

PRAGUE RESIDENTIAL MARKET 2020

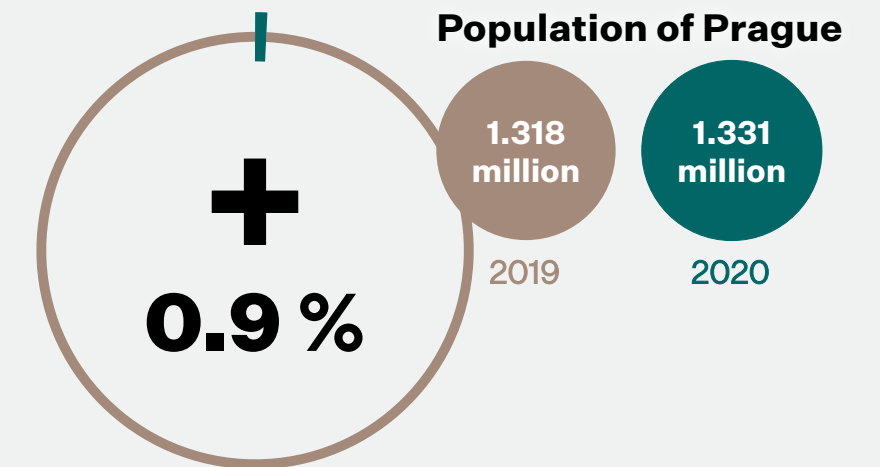
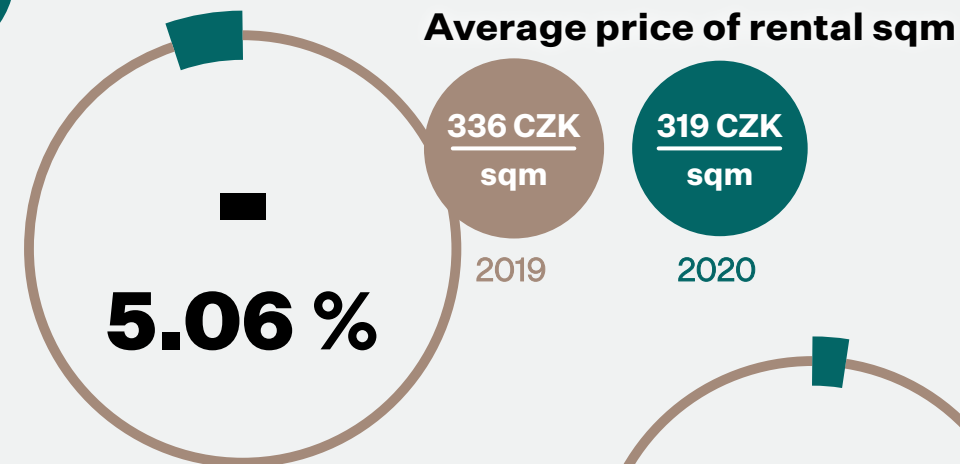
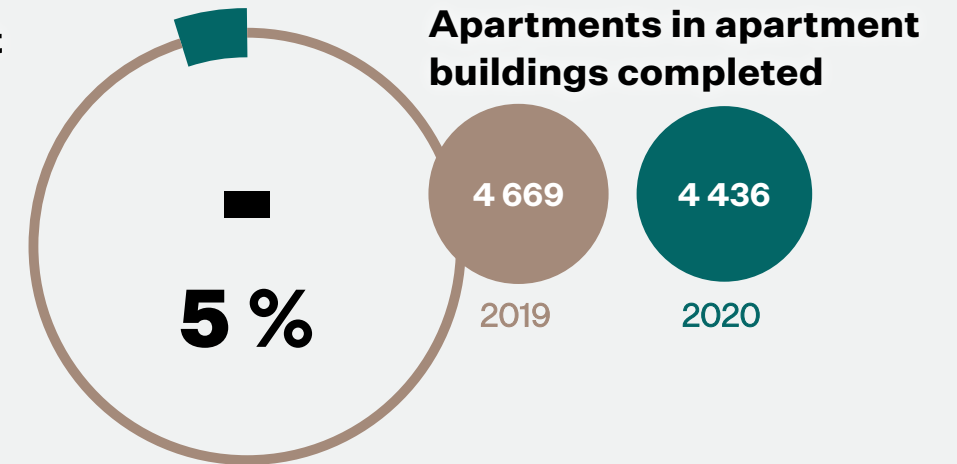
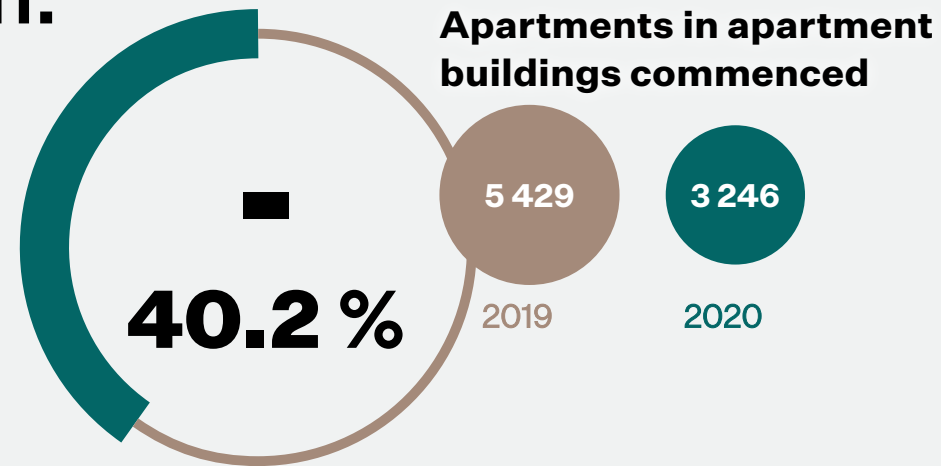
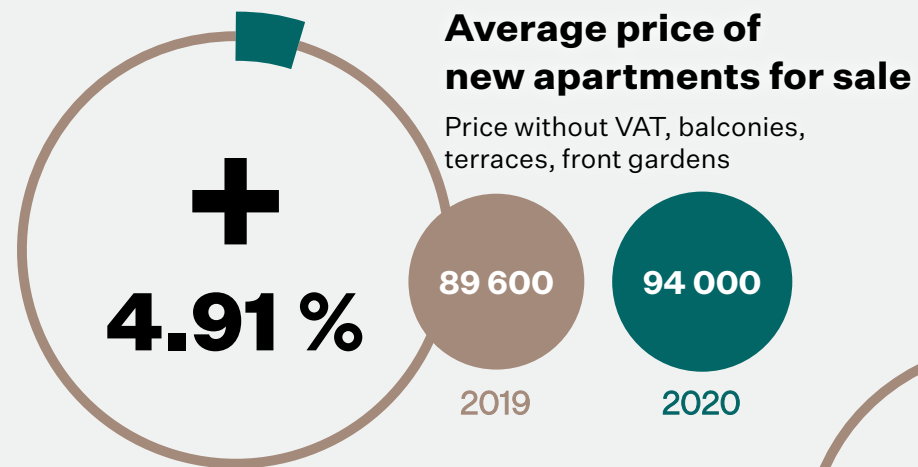


