

**LEXXUS
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PRAGUE RESIDENTIAL MARKET 2018



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LEXXUS Quiz



Michal Švábenický
developer



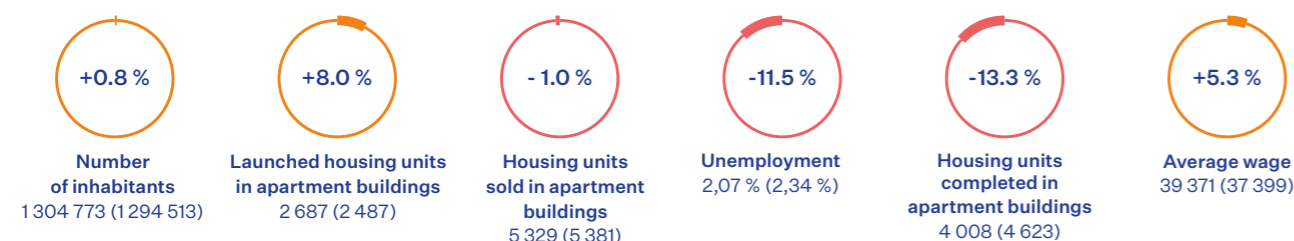
Svatopluk Tomeš
developer



Gerhard Spiegel
developer

Favourite part of Prague?	Prague 5,6, 8	Břevnov	Prague 1
View or garden?	both	view	view
House or apartment?	house	apartment	apartment
Centre or suburb?	the edge between	centre	centre
Own housing or rent?	own	own	own

The annual comparison: 2017–2018



Completed apartments

The number of completed apartments in residential buildings in Prague has risen from the after-crises minimum in 2011 to 2016. In the following two years, we are recording a decline in the number of completed apartments, i.e. from a minimum of 2,324 completed apartments in 2011 through a maximum of 5,036 apartments in 2016 to last year's 4,008 completed apartments. For the last two years, the year-on-year decline was 413 (2016/2017) respectively 615 apartments (2017/2018).

Thus, the number of completed apartments, 5,500 completed new apartments per year, is below the required minimum in terms of population growth and obsolete housing stock in Prague. In year-on-year, the number of permanently reported inhabitants of Prague increased by more than 10,000. Population growth is 70% due to migration, a natural increase is of approximately 2.5 - 3 thousand persons per year.

Lack of housing, along with a favourable credit policy and a good economic situation, is also the cause of supply and demand imbalances, and thus a disproportionate increase in sales prices of the apartments.

Another negative impact is the outflow of the inhabitants of Prague into its wider neighbourhood, with the current economic link to the capital. As a result, daily commute for work in Prague continues to grow and will continue to grow.

