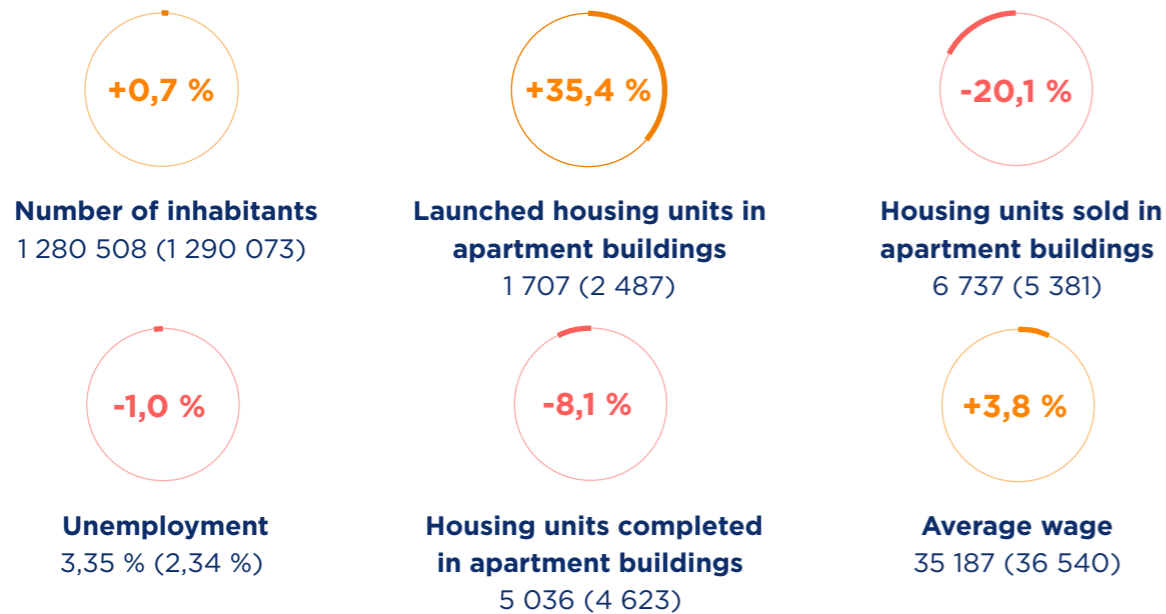


PRAGUE RESIDENTIAL MARKET 2017

The annual comparison: 2016–2017



Completed apartments

In the capital city of Prague, in 2017, a total of 5,846 apartments were completed. In the year-on-year comparison in the number of completed apartments, there was a 4.0% decrease compared to a year-on-year nationwide increase of 4.6 %. In the nationwide result of 28,575 completed apartments, Prague accounted for 20.4 %. In Prague, in 2017, only in apartment buildings, 4,623 apartments were completed (8.1% decrease), in family houses, 622 apartments (increase by 13.9 %). Prague lost the position of a home construction leader and is lagging behind the nationwide average.

LEXXUS Quiz



	Ing. Jan Sellner Project Manager in SUDOP GROUP a.s.	JUDr. František Hrudka developer	Ing. Bořek Bierhanzl developer
Favorite part of Prague?	Prague 5	Vršovice	Vršovice
View or (front) garden?	garden	garden	garden
House or apartment?	house	house	house
Centre or suburb?	suburb	suburb	suburb
Own housing or rent?	own	own	own

Started construction of apartments

In 2017 there was a significant year-on-year increase in the total number of the started construction of apartments. In the capital city of Prague, construction of 3,734 apartments was started. The year-on-year increase in the monitored period was 35.4 %, as opposed to the nationwide statistics, which document the year-on-year increase in the number of the started construction of apartments of 15.8 %. In spite of the increase in the started construction, supply is still inadequate. In family houses, the number of the started apartments increased by 4.3 % year-on-year, in apartment houses they increased by 45.7 %. A significant increase over the last year is primarily due to the record-breaking decline of the apartments in residential buildings in Prague in 2016.

STARTED AND COMPLETED APARTMENTS IN CR APARTMENT BUILDING 2007-2017



Demand

The demand remains strong, despite the tightening but still favorable conditions of mortgage financing. However, sales of the apartments in the past year declined year-on-year from 6,737 to 5,381, i.e. down to 20.1 %. The decline in sales has to be attributed to the declining supply of new constructions, the continued strong price increase, and the gradual tightening of the mortgage financing rules. This year, we expect a decline in the sales of the apartments that will not exceed 5,000 apartments. High offering prices for the apartments are concentrating on demand for increasingly smaller apartments, but these are generally deficient.