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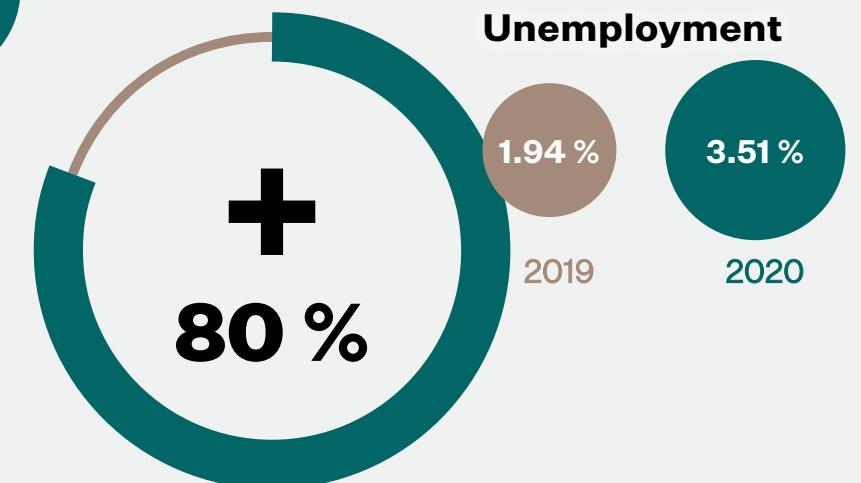
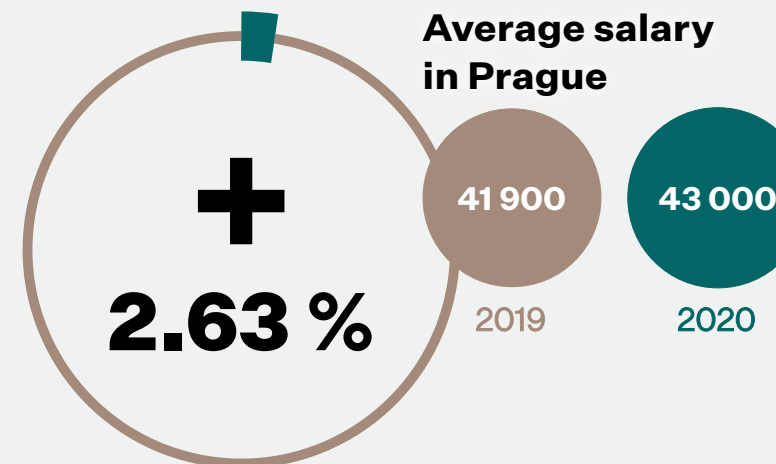
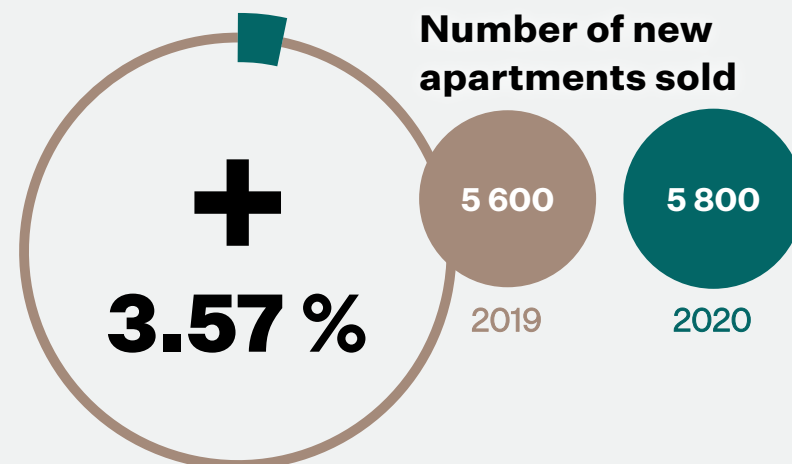
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Year-on-year comparison: 2019—2020



