

# PRAGUE RESIDENTIAL MARKET 2019

1<sup>st</sup> half

**LEXXUS**

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-NORTON**



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# YEAR-ON-YEAR COMPARISON: 06/2018 - 06/2019

APARTMENTS IN  
APARTMENT BUILDINGS COMMENCED  
1141 — 1990



In the first half of 2019, the number of apartments in apartment buildings commenced in Prague rose to 1,990, although the number of them is still insufficient.

APARTMENTS IN APARTMENT  
BUILDINGS COMPLETED  
2214 — 2019



The number of apartments in apartment buildings in Prague fell as a consequence of the low number of apartments commenced in previous years. In the first half of this year, 2,019 apartments were completed.

POPULATION OF PRAGUE  
1301132 — 1309182



UNEMPLOYMENT  
2,16% — 1,87%



APARTMENTS IN  
APARTMENT BUILDINGS SOLD  
2452 — 2318



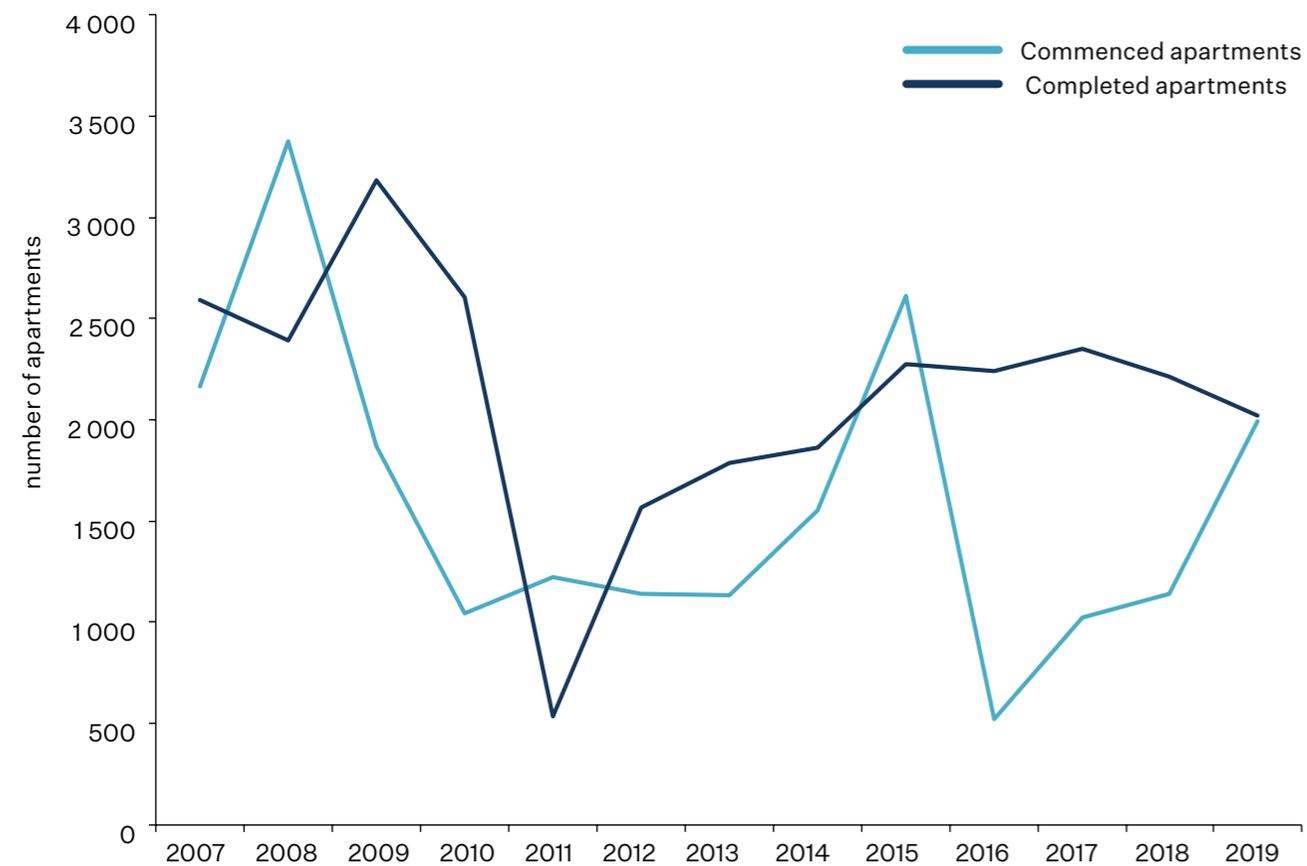
AVERAGE SALARY IN PRAGUE  
39688 — 41450 CZK



Source: ČSÚ

# CONSTRUCTION OF APARTMENTS COMMENCED AND APARTMENTS IN APARTMENT BUILDINGS COMPLETED

Stated and completed apartments in residential houses in Prague 2007–2019



Source: ČSÚ

At the current time, progressive year-on-year growth in the number of apartments commenced in apartment buildings in Prague is continuing. In the first half of 2019, the construction of 1,990 apartments in apartment buildings was commenced, whereas in the first half of 2018 it was only 1,141 apartments.