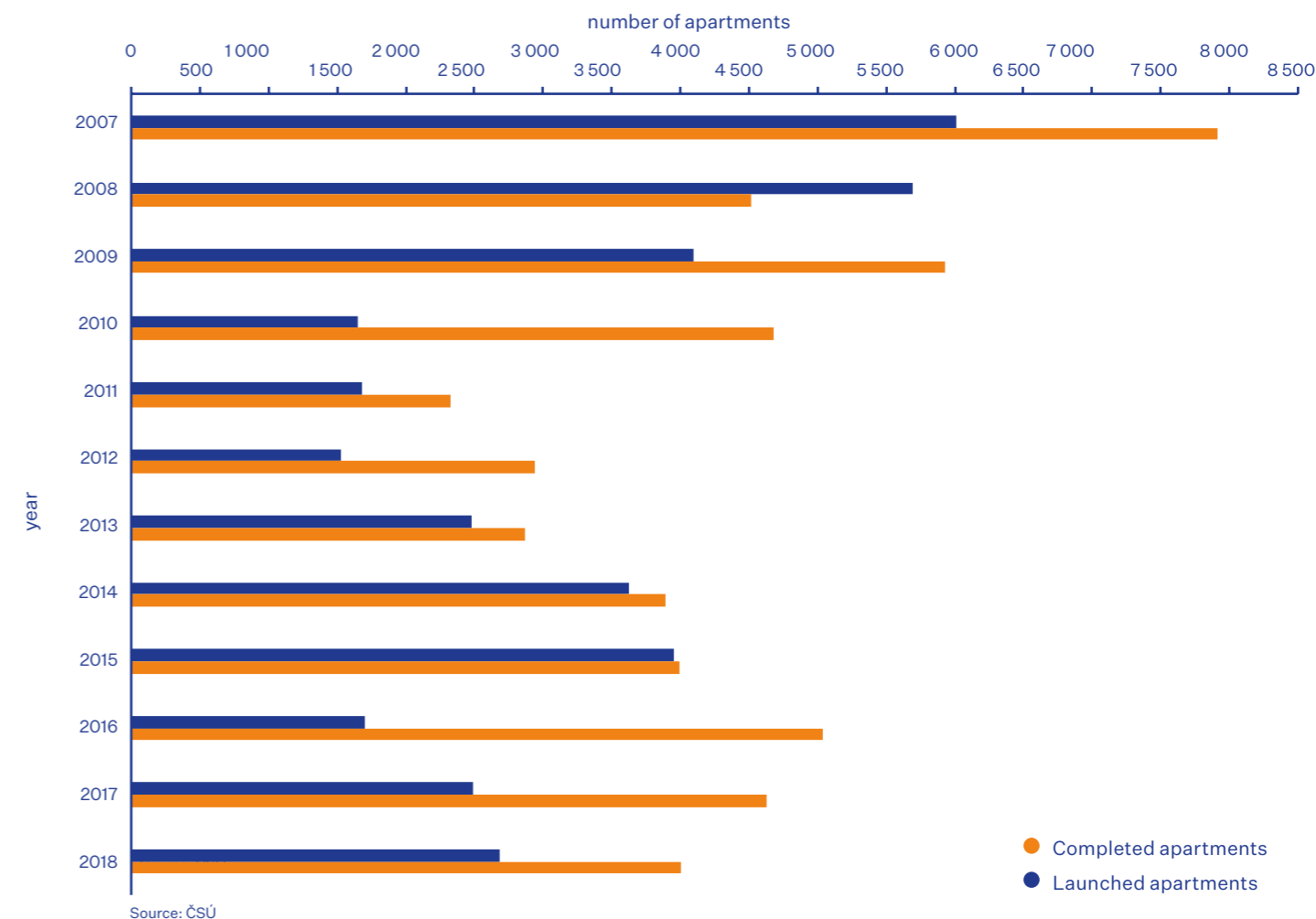
In Prague, the construction of apartments in residential buildings is 84% and in family houses only 16%. In the Czech Republic, without counting the capital, this is the opposite. The majority of completed apartments are made up of family houses (74%).

Apartments under construction

Unlike the decreasing number of completed apartments, the number of the apartments under construction in apartment buildings in Prague has been slightly growing for the second year. From the minimum of 2016 (1,707 apartments under construction), comparable to the absolute fall in 2012 (1,531 apartments under construction) after the real estate crisis, it increases year-on-year to 2,487 apartments in 2017 and 2,687 apartments under construction in the last year.

In spite of the positive trend, the number of apartments under construction is insufficient and every year the deficiency of Prague's housing deficit deepens. This is mainly due to the complicated legislative process of building approval in Prague, together with the still unfinished Metropolitan Plan.

STATED AND COMPLETED APARTMENTS IN RESIDENTIAL HOUSES IN PRAGUE (2007–2018)