The real estate market is continuing to grow, despite a slight stagnation that occurred in the spring of 2020. The main reasons are that demand exceeds supply, mortgage rates are low and buying property is a safe investment. The lack of investment opportunities at a time of negative interest rates and negative bond yields has made the real estate markets so attractive that investing in apartments has become a sought-after opportunity. The cancellation of property transfer tax also helped revive demand.



Housing construction in Prague

The trend of insufficient housing construction in Prague is continuing. The main reasons for the low level are that approval procedures take too long, there is a lack of building capacities and construction costs rose. According to the Prague Institute of Planning and Development (IPD), it is necessary to complete 6,000–8,000 new apartments a year in order to satisfy demand. With regard to the long approval processes, significantly less of them have been permitted since 2010 and the apartment deficit has increased every year. The situation concerning the length of approval proceedings should, at least partially, improve thanks to a new construction bill, but at the moment it is still in comment proceedings. It should come into force in the middle of 2021 and building work should be permitted pursuant to it from 2023.



Source: Czech Statistical Office

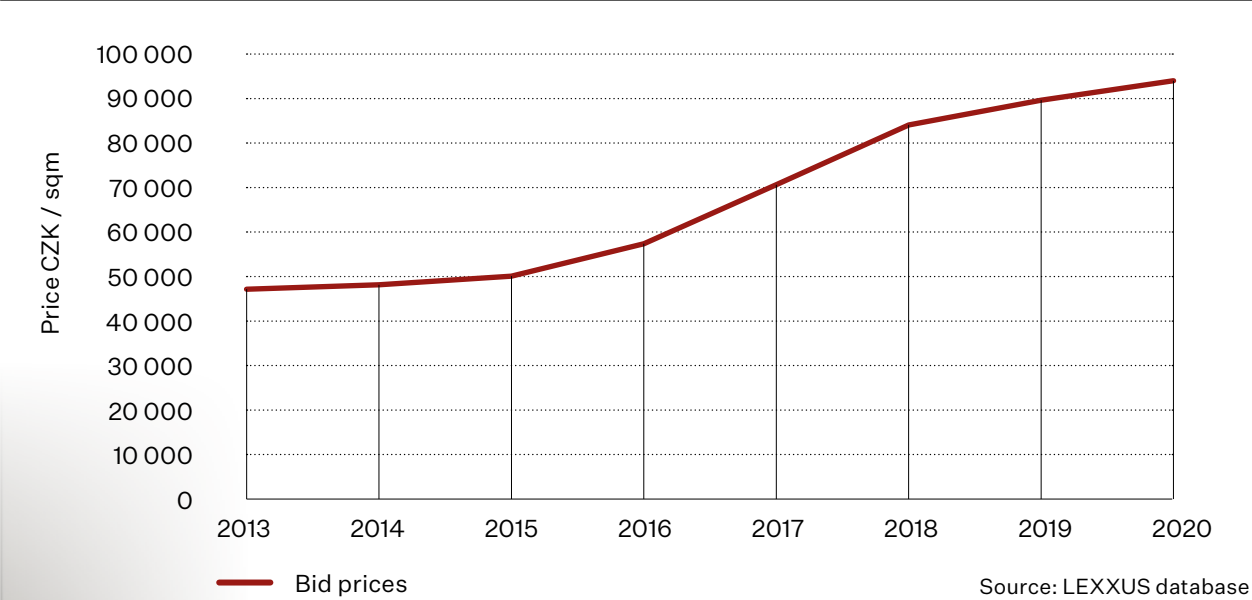
Trends in prices of new apartments in Prague