In the first half, of this year a total of 2,019 apartments in apartment buildings in Prague was commenced. There was a 7% year-on-year decline compared to the same period last year with 2,211 completed apartments. The numbers of completed apartments in comparable periods since 2015 has been between 2,000 and 2,400, since 2017 this number has been falling gradually. In a year-on-year comparison of the number of completed apartments in Prague there was a fall, in the Czech Republic, however, there was an increase by 26.5%. Prague contributed 36% to the national result of 5,585 completed apartments in apartment buildings in the first six months.

The number of commenced and completed apartments in Prague is insufficient, so buyers' interest is moving outside Prague, where, on the contrary, the number of units completed is rising. The main reasons for the low level are that approval procedures take too long, there is a lack of building capacities and an increase in construction costs. In the opinion of the Association for Architecture and Development (AAR), according to the strategic plan there is a need for approximately 6,000 new apartments in Prague. With regard to the long approval processes, however, permits have been issued for only 3,500 a year since 2010. Prague could therefore be missing up to 50,000 new apartments in 2030.



# TRENDS IN PRICES OF NEW APARTMENTS IN PRAGUE

After years of rapid growth, the offer prices of apartments fell slightly, by 0.3%, in the second quarter of 2019.

Realised prices of apartments are, on average, 10% lower than offer prices.

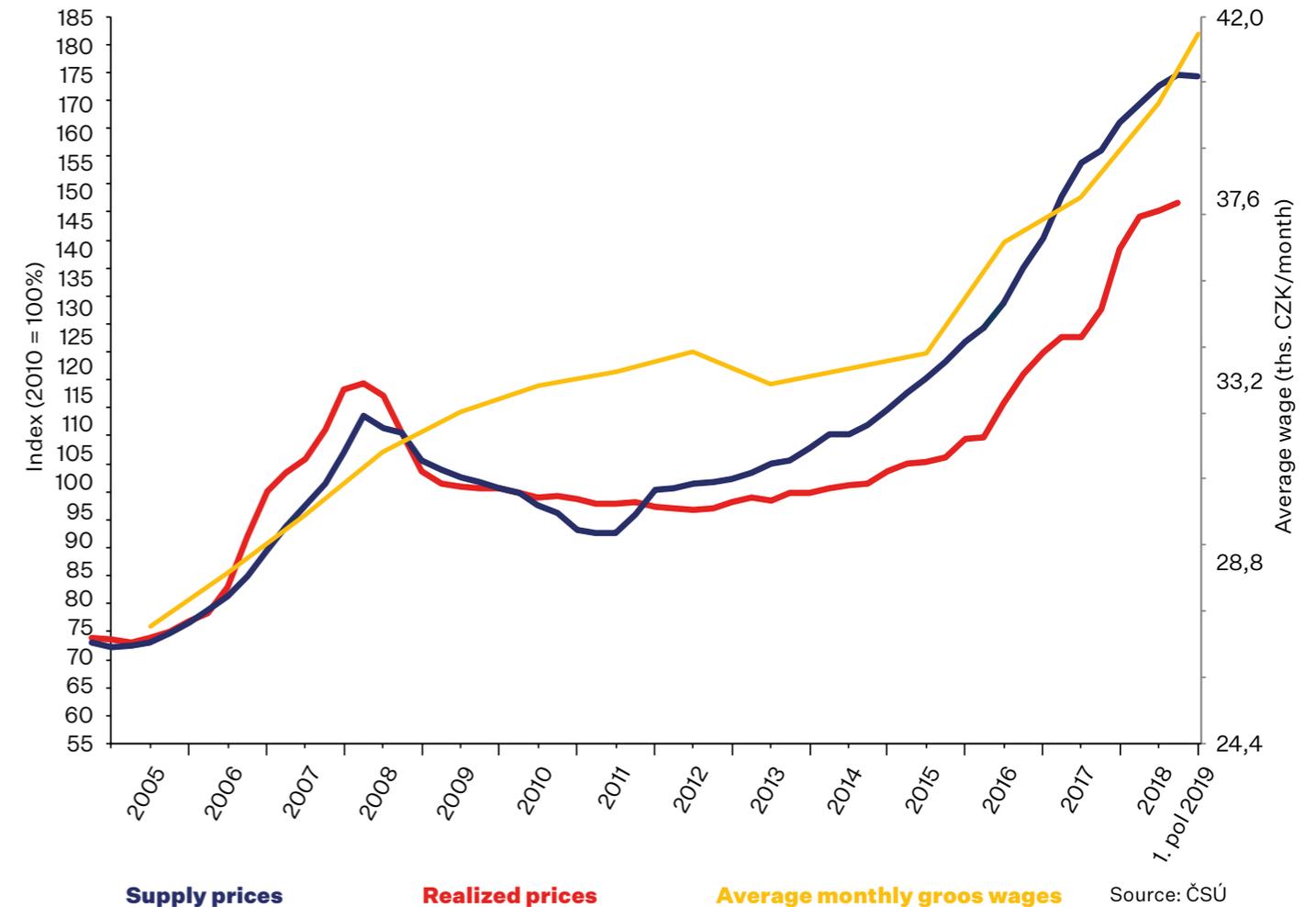
The average salary in Prague is also gradually increasing (currently CZK 41,460), but its growth over the long term markedly lags behind apartment price trends.