Supply

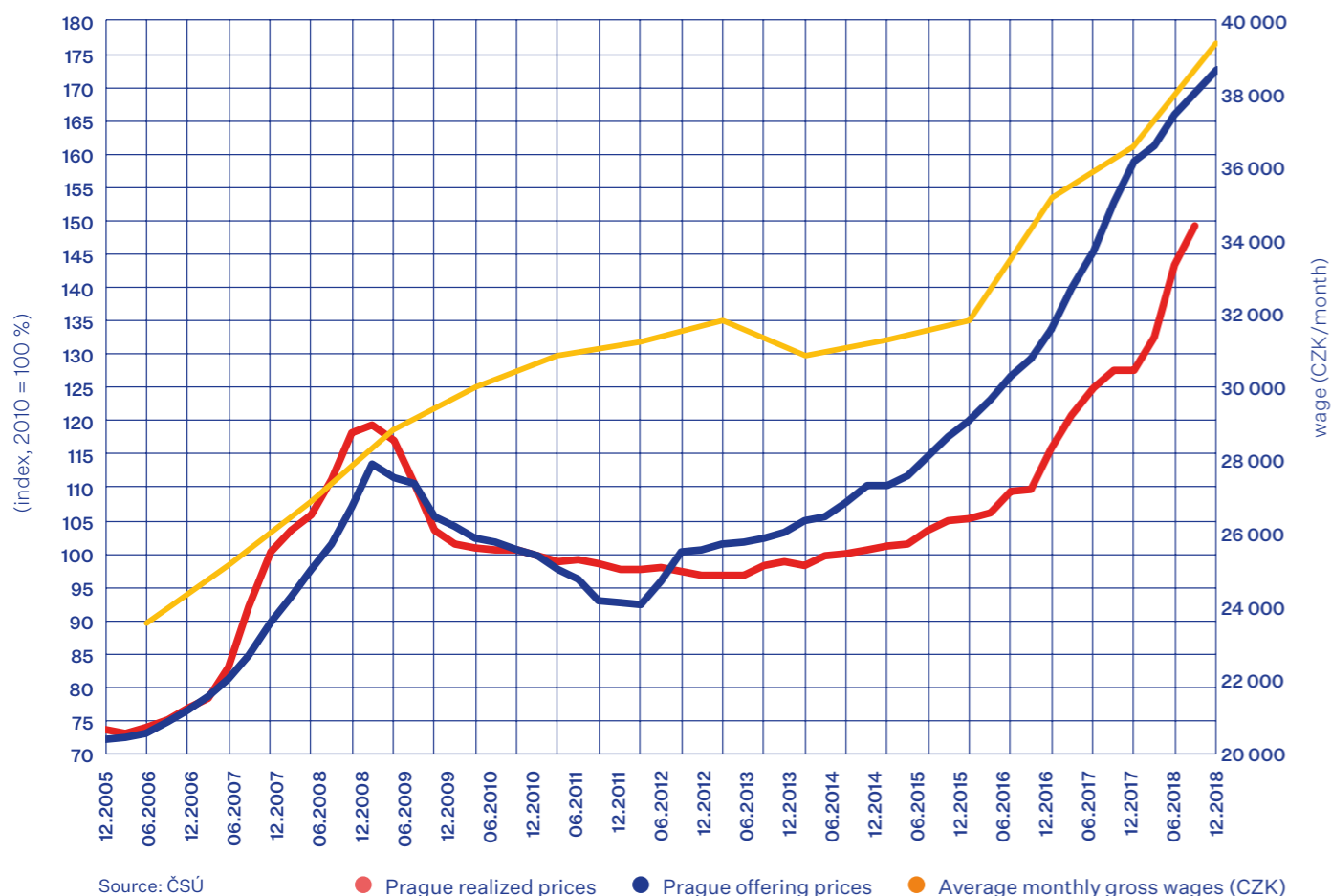
Despite the criticized lack of new apartments in Prague and the decreasing number of completed apartments, the year-on-year supply of unsold apartments in the Prague market increased by 48% (from 3,650 to 5,400 available apartments by the end of the year). The increase in the supply of unsold apartments does not correspond to a high demand for home ownership. Despite the high potential of the unsaturated residential market in Prague, the number of apartments in residential buildings declined slightly from 5,381 to 5,329 apartments. The reason for the decrease in sales is the current high offer prices of the apartments, together with the expectation of possible stagnation or even decline in price development.

The increase in the number of unsold apartments, with the still criticized insufficient housing construction in Prague, could be a sign of the approaching cooling of the housing market. The continuing increase in unsold apartments in the offer could, in effect, cause a decline not only in their prices, but „pull down the avalanche“ of discounting apartments throughout the whole residential market.

Demand

Demand for housing is less and less in line with the rising apartment prices in Prague. The interest of buyers for their own housing is therefore concentrated to the less expensive outskirts of the city and to the more suburban localities. The buyers usually go to smaller family houses in the outskirts of Prague whose prices are comparable to or lower than those of comparable apartments in Prague, and in addition to the garden they offer greater living comfort and greater privacy. Demand for investment purchases of apartments is concentrated on small categories of apartments with layouts of 1 + kk and 2 + kk, for which the price / rent ratio is favourable and can be well run also for short-term accommodation. Investment apartments are the most sought after in the centre or wider city centre, but also in more distant locations, if they are easily accessible by public transportation, ideally within walking distance of the metro station.

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



Development of prices

Supply prices for apartments in Prague have been rising since 2011. The steep year-on-year increase in offer prices between 2016/2017 by more than 25 % fell slightly year-on-year to 13.9 % (100 % = price in 2010). This year-on-year growth rate corresponds to an increase of 2015/2016 (13.6 %).

