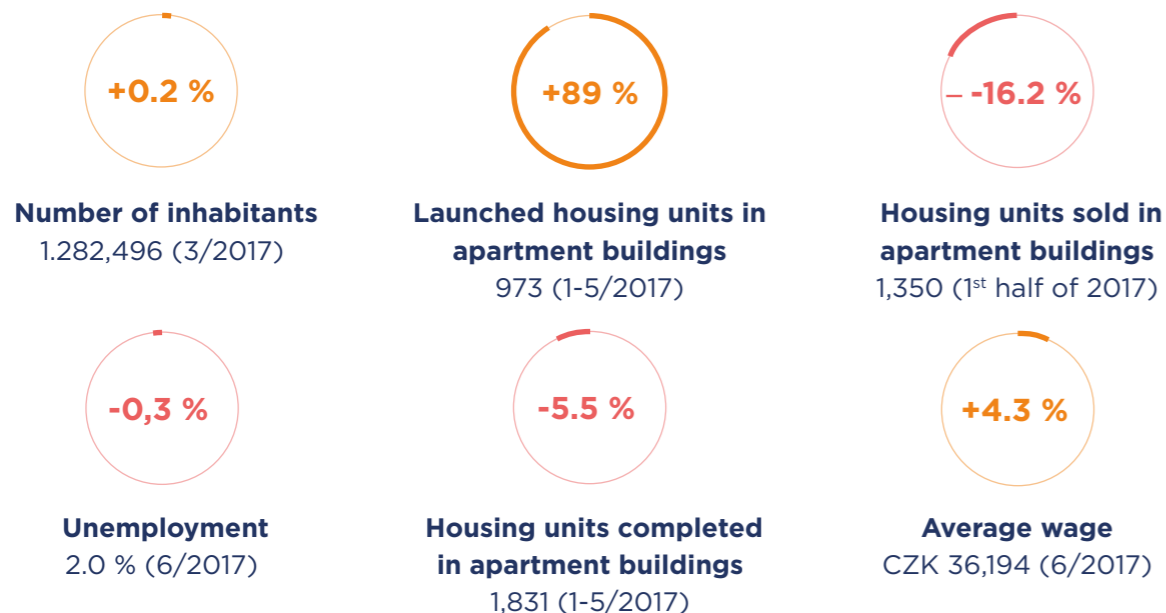


PRAGUE RESIDENTIAL MARKET 1-6/2017

The annual comparison of Prague real estate market indicators



Housing units completed

From January to May 2017, a total of 2,357 apartments were completed in Prague (of which 1,831 apartments in the apartment buildings). Compared to the same period of last year, there was a slight increase of 6.4 % (however, in the case of apartments in the apartment buildings there was a slight decrease of 5.5 %). In the whole country, a total of 10,294 apartments were completed in the first five months, the same as in the same period in the previous year. Prague accounted for 56% in the nationwide result of 3,265 completed apartments in apartment buildings (year-on-year increase of 9.8 %).

LEXXUS Quiz



Doron Klein
CEO, AFI Europe Czech Republic



Frank Nourse
Director Pierwood Capital s.r.o.