In the first half of 2019 the offer prices of apartments in Prague rose by only 1.5%, where last year the increase in the same period was 7.2%. At the end of last July the year-on-year increase in prices was 8.2%. In the second quarter there was, compared to the first quarter, a slight fall in offer prices by 0.3%. This could be signalling a downturn in the residential market with commencing price stagnation that has probably reached its maximum.

Trends in realised prices (i.e. the prices of actually sold apartments) have almost copied trends in offer prices in the last two years. The difference between both types of prices has been about 10% for several years. This makes it clear that sellers' expectations often do not correspond to reality and artificially increase the prices of apartments on the market.

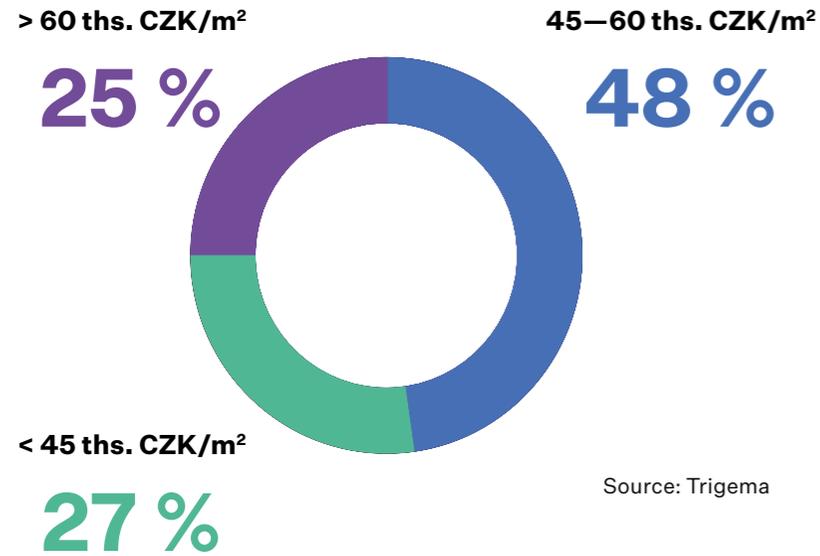
When assessing changes in the prices of apartments, it is also necessary to monitor trends in the average gross salary in Prague (currently CZK 41,460), which were similar to trends in average offer prices of apartments from 2013 to the end of 2018. There is a difference, however, in the comparison of these two indicators over the long term. Whereas the average offer price of apartments has risen by 75% from 2011, the average gross salary has increased by only 21% in the same period.