The average offer price of an apartment was CZK 108,000 per square metre including VAT (i.e. CZK 94,000 excluding VAT) in the capital at the end of 2020. This is the net price of an apartment excluding

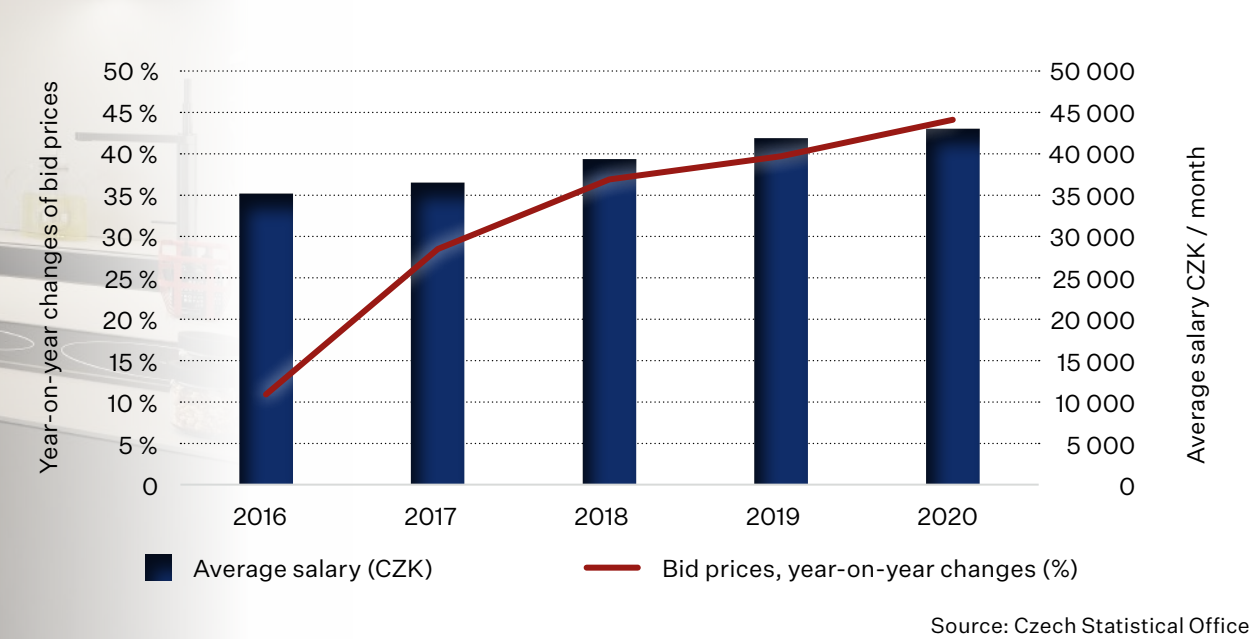
appurtenances, i.e. the prices of balconies, terraces, gardens, cellar closets and garages are deducted from the total price. Although the average salary is highest in Prague, the acquisition of a new place to live

is very hard with regard to high property prices. An average apartment in Prague will cost a buyer almost fourteen annual gross salaries, which is the most in Central Europe.