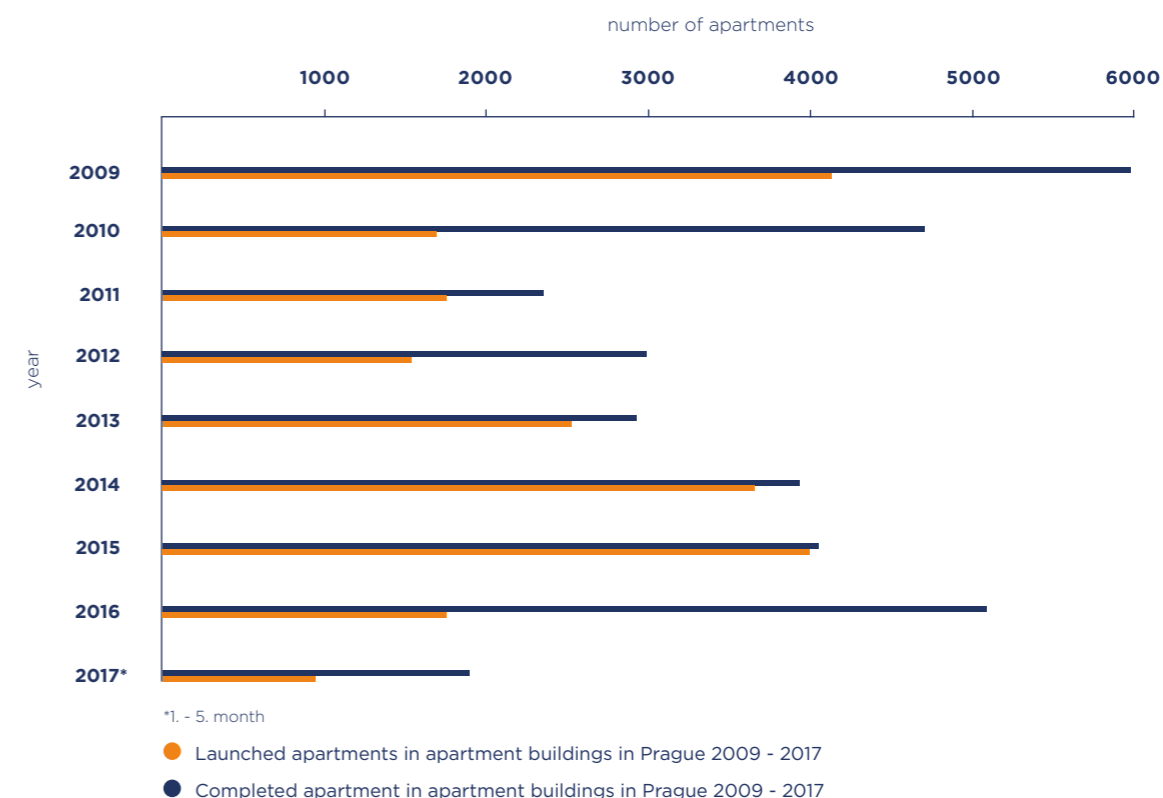
Lukáš Uxa
Developer

Favorite part of Prague?	Prague 1	Prague 5	Hanspaulka
View or (front) garden?	view	view	view
House or apartment?	apartment	apartment	house
Centre or suburb?	centre	centre	centre
Own housing or rent?	own	own	own

Launched housing units

For the first five months of this year, a total of 1,457 apartments were started (of which 973 were in the apartment buildings). The number of started apartments increased by 50 % (the number of started apartments in the apartment buildings increased by 89 %) in a year-on-year comparison for that period. Given the 47.2 % drop in the number of started apartments last year (a total of 2,758 apartments per year), there is still insufficient amount.

HOUSING UNITS COMPLETED AND ON WHICH BUILDING WORK BEGAN IN APARTMENT BUILDINGS IN PRAGUE 2009-2017



Demand

In spite of a slight increase in the mortgage financing interest, the demand remains stable. Sale of the apartments in Prague for the last year reached 6,650 apartment units. Due to the declining supply (with rising prices and gradual tightening of mortgage financing conditions), we expect a decrease in sales this year, and we assume that the number of sold apartments will not exceed 6,000.

Supply

For the first five months of this year, 973 apartments were started in the apartment buildings. It is a year-on-year increase of 89 %. For the whole of last year, construction of only 1,707 apartments in the apartment buildings were started in Prague, which corresponds to 56.8 % year-on-year decline. The stock of the new apartments in the Prague's supply is still decreasing due to the low number of started apartments. After the first quarter, there are just about 3,065 available apartments on the market. At the current sales rate (3,027 apartments per 1-6/2017), insufficient supply is the main cause of the rise in supply prices for the apartments.