Supply

Last year In Prague construction of 2,487 apartments in apartment houses were started (in 2016 it was only 1,707 apartments), which is 45.7% year-on-year increase in the number of apartments under construction but it still does not offer the necessary number of new apartments demanded on the Prague residential market. In the same period, 5,381 new apartments were sold. The stock of apartments in the Prague supply is declining year after year. At the end of 2017 there were only 2,950 available apartments in the supply market of new buildings in Prague. The stock declined for the first time in 11 years below the threshold of 3,000 apartments. Compared to last year it is just 11%. The reduction of supply does not correspond to the high demand for owner-occupied housing, under the still favorable conditions of mortgage financing, and it has a major impact on the increase in the offer prices of the apartments.

Prices - increasing prices

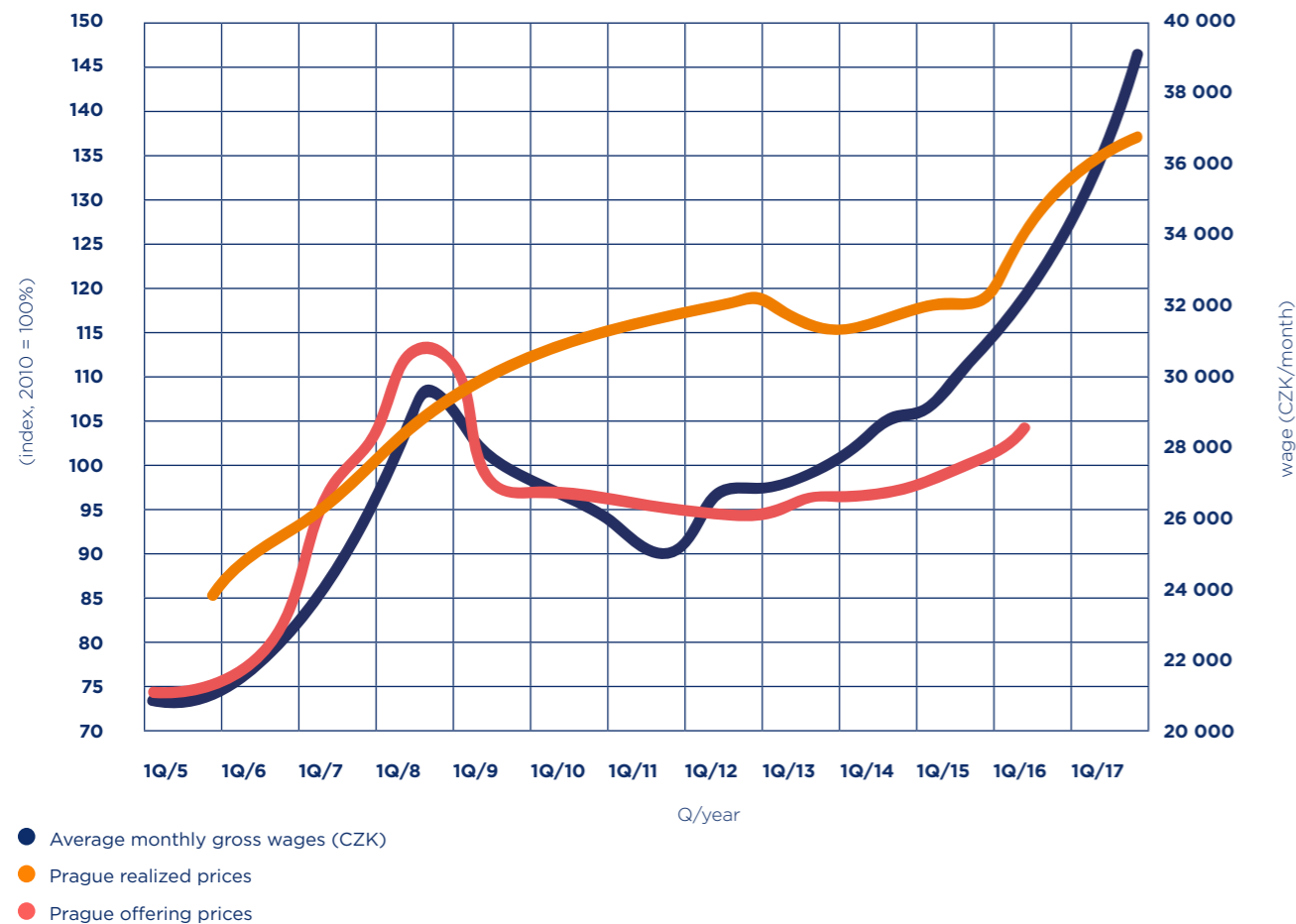
The offer prices of the apartments in Prague exceeded the historical maximum reached in 2008 by 45.3% at the end of last year. In year-on-year comparison, the increase of prices of Prague's newly constructed buildings is 13.6%. At the still acceptable interest rates, the growth in prices could be slowed down only by an increased supply of new apartments. However, the significant increase in housing construction in Prague is not yet in sight. Thus, the market does not respond to the growth of demand corresponding to the supply, and the projected decline in housing prices is still not yet in sight.