Development of offer prices of new flats in Prague (excluding VAT, balconies, terraces, front gardens, cellars and parkings)



Development of average salary vs. price of apartments

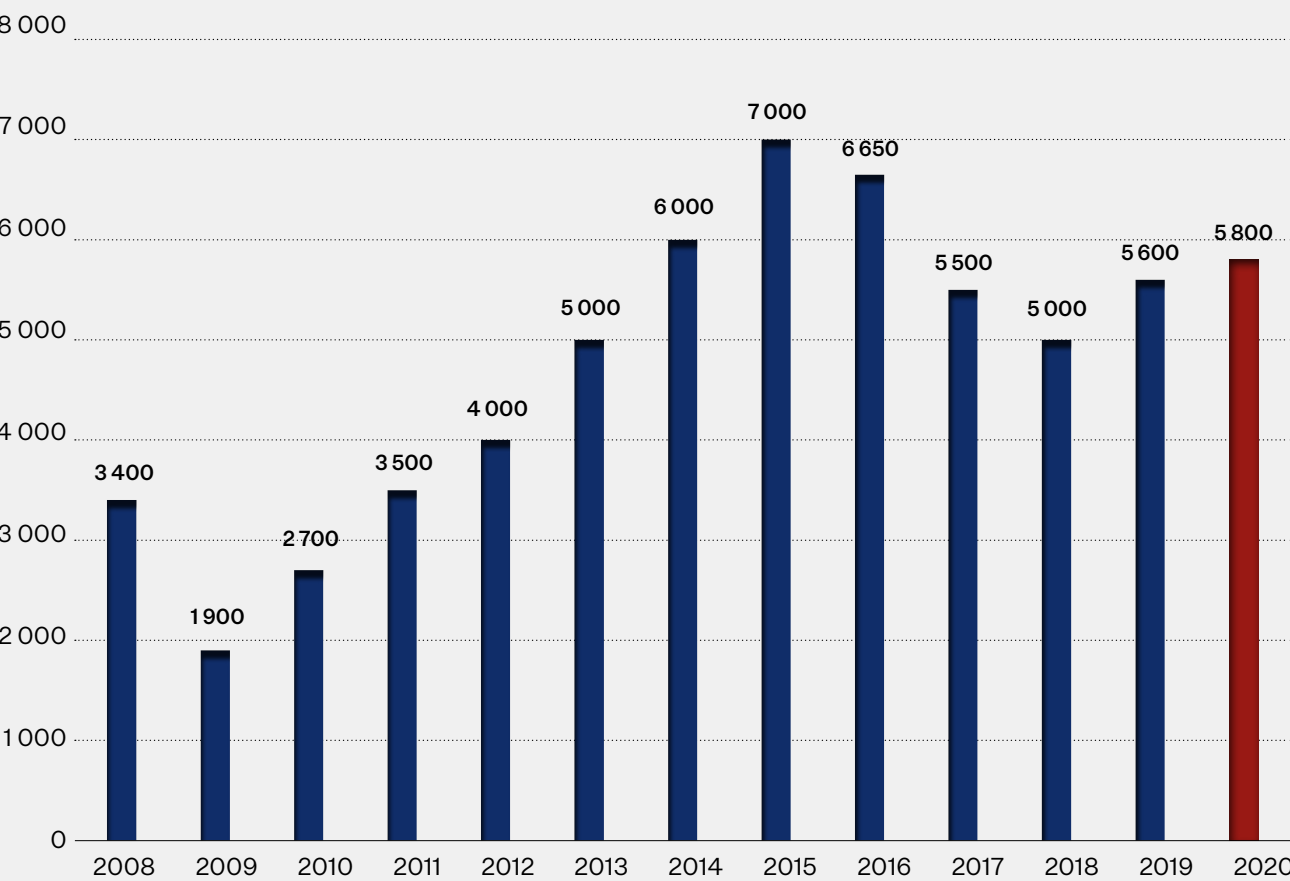


Demand and sale of apartments

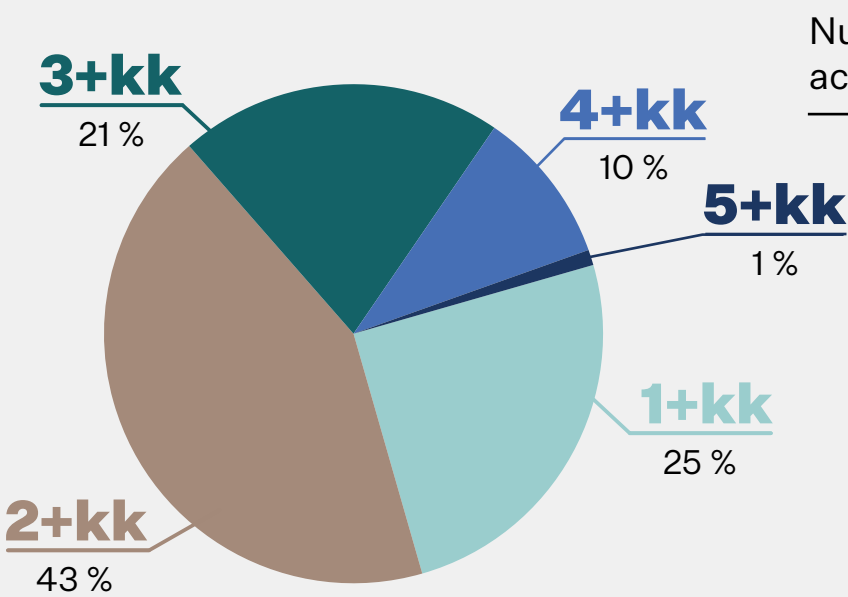
The volume of sales markedly increased in 2020. The coronavirus pandemic changed the structure of demand. For economic reasons, there is a decline in the number of first-time buyers, who are having to defer or re-assess their plan to buy a property and find a rental, or make use of a property offered outside Prague's borders. On the contrary, there has been an increase in interest from investors