The rise in prices to decelerate

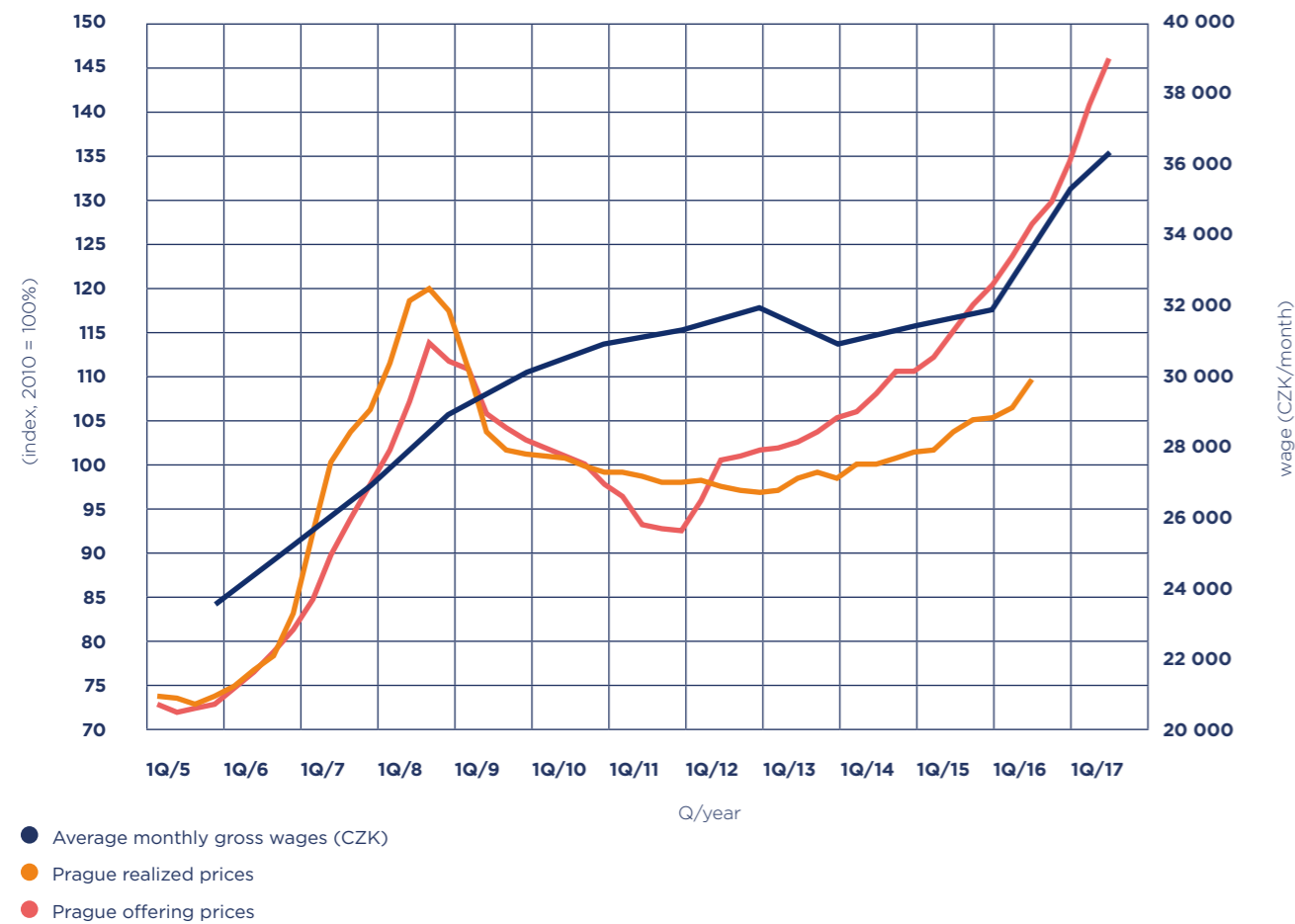
The growth of the offering prices of the apartments reaches a dynamics comparable to the pre-crisis situation in 2008. Compared to the reached peak, the prices at the end of the half-year increased by 32 %, while the average wage in Prague grew by only 25.5 % over the same period. With the rise of the mortgage financing interest as well as tightening the conditions for getting a mortgage, the availability of housing thus worsens. The declining supply of new apartments on the Prague's market allows for the continuation of price growth and does not allow it to slow down. The administrative delays in permitting a construction of the new buildings and the general opposition to new construction thus reduce the availability of housing.

Mortgage financing

The mortgage market in the Czech Republic is growing despite increasing interest rates and the tightening conditions for their acquisition. The average amount of the mortgage exceeded CZK 2 million, and it makes a record of CZK 2,035,000 for the first five months of this year. The volume of mortgages in the monitored period reached CZK 96.347 billion, which represents 44.1 % of the total volume of last year. The number of mortgages amounted to 47,355 (42.5 % of total mortgages for the year 2016).

