June offerings and a little less than 13% of all apartments sold. Based on the latest parameters of supply, sales in July and August are forecast to amount to 925-950 units.

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