whose share of purchases in development projects is rising significantly. Purchasing properties is a conservative, but very safe investment. Investors focus primarily on buying studio (1+kk) and single-bedroom (2+kk) apartments. The increase in sales volumes was materially influenced by low interest rates for mortgages, as well as the cancellation of property transfer tax.

Number of new flats sold in Prague



Source: Trigema, Central Group, Skanska Reality

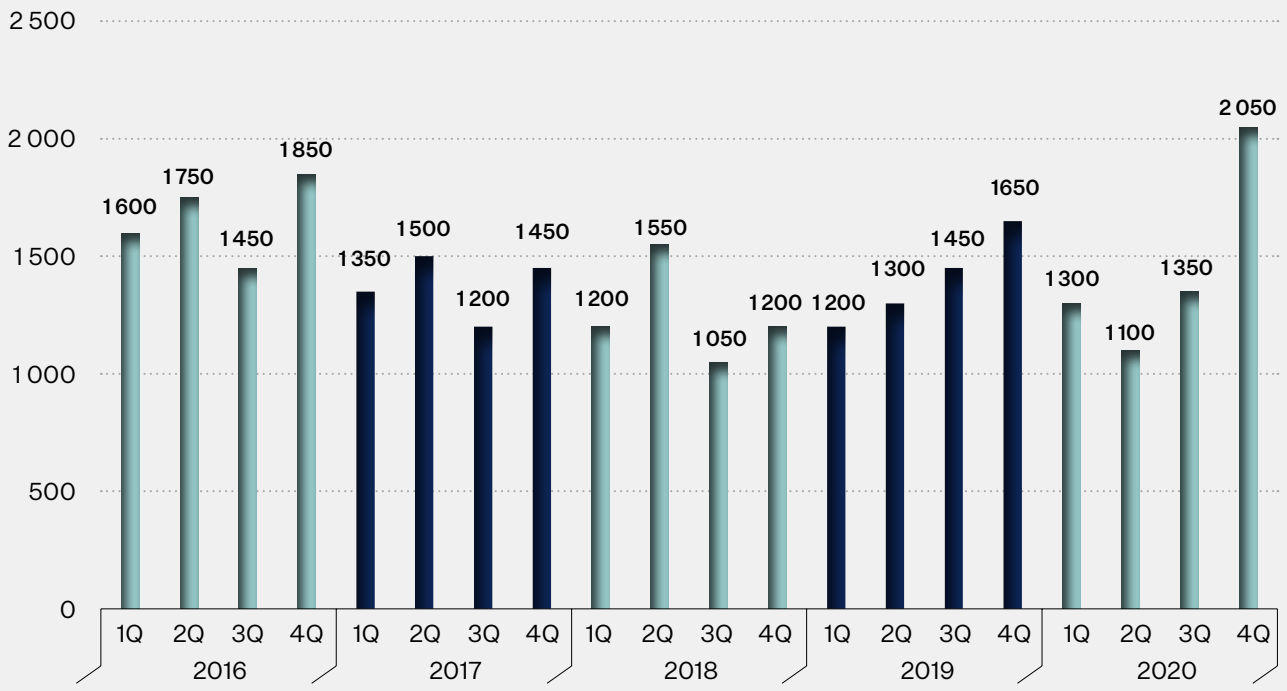


Source: Trigema, Central Group, Skanska Reality

Number of sold flats according to dispositions

At the end of 2020, the most apartments in a quarter in the last five years had been sold (2,050 apartments sold). In the first quarter of 2020 there were stable sales (1,300 apartments sold), whereas in the second quarter there was a marked fall (1,100 apartments sold) due to the coronavirus pandemic. In the third quarter there was a revival of sales (1,350 apartments sold) and the record number of apartments sold in the last quarter fully compensated for the previous weak periods.