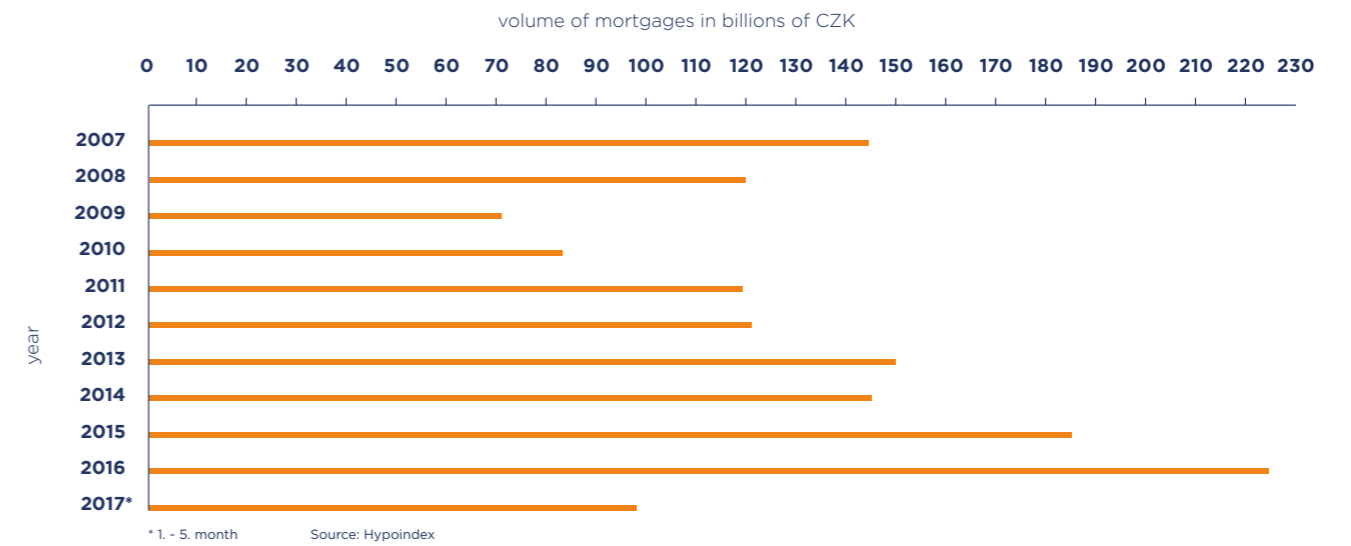
The average interest rate gradually started to rise, and it reached an average of 2.03 % in May this year. In spite of a slight increase, the interest rates are still very low, which maintain a high demand for the apartments despite of a significant increase in their prices.

PRICES OF APARTMENTS IN PRAGUE + AVERAGE WAGE
(INDEX, 2010 = 100%)