Mortgage financing

The mortgage market in the Czech Republic recorded an absolute record in the volume of mortgage loans, i.e. year-on-year increase of 3.4 % to a record yearly volume of CZK 225.798 billion. However, there was no record in the number of the concluded mortgage agreements. Compared to last year, there was a slight decrease of 1.7 % in the number of agreements to 109,618 agreements. The average amount of the mortgage for the first time in history exceeded CZK 2 million and reached CZK 2.154 million with a 10% year-on-year increase. High interest in mortgage financing is due to the continued favorable interest rates coupled with a high demand for new apartments.

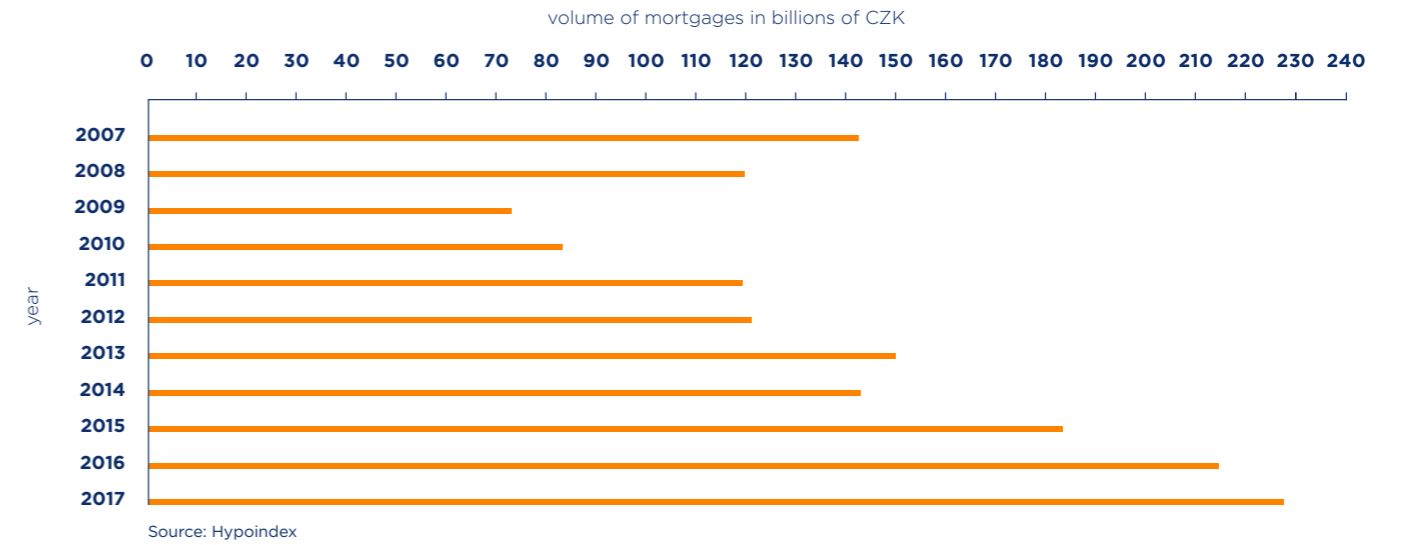
The average interest rate for the past year rose slightly from 1.77 % to a still very acceptable value of 2.19 %.