Sales of new apartments in individual quarters

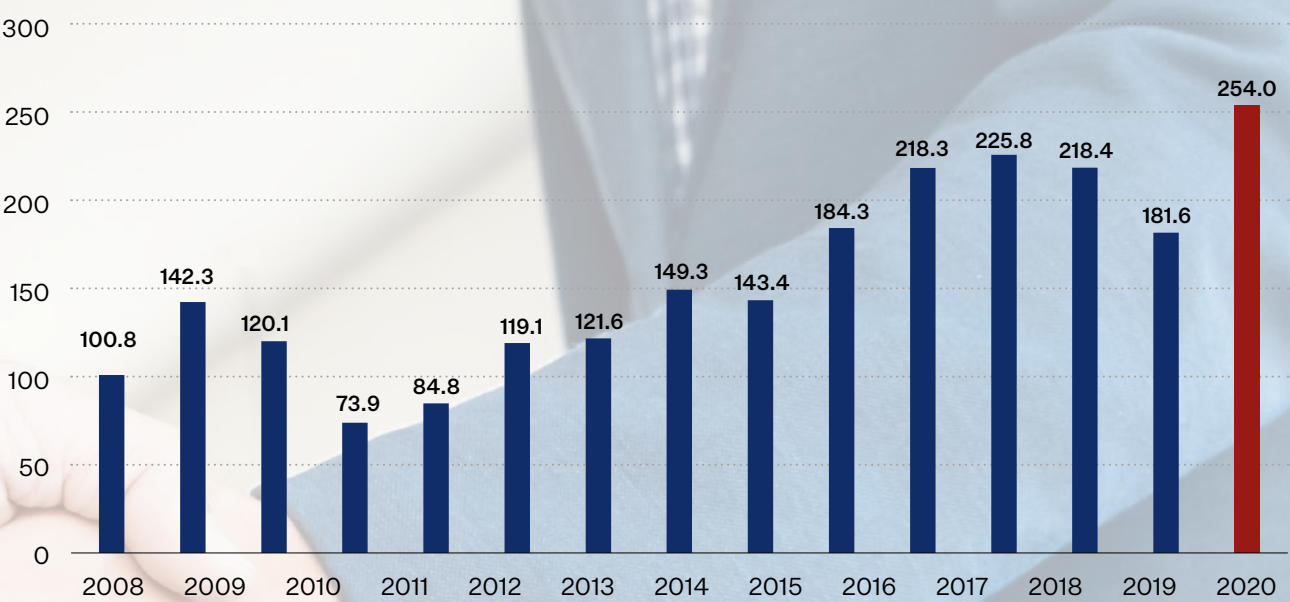


Source: Trigema, Central Group, Skanska Reality

Mortgage market

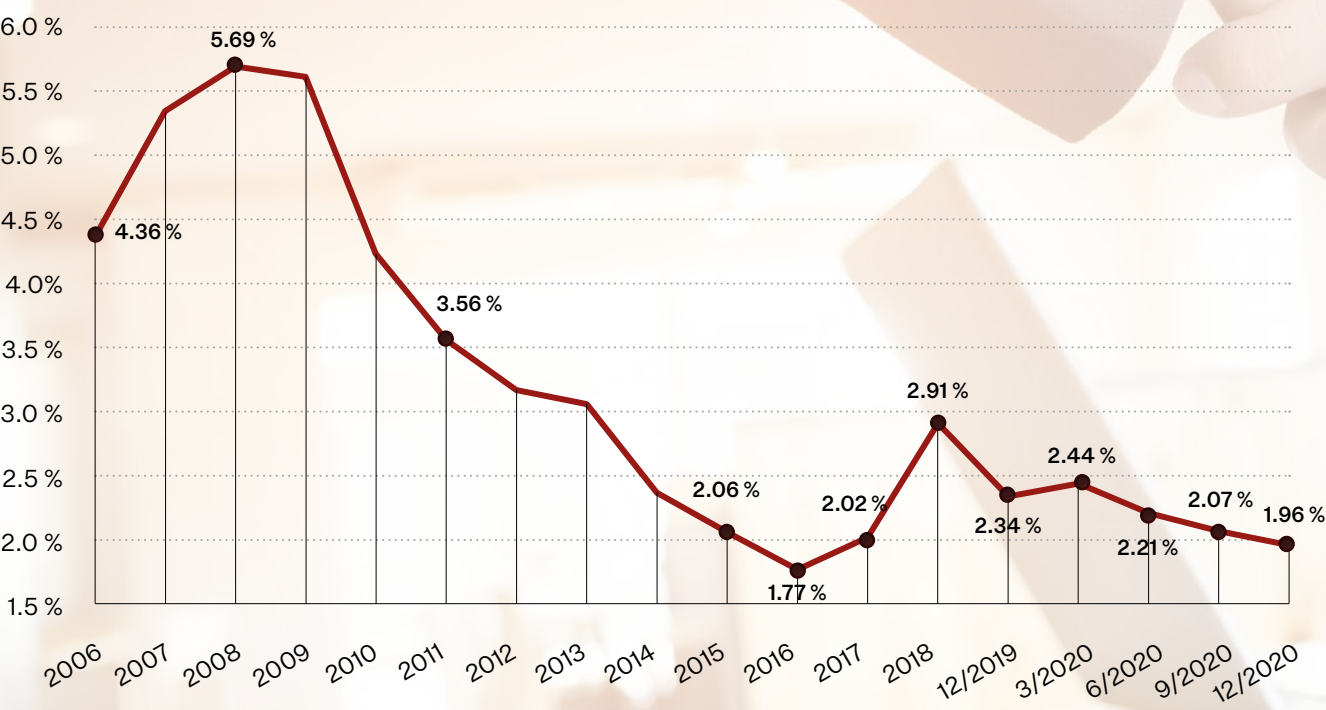
The mortgage market set a historic record in the volume of mortgages concluded in 2020. The enormous interest in mortgages is caused by low interest rates, which were around 2 % at the end of 2020. Some conditions for the provision of a mortgage that had been introduced in October 2018 and that limited the availability of own housing for a large number of buyers were relaxed in the spring of 2020. Mortgages are now more accessible, but banks are still very cautious when providing loans and thoroughly assess the individual situation of every applicant. The rising average amount of a mortgage, which reached almost three million koruna, had an influence on the record volume of loans concluded.