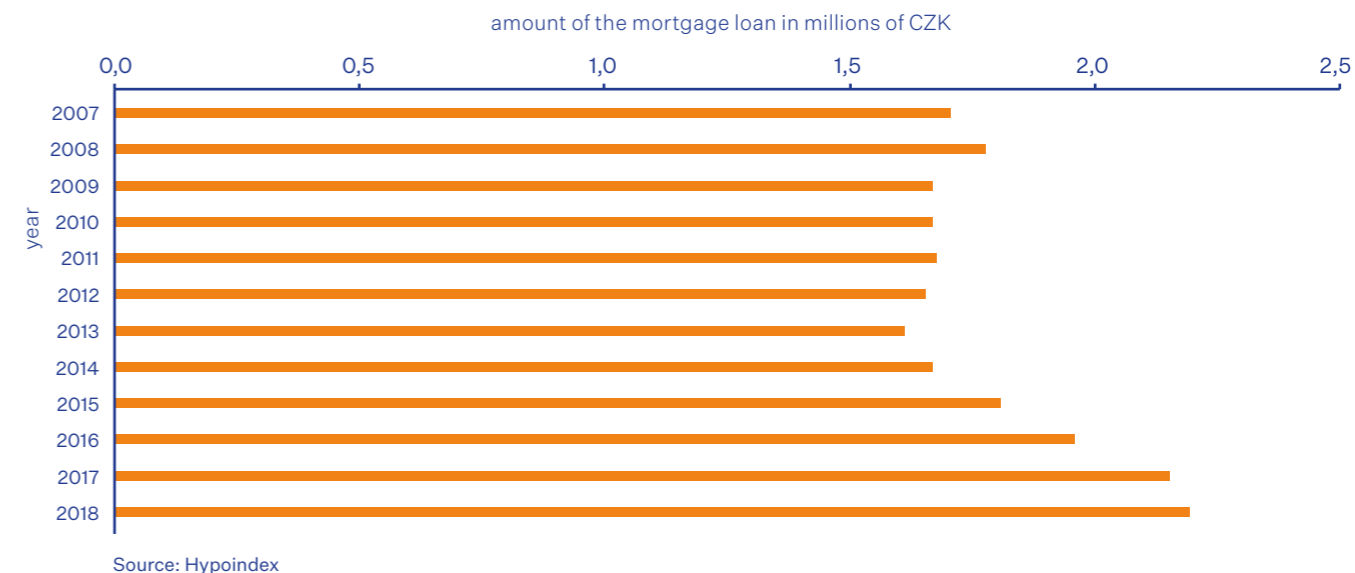
Mortgage financing

For the second year, we have recorded a decline in the number of mortgage financing concluded contracts by inhabitants. While in 2017 the year-on-year decrease was only by 1,902 contracts (-1.7 %), it was 10,141 contracts (-9.3 %) down last year. In spite of the reduction in the number of contracts, the last four years remain the record in the history of mortgage financing.

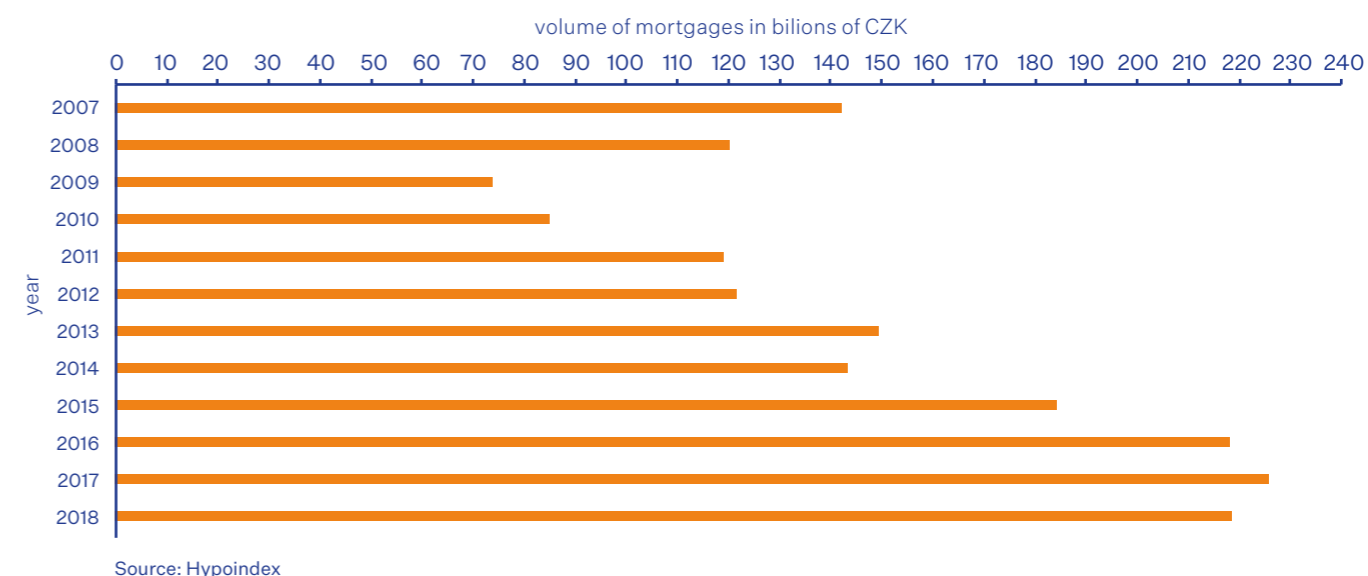
Last year's total volume of mortgage loans decreased year-on-year, compared to the number, less (-3.3 %). Therefore, the average amount of the mortgage loan increased by 1.9 % from 2.154 to 2.196 million CZK.