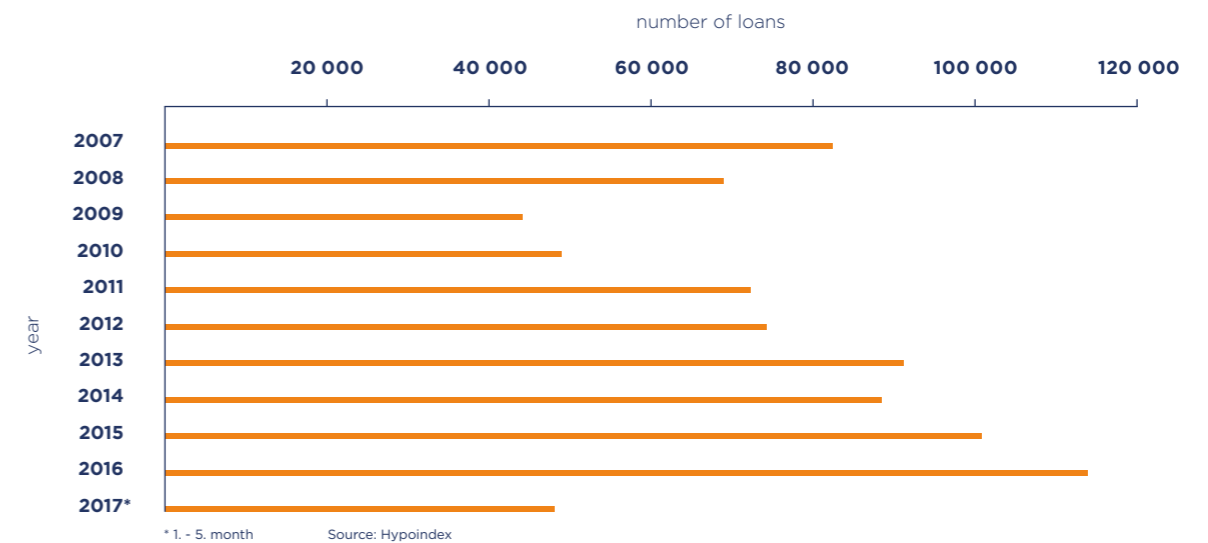
Source: ČSÚ

VOLUME OF MORTGAGE LOANS TO CITIZENS IN THE CZECH REPUBLIC



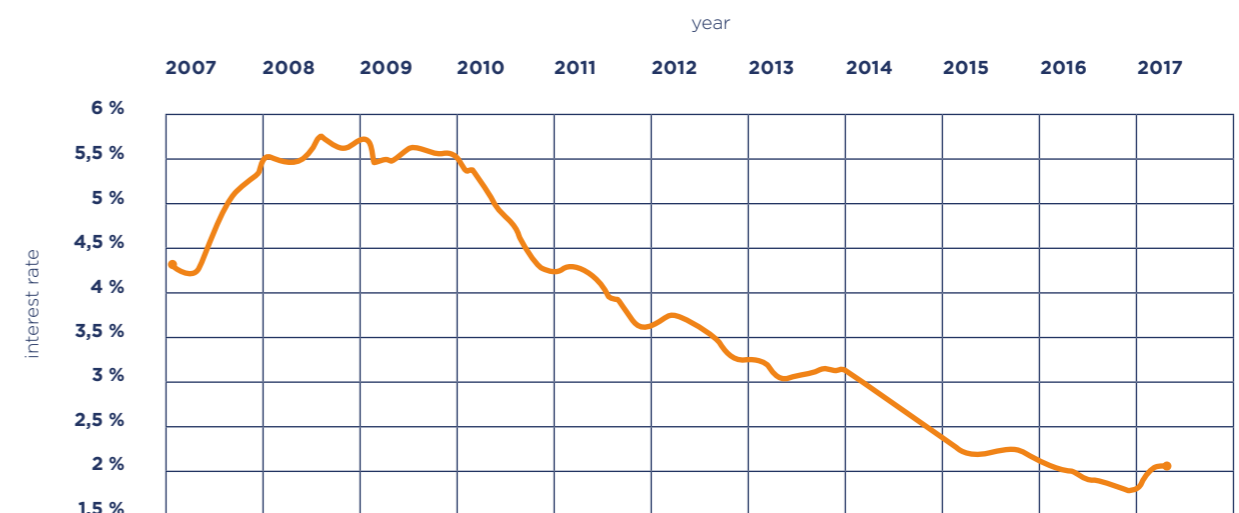
* 1. - 5. month Source: Hypoindex

THE NUMBER OF GRANTED MORTGAGE LOANS TO CITIZENS IN THE CZECH REPUBLIC



* 1. - 5. month Source: Hypoindex

AVERAGE MORTGAGE LOAN INTEREST RATE



Source: Hypoindex



Lenka Kostrounová
Director of Real Estate
Financing, ČSOB

In your view, how would you sum up the development of the residential real estate market in the last six months?

Despite the constantly rising price (current average is between CZK 70 and 75 thousand including VAT / sq m), the sales of the apartments are still up and running. Compared to 2015 (6,200 sold apartments), there was a 7 % increase in 2016 (6,650 sold apartments). This year, there is likely to be a slight decrease in the number of sold apartments (the source: Trigema / Trend report 2017: the estimation of a 2 % decrease), mainly due to the insufficient supply of new apartments. The main reasons for the expected decline include the prolonged preparation of new development projects due to the current state of the legislation and the generally complicated process of the permitting process itself.

What expectations do you have in the real estate market for the upcoming period?

The Czech real estate market is dependent on the overall economic growth of the Czech economy, which apart from domestic influences, determines the developments in the external environment, especially in the Eurozone. Assuming stable GDP growth (in the Inflation Report I / 2017, the ČNB estimates GDP growth in the years 2017 - 2018 by 2.8 %) and only a slight increase in the interest rates, I do not expect much change in the current market dynamics.

How do you perceive the ČNB's increasingly restrictive approach to mortgages?

In terms of market stability, the ČNB's approach is positive. Considering that the prices of apartments increased by 15 % year-on-year by year-end 2016, the volume of the new housing loans increased by CZK 15 billion year-on-year in the first quarter of this year and the year-on-year growth rate of housing loans accelerated to nearly 20 % (source: ČNB Report, Chapter 5. Macro-caution Policy), the ČNB recommendation consisting of a gradual reduction in the share of new loans with LTVs above 80 % cannot be surprising at all. From the point of view of a cautious approach to risk management, the rule should be that the client should partially use his own resources to acquire real estate and be able to repay the mortgage loan even under less favourable economic conditions.