Prices of apartments in Prague × Average wage



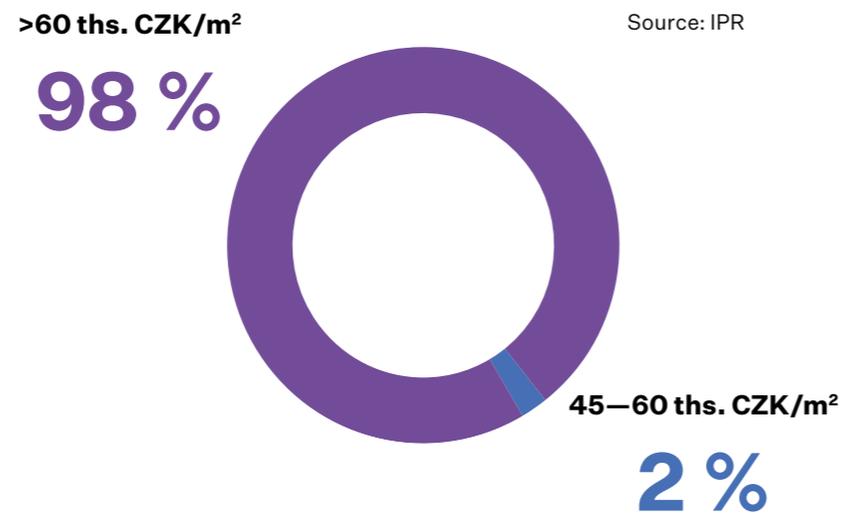
# PRICE SEGMENTS

## Apartments sold in 2015

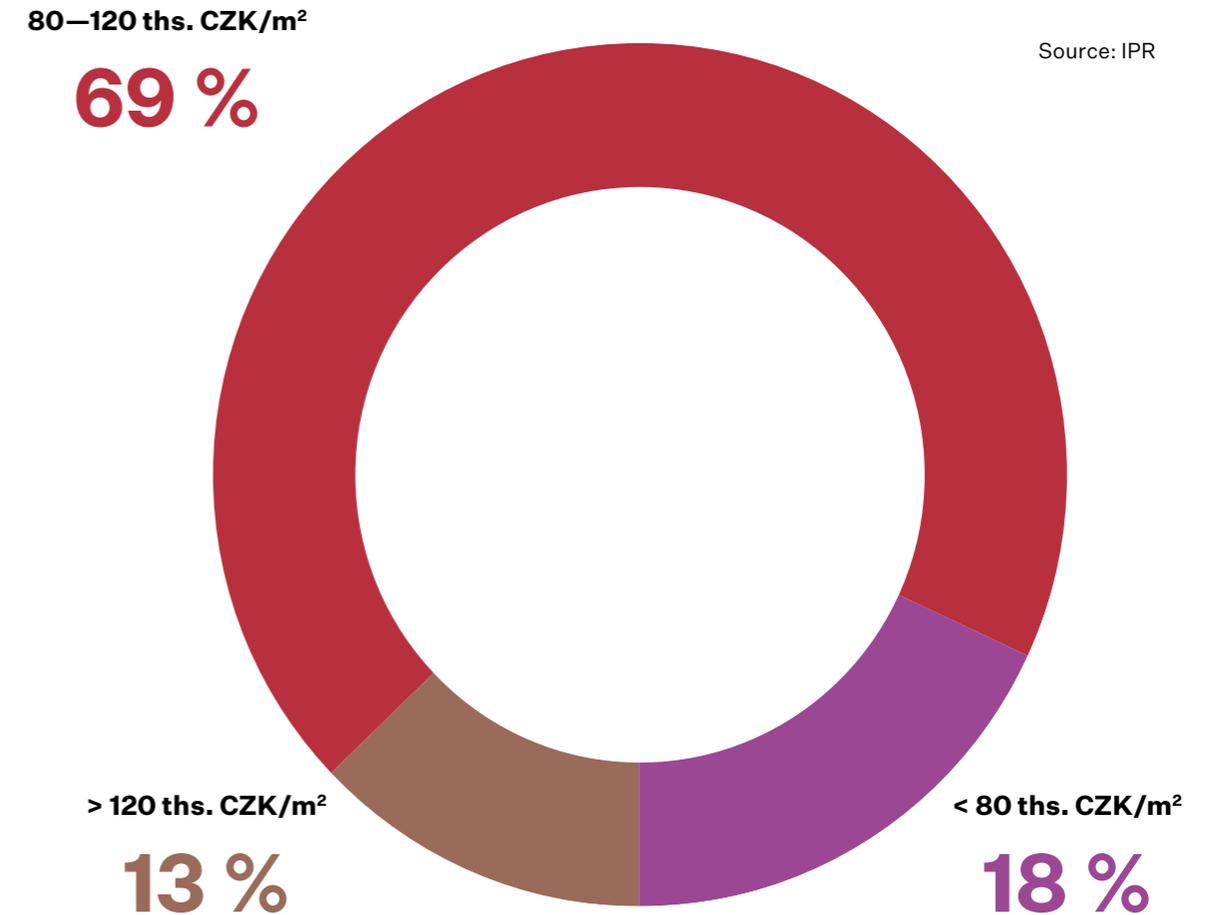


There has been a dramatic change in price segments since 2015. The low price segment has disappeared completely and the medium price segment has a quite meaningless share.

## Apartments sold in 2019



## New segments - Apartments sold in 2019



Thanks to significant long-term growth in the prices of apartments in Prague, the distribution of price segments on the residential market has changed. The lower price segments have disappeared completely and been replaced by quite different price categories. The dividing line between the middle and high price segments has moved from CZK 80 ths. to CZK 120 ths./m².

Whereas in 2015 the most apartments (48%) were sold in the price segment CZK 45–60 ths./m² and only 25% of apartments at prices over CZK 60 ths./m², in 2019 the largest volume of sales (69%) was realised in the price segment CZK 80–120 ths./m². Sales for less than CZK 80–120 ths./m² comprised only 18% of the total volume.

Note: this concerns the average prices per m² of floor area including VAT (excluding parking spaces and cellars)

# SUPPLY, DEMAND, NUMBER OF APARTMENTS SOLD

In the first half of 2019, 2,420 apartments were sold, this number represents a year-on-year decline of 10%.

The amount of new apartments on offer fell to 5,300, although we saw a fall in demand due to the high prices of apartments.