The tightening of mortgage bank terms on the creditworthiness of clients, coupled with a 2.91% rise in interest rates, and the high prices of the offered apartments brought a slight cooling on the mortgage market.

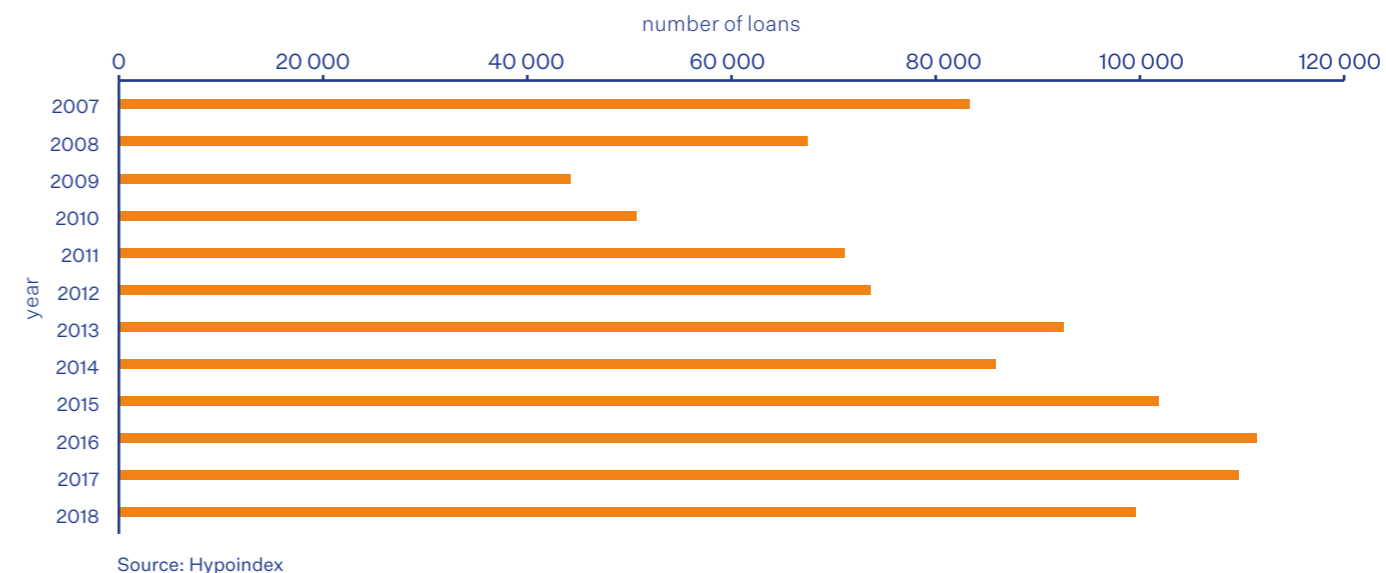
AVERAGE AMOUNT OF MORTGAGE LOAN FOR CITIZENS IN THE CZECH REPUBLIC



VOLUME OF MORTGAGE LOANS TO CITIZENS IN THE CZECH REPUBLIC



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



AVERAGE INTEREST RATE ON MORTGAGE LOAN



Lenka Kostrounová
Director of Real Estate
Financing, ČSOB

How would you summarize the development of the residential property market during 2018?