Lukáš Uxa
Developer

You have been present in the residential development field for the last 15 years. What do you enjoy the most about this job?

The most fulfilling is the real estate changeability. When I buy the project, it is always in a very bad condition. The facade is destroyed, the interiors of apartments are often affected by the reconstruction from 1980s, it has a steel door-frames, "screwed" windows ... And when I hand over the building to the new owners, it is beautiful, it respects the historical elements, and yet it corresponds to the present trends of modern and pleasant living.

Development is often challenging. How do you relax?

I do sports. In no way intensively, but I actively play golf, ski, and also I like to travel very much.

Which part of Prague do you like the most and why?

I grew up in Prague 6 and even though I spent a bigger part of my active life in Velká Chuchle, I always wanted to go back to the place, where I grew up. I managed this a few years ago, for which I am very happy, and I enjoy life on Hanspaulka.

What sizes of apartments do you think are currently most requested?

Client requirements change in time. If 10 years ago the most demanding apartments for own living were in the 2 + kk category, now the bigger apartments are requested, in my projects especially 3 + kk category. As an investment tool (from the viewpoint of the developer), the 2 + kk apartments are still the best due to the price performance ratio.

In case of inspiration from abroad, which country do you consider as the most attractive from the development projects point of view?

I will answer in one word - London.

You are a successful developer of many projects. Which project so far has the greatest importance for you and why?

The most important one is always the current ongoing one, that is, the project "U Rajské zahrady 18". It is a beautiful building from the early 20th century. When I first entered it, I immediately knew I wanted to develop it. I was attracted by the perfection of contemporary interior elements, handmade original paving stones, and

especially magical views of the whole panorama of Prague.

What are the parameters for a development project to be successful?

I think the project needs to be approached by heart. Of course, accurate financial balance is the basis. However, if you do not fall in love with the building, it makes no sense to start at all ...

Prague is one of the most attractive real estate areas. Are there still some undeveloped interesting locations for new buildings or do you see the future rather in the reconstruction of historic buildings such as "U Rajské zahrady 18"?

I deal exclusively with renovations of historical buildings. I love their genius loci and the solution of the interior in a way that it matches the current requirements for quality housing lures me. It is, of course much more difficult than when you have free availability that allows you to use a new reinforced concrete structure. So yes, I intend to continue to pay particular attention to the old historic buildings.

You are working on the reconstruction of the building "U Rajské zahrady 18" with Ing. Arch. Veronika Panková. How do you perceive your cooperation?

I would like to add to this information: the outer shell, the basic concept of interior and professional aspect of the project was designed by Sborwitz studio. I invited Ing. Arch. Veronika Panková for the solution of the interior. Her timeless view, which respects the use and space, her imagination regarding the location of the dressing rooms, bathroom solutions, and the use of various materials for the concept of the entire interior, all is too amazing so that I did not have a different choice.

What is your interest in reconstructing this building from 1901? How does it differ from your other projects?

As I said before, this is a beautiful building in which I try to combine the modern and timeless concepts of interiors with the magic and beauty of ancient times.

How do you perceive the current situation in the real estate market in terms of foreign investors?

Even though the purchase prices of the apartments have increased significantly in the last year, the interest of foreign investors does not decrease. I would say that they are more selective, they require that the project fulfill 99% of their criteria. At the same time, they plan more time to choose an apartment. For that reason, when they select some projects, they consider 2-3 projects, not 5 as before, and have a clearer idea of the location and what the project actually offers.

What modern trends do you reflect in your projects? What do you think about smart home technology?

Smart households fit more into modern interiors rather than into Art Nouveau homes. We build with quality materials, for example in the project "U Rajské zahrady 18", we use large-format tiling 120x60, exact door replicas including sanded motifs, stucco ceiling, or parquet flooring in original size and design. However, we managed to conclude an agreement with O2, and we will have the first house in Vinohrady with optical cables leading to the individual apartments.

What are your plans for the future?

Next year we will start reconstructing the apartment building again in Žižkov, on Cimburkova street. This will be a project of rental housing in a "courtyard balcony building". In the distant future, we will reconstruct a modern building in Prague 6, which I would like to take generously with regard to the luxurious area in which the project will be located.

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Project preparation

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