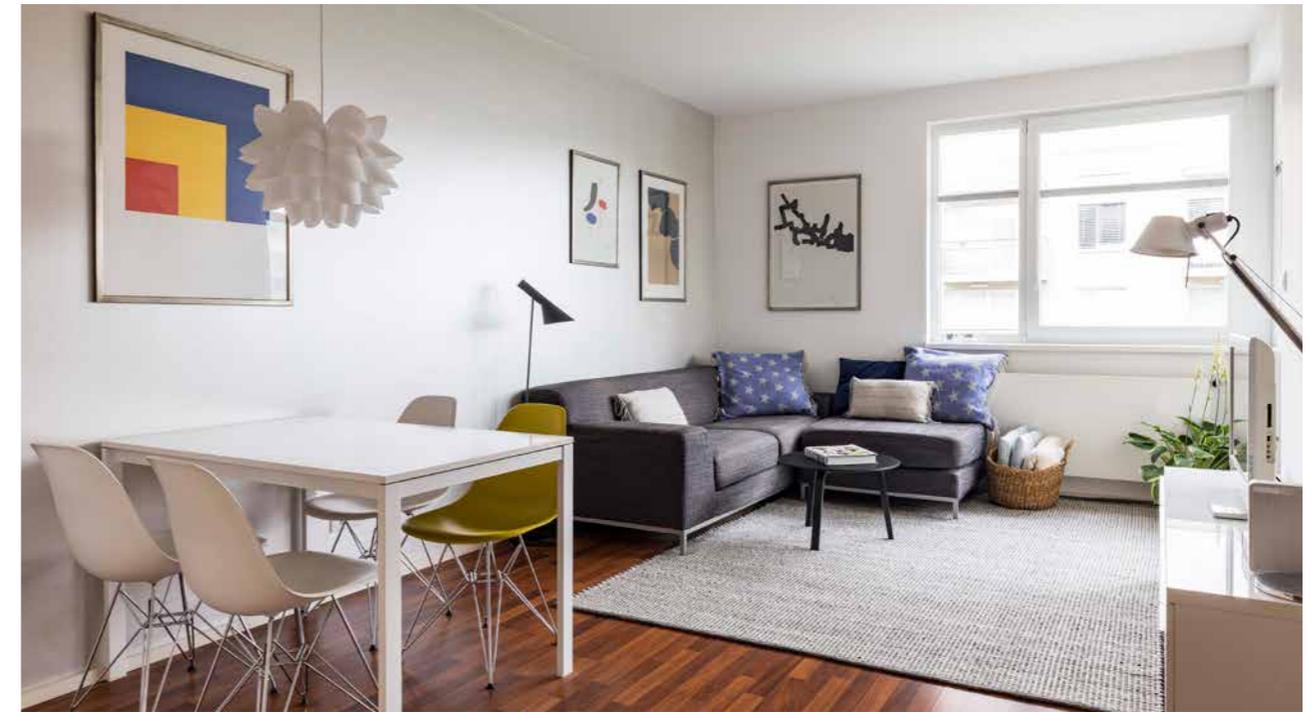
2,420 new apartments were sold in the first half of this year, whereas 2,750 apartments were sold in the same period last year.

The year-on-year decline in sales is 10%.

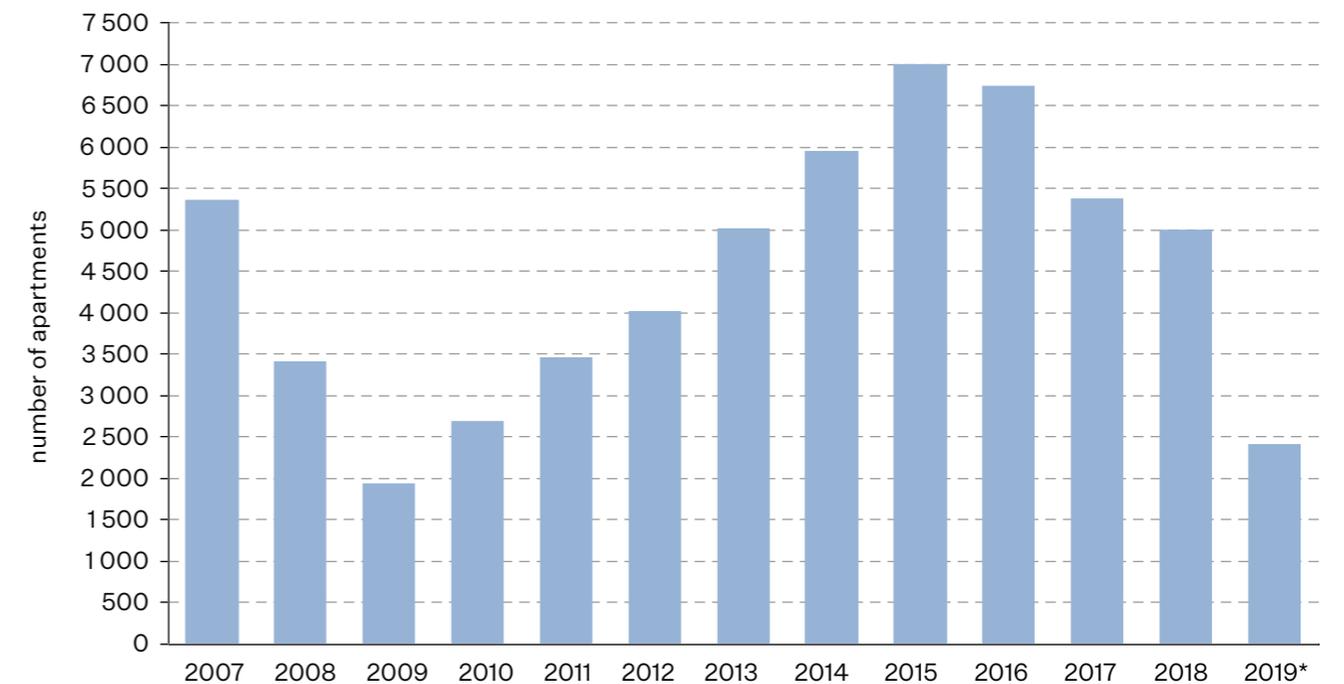
The range of new apartments on offer in Prague in 2018 grew slightly. In the first quarter of this year it stagnated at 5,400 apartments. By the middle of the year there was a slight fall in the number of apartments on offer to 5,300 apartments. Supply increased year-on-year by 21.8%.