I consider the residential market in the Czech Republic to be very deviated: the number of new apartments per 1,000 inhabitants shows that they are now building less than in the recession (2008-9). The apartment prices are rising significantly faster than in Western Europe. The current price of 110,000–120,000 CZK per 1 sq m collides with the purchasing power. The worst are the locations of Prague, Central Bohemia, and Brno. I observe that the offer of unsold apartments is slowly forming. Of course, the residential market is negatively affected by both rising construction costs and land prices, a complicated approval process, as well as the availability of mortgages, or more precisely the regulations by the ČNB. It is more and more matter of fact the reconstruction of the existing housing stock and, to a certain extent, the issue of rental housing.

In your opinion, how did the ČNB's mortgage financing regulation in October 2018 affected the residential market? Can the impact of regulation be traced?

In the second half of 2018, the entire market recorded an increase in interest in mortgage loans, one of the reasons was the just announced ČNB measure (October 2018). Now, at the beginning of the year, the bank sees a slight decrease in mortgage production, but it is still difficult to make prediction for a longer period of time. It is still very early to accurately assess the impact of regulation on mortgages. I assume that the bank will be able to assess the effects of regulations only in the middle of this year.

What are your expectations for the 2019 real estate market?

If new housing is being built low today, it will be even less built in 2019 - with regard to building permits issued, which are decreasing year by year. I don't think there is room for apartment prices to rise, they have a tendency rather to fall. On the contrary, the price of construction works is not falling. This trend will probably negatively affect the developers' margins.

You are from Austria, why did you move your business exactly to the Czech Republic?

I have been working in Prague since 1993 when I first worked in Creditanstalt, Volksbank. In 2008, I started a real estate business. It was a job that fulfilled and amused me, but not only because of the great opportunities on the Prague market at that time. Secondly, I love Prague as a city.

What do you think is the main difference in development between your home country and the Czech Republic?

It is almost the same. In order to do your job truly professionally, you need to monitor the progress of the development, the market itself, competition as well as other aspects in both countries.

What part of Prague did you grow fond of in your profession and why?

Especially the city centre and everything within walking distance of Prague 1. I am interested in the reconstruction of buildings and environment in the very centre of Prague, but I am also looking for economically advantageous business opportunities outside the city centre.



Gerhard Spiegel
developer projektu
Malátova 7 a U Rajske zahrady 2

In the field of development, stress situations are quite common, how do you personally relax?

After more than 25 years of experience in the industry, with experience and a professional approach, I think I can optimize almost any random situation.

What are your plans for the future? Are you going to reconstruct some other Prague exclusive properties?

Of course. I would like to continue to bring excellent shopping opportunities to my clients on the Czech market, behind which is the highest quality of the project at a very attractive price.

You have just completed the reconstruction of two projects in Prague 5 and Prague 3. What is special about these projects and what attracted you the most?

The reconstruction project of an apartment building from 1905, Malátova 7, attracted me mainly by its location as it is in the immediate vicinity of Malá Strana, very close to the Petřínské sady park and the Vltava embankment. As part of the reconstruction of the project U Rajske zahrady 2, I was impressed by the amazing views of the Prague skyline. Due to the location of the building on the hill, the views are available in apartments that are already situated on the second floor. Another benefit of this project is the location right next to the Riegrovy Sady park.

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

In my opinion, the real estate market will undergo complex changes, as interest rates have risen and banks apply restrictive rules for the obtaining of mortgage loans. Moreover, the EU economy is not growing at the pace that it has been in previous years. Furthermore, I generally perceive the cooling of the interest of buyers, who are negatively affected by the media and the above trends. I hope that the developers and the sellers will recognize this situation in a timely manner and adequately balance the development of property prices.

In what parts of Prague do you personally see the potential for further development and construction of new projects?

One of my most important favourites is the reconstruction of buildings in the very centre of Prague in the range of 1,500 to 3,000 sq m with attractive floor plans.

How do you perceive trends in housing in the Czech Republic compared to other European countries?

If I am talking strictly about Prague, there are two crucial things. Compared to Vienna, Berlin, or Paris, the population is not growing so fast and real estate prices in comparison with the incomes of Prague residents are actually really stretched above average. On the other hand, Prague's final property prices are still fairly acceptable compared to other European capitals.

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