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



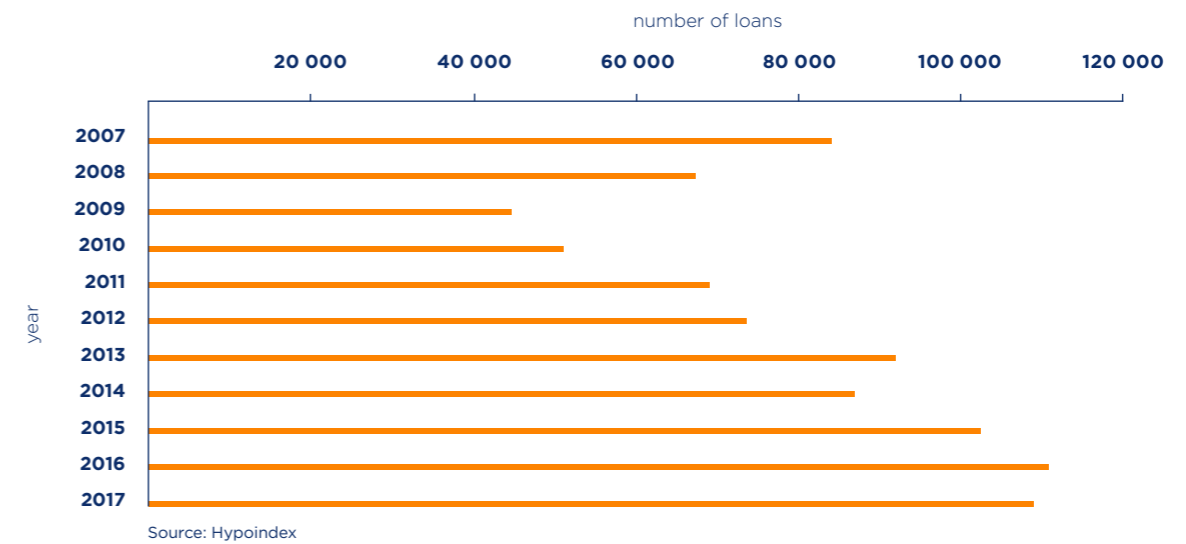
Source: ČSÚ

VOLUME OF MORTGAGE LOANS TO CITIZENS IN THE CZECH REPUBLIC



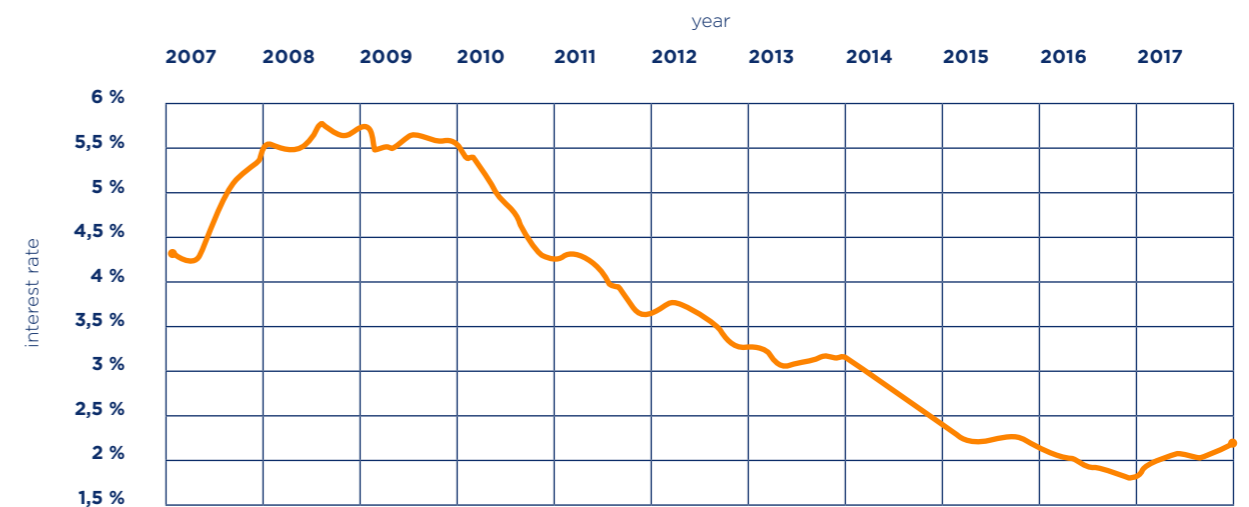
Source: Hypoindex

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



Source: Hypoindex

AVERAGE MORTGAGE LOAN INTEREST RATE



Source: Hypoindex



Lenka Kostrounová
Director of Real Estate
Financing, ČSOB

How, from your point of view, would you sum up development of the residential property market over the course of the past six months?