The largest supply of vacant apartments is traditionally in Prague 5, 4 and 9.

Demand for new housing in Prague is dampened by the high prices of apartments. Those interested in new housing are therefore more and more moving outside Prague. The lack of new, affordable apartments in Prague is therefore increasing the suburbanisation of the city with all the negative consequences. There are increasing demands for everyday individual transport, technical infrastructure and civic facilities in municipalities that are often negatively inclined towards new construction.



The number of apartments sold in apartment building in Prague (2007—2019)

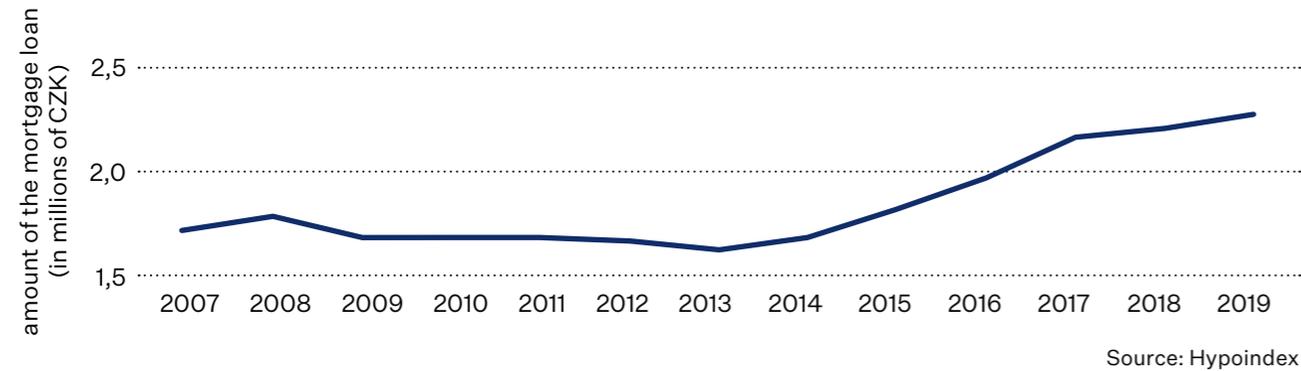


Source: ČSÚ

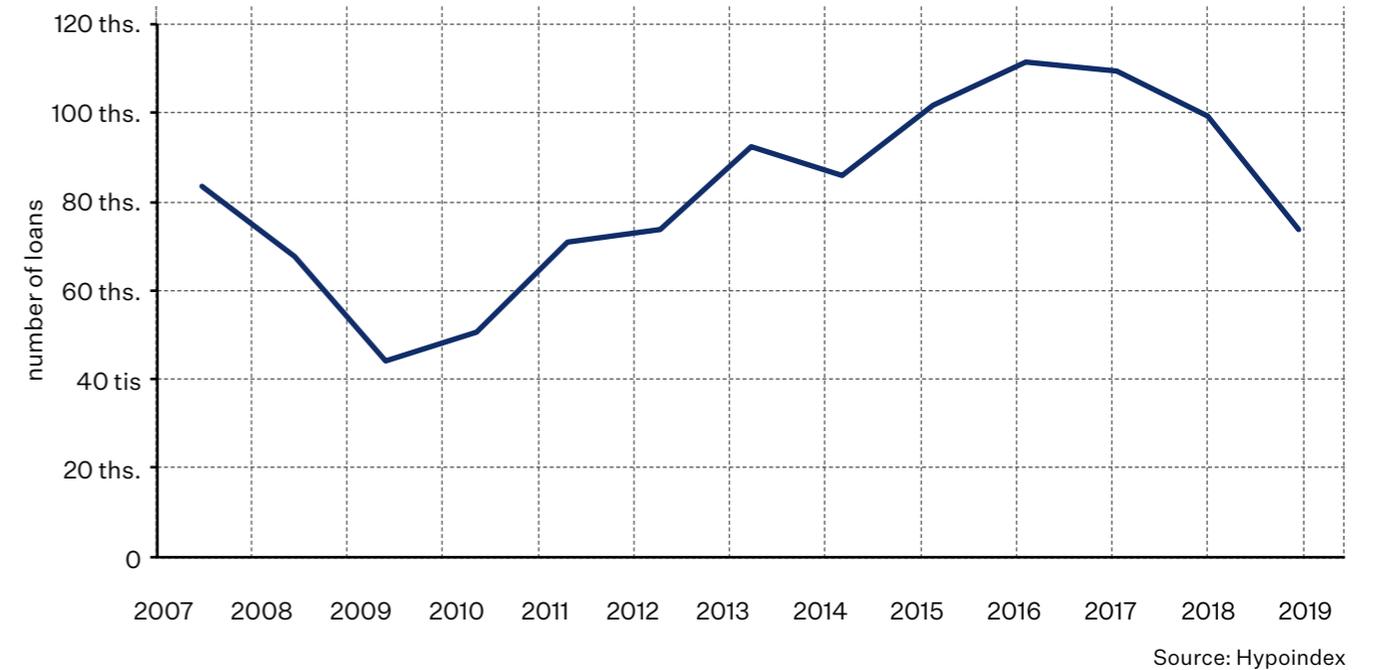
\*1st. half

# MORTGAGE FINANCING

## Průměrná výše hypotečního úvěru



## The number of granted mortgage loans to citizens in the Czech Republic



The mortgage interest rate rose until the end of 2018, from this year it has been gradually falling, now it is 2.76%.

Year-on-year there was a reduction in the number of agreed mortgage loans and their volume, because some applicants for a loan are not able to meet the newly-set financing conditions valid from October 2018.

From 2016, when interest rates were the lowest in history (1.77%), until the end of 2018 there were gradual increases in the mortgage loan interest rate. From the start of this year, when the interest rate was 3%, it has progressively fallen to the current 2.76%.

This year banks have provided 12,181 loans less than last year and their volume has fallen by CZK 21,113 bn. This corresponds to a year-on-year fall by 25%. 7,119 mortgage contracts were concluded in June 2019. Compared to June of last year, 1,911 mortgage loan contracts less were concluded. The volumes of loans agreed fell in June. In a month-on-month comparison the volumes fell by CZK 2.882 bn to CZK 16.498 bn.

## Average interest rate on mortgage loan





# LENKA KOUSTROUNOVÁ

DIRECTOR OF REAL ESTATE FINANCING, ČSOB

**How would you summarize the development of the residential property market over the last six months?**

The start of 2019 was marked by a decline in residential property sales, while the market was saturated with above-average sales for the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2018. Both merchants and clients took advantage of this period and we perceived above-standard interest in purchasing. Subsequently, there was a standard decline in the sales curve in the first quarter of 2019. The situation has stabilized at present and the sales curve is again showing (moderate) growth.

**In your opinion, has the latest regulation of mortgage lending by the CNB already had an impact on the residential market?**

At present, the situation is more complicated mainly for young families and individuals interested in buying real estate, with mortgage regulation placing higher demands on applicants. However, we do not think that mortgage regulation has a significant impact on the market as such.

**What are your expectations within the real estate market for the coming period?**

In the area of the residential market, we see the biggest problem in Prague, the reason being the lack of supply and the related price of real estate in the capital. More and more new apartments from development projects are being acquired with the aim of investing, and this also applies to clients from abroad.

The Czech Republic (mainly large cities) has become an interesting country in terms of purchasing investment property intended for housing. Prices are likely to more or less stay at the current level for a longer period of time and we do not expect a fall in property prices, seen from the perspective of the whole Czech Republic.

## LEXXUS QUIZ

	 Jiří Šalda	 Petra Šaldová	 Tal Roma
	All New Development a.s.	All New Development a.s.	AFI EUROPE
Favourite part of Prague?	Petřiny	Prague 6	Karlín
View or garden?	view	view	zahrada
House or apartment?	house	house	house
Centre or suburb?	centre	centre	suburb
Own housing or rent?	own	own	own

# PETRA ŠALDOVÁ AND JIŘÍ ŠALDA: RESIDENTIAL DEVELOPMENT

Mr and Mrs Šalda have been involved in residential development in Prague, as well as in the recreational area of Bedřichov in the Jizerské Mountains, for a long time. Through a combination of knowledge of the law, more than twelve years' experience with the construction and management of buildings and emphasis on precision processing of projects unique places for living are built under their leadership.



Petřiny 7, Prague 6 - Břevnov



**What expectations do you have on the real estate market for the coming period?**

**JŠ:** We both think that rental housing will get the green light. The sizes of apartments will decline. Customers are now looking at how much an apartment costs, not how much a square metre costs. We're seeing this trend not only in the Czech Republic, but also abroad.

**In what parts of Prague do you see potential?**

**JŠ:** Personally, I like Žižkov. There are lots of old buildings that are interesting for developers. In addition, it's a location only a short way from the centre. I trust that in the near future it will undergo a transformation the same as that we have seen in Karlín, for example, in the last decade.

**PŠ:** I see potential in the parts of Prague on the edge of the city. But this is not a location for the construction of small, boutique projects.