The Czech economy is doing very well and residential prices are growing in double figures, the fastest rate in the whole of the EU. Why is that? Growth in prices is to a significant extent caused by the discrepancy between supply and demand, the former lagging well behind the latter high demand for housing. Development of new construction projects is falling extremely short, this being most evident in precisely those locations where the growth in property prices is the fastest: this means in Prague, in the Central Bohemian Region and in Brno. It seems that this state of affairs is caused by the high level of bureaucracy in proceedings needed to gain building permits. The availability of funds (mortgages) for purchasing housing is still relatively satisfactory for a large section of the economically active population, although the Czech National Bank has introduced some limitation in the form of a more conservative LTV. If proceedings for gaining building permits are not relaxed soon, I am afraid that the offer of new flats will continue to be very limited, so there will be no drop in flat prices in localities which are in high demand in the foreseeable future.

Do you think that the whole of 2017 was a ground-breaking year for the property market?

I don't think that 2017 was in any way ground-breaking for the property market: investors are confident in the Czech Republic, the economy is doing well and transactions are actively being performed. The vast majority of investors come from the Czech Republic (36%), followed by traditional investors from Germany, Great Britain, Switzerland and Austria. This only underlines the stability of the Czech property market. A new thing is, from the point of view of financing, the massive recent issue of bonds (issued by CPI), which serve to partially repay loan financing, but from the point of view of investors, nothing ground-breaking is happening on the market: there is still a lot of liquidity on the market and relatively few projects which can be purchased, which logically forces yields down and property prices up. The question is how much space is left in our region for compression of yields in relation to the level of risk which investors are still willing to accept.

What expectations do you have on the property market for 2018?

I am an optimist and I see the property market in 2018 as being similar to that in 2017: buildings will be built, property will be traded and financing will be provided. The important thing is always quality - of the project, the developer and the investor.



JUDr. František Hrudka
developer

How the idea of your cooperation on the Sámova 12 development have started?

FH: Our daughters are the same age and devote themselves to the same sport, riding, namely, the showjumping. That's how we met. Only later did we find out that we both have the same hobby - hunting. Joint leisure time has then easily become the ideal opportunity to discuss business affairs.

BB: Although this project is our first joint venture, we believe that we will incorporate our experience from the previous residential and other building projects that we have already realized by ourselves.

Why did you choose the location at Grébovka for development?

BB: I have been looking for a suitable location for a residential project for several years, and this place was the highest quality - a gap site in a residential area, the proximity to the amazing park Grébovka, which forms a natural dividing line between the parts of Vršovice and Vinohrady, and offers all civic amenities ... It was love at first sight.

FH: The project itself and together with the location captivated both of us because its target group consists of people who belong to our age, family, as well as social background. But the biggest benefit of this location is that you have everything you need for a good family life within reach, whether it is a range of sports facilities - there is a hockey stadium and tennis courts right in Sámova Street, the adjacent park attracts for running or walking - or school facilities and transportation infrastructure: a train station is located just across the street, a tram rides directly to the center (within 15 minutes you are on Wenceslas Square), and a new metro station is to be built nearby in the future.



Ing. Bořek Bierhanzl
developer

What are your expectations in the real estate market for the upcoming period?

BB: As far as we know, very few similar projects are currently planned for development in the wider center. We perceive this fact as a big advantage for our project.

What do you think? How the prices of Prague apartments will be developing in 2018?

BB: Since residential projects are really insufficient in the center of the city and domestic demand is complemented by a number of foreigners interested in long-term or permanent housing, I think the prices will still rise. Prague as such, I mean a particularly wider center, has a great prospect in the sense of European space. It is one of the most beautiful cities in the old continent, with a long history, a unique location and, therefore, it has a great potential.

Which areas of the Prague real estate market do you see for further development?

BB: We think that we have found one such space - by creating a project with a uniform structure of layout of large apartments and not with a mix of small and large units. We had this vision and dared to design a building in which its shape and construction are optimally used and that life will be breathed into this project by its permanent residents.

Could you reveal your plans for 2018?

FH: This year we will focus on the construction of Sámova 12 itself, which will be launched at the end of February and March. In addition, we continue to work on our other Prague's and out of Prague's development projects.

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