# THE RENTAL MARKET

## DEVELOPMENT OF RENT IN PRAGUE

People in the capital are exhibiting an ever-increasing interest in rented accommodation. Prices of this type of accommodation are also on the increase. The reasons for this are, among other things, low interest rates which allow people to buy smaller apartments to rent as an advantageous investment, high prices of new apartments and the rise of short-term rentals via Airbnb. Interest in rented accommodation is also fuelled by the lack of construction in Prague, this being given by the lengthy process of gaining permission for construction projects. Another reason for the increase in rent levels consists in the fact that Czech rented accommodation is not institutionalised. This means that the rented accommodation segment is substituted by individuals who buy a second or third apartment and rent them out. A few larger private providers of rented accommodation also operate on the Czech market. The largest include Residomo (43,000 apartments), CPI Byty (12,600 apartments) and CIB Group (1,700 apartments).

In the Czech Republic, 25 percent of the population lives in rented accommodation, whereas in France, England or Germany, the figure is 40 to 50 percent of the population.

## DEVELOPMENT PROJECTS DESIGNED FOR RENTAL

Despite the fact that there is a great amount of interest in rental of fully-furnished apartments in new buildings, there is an absolute minimum of development projects focused exclusively on rentals. Rental prices in a new building amount to CZK 300-450 per square metre, i.e. somewhat more than the average in Prague. The higher price is compensated for by better services. However, there are also disadvantages to construction of commercial rental projects such as a very long financial rate of return, the need to resolve replacement of tenants, costs for furnishing and maintenance of apartments or collection of debts.



## INDIVIDUAL RENTALS

There are approximately 9,000 private apartments for rent on offer in Prague. The largest number can be found in Prague 5. The average price of rentals is around CZK 340 per square metre. The average price of a rented studio apartment in Prague in the second quarter was CZK 14,462/month. A 1-bedroom apartment cost an average of CZK 19,157/month and a 2-bedroom apartment cost an average of CZK 26,084/month.

## REVENUE FROM APARTMENT RENTAL

Ownership of an apartment to rent can create real revenue of around 5% per year. Purchasing apartments for investment purposes is one of the most advantageous and safest investment options in Prague.

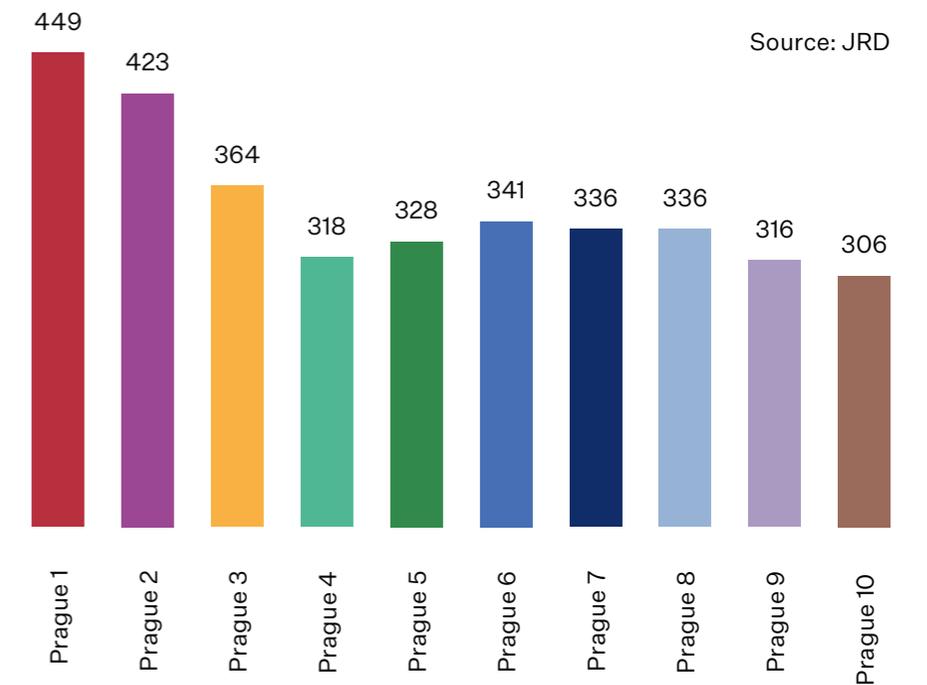
## GROWTH IN RENT

11.8% - Growth in rent between 2016 and 2017  
51.4% - Growth in rent between 2010 and 2017

Source: Deloitte

## The average price of apartments in Prague districts in 2<sup>nd</sup> half of 2019

Large pricing differences have been registered between individual city districts in the capital. The most expensive apartments are to be found in the city centre. In Prague 1, apartments are rented at a monthly average price of CZK 449 /m<sup>2</sup>, in Prague 2 for CZK 423/m<sup>2</sup> and in Prague 3 for CZK 364/m<sup>2</sup>. The lowest prices were registered in Prague 10 (CZK 306/m<sup>2</sup>), in Prague 9 (CZK 316/m<sup>2</sup>) and in Prague 4 (CZK 318/m<sup>2</sup>).



Source: JRD

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