Volume of provided mortgages (in billions of CZK)



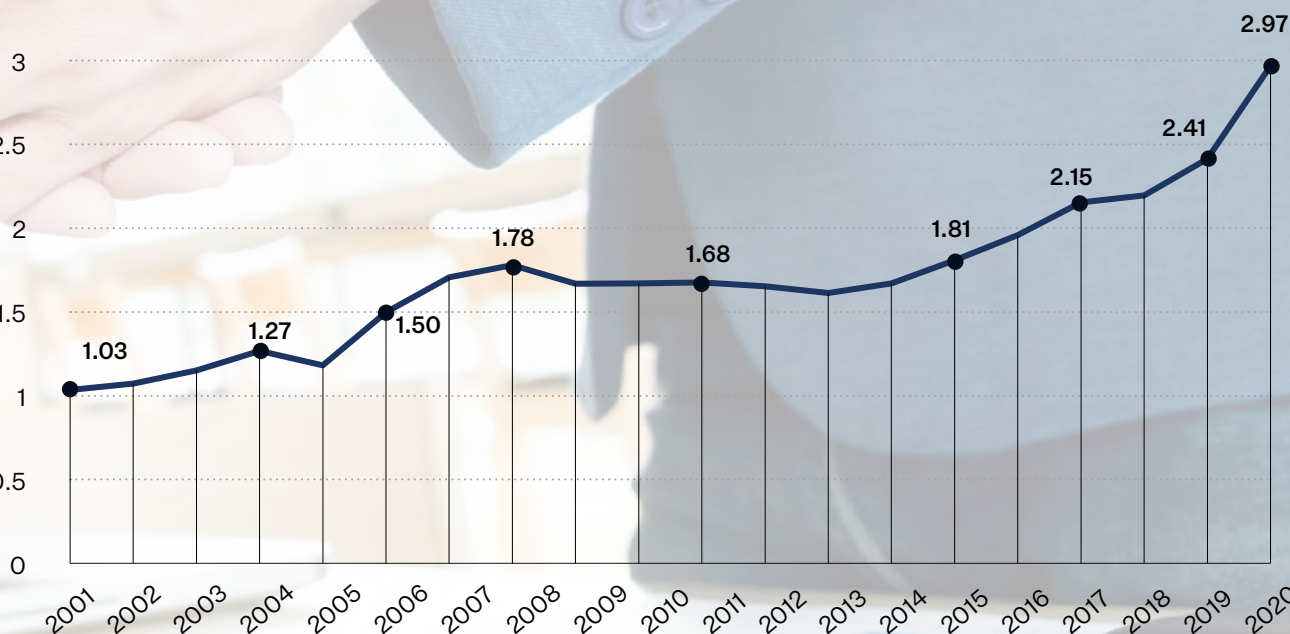
Source: Hypoindex

Development of the mortgage interest rate



Source: Hypoindex

The average amount of a mortgage loan (in millions of CZK)



Source: Hypoindex

Rental market

The rental market saw marked changes in 2020. Due to the influence of the release of a large number of investment apartments originally intended for short-term accommodation for tourists, there was a marked fall in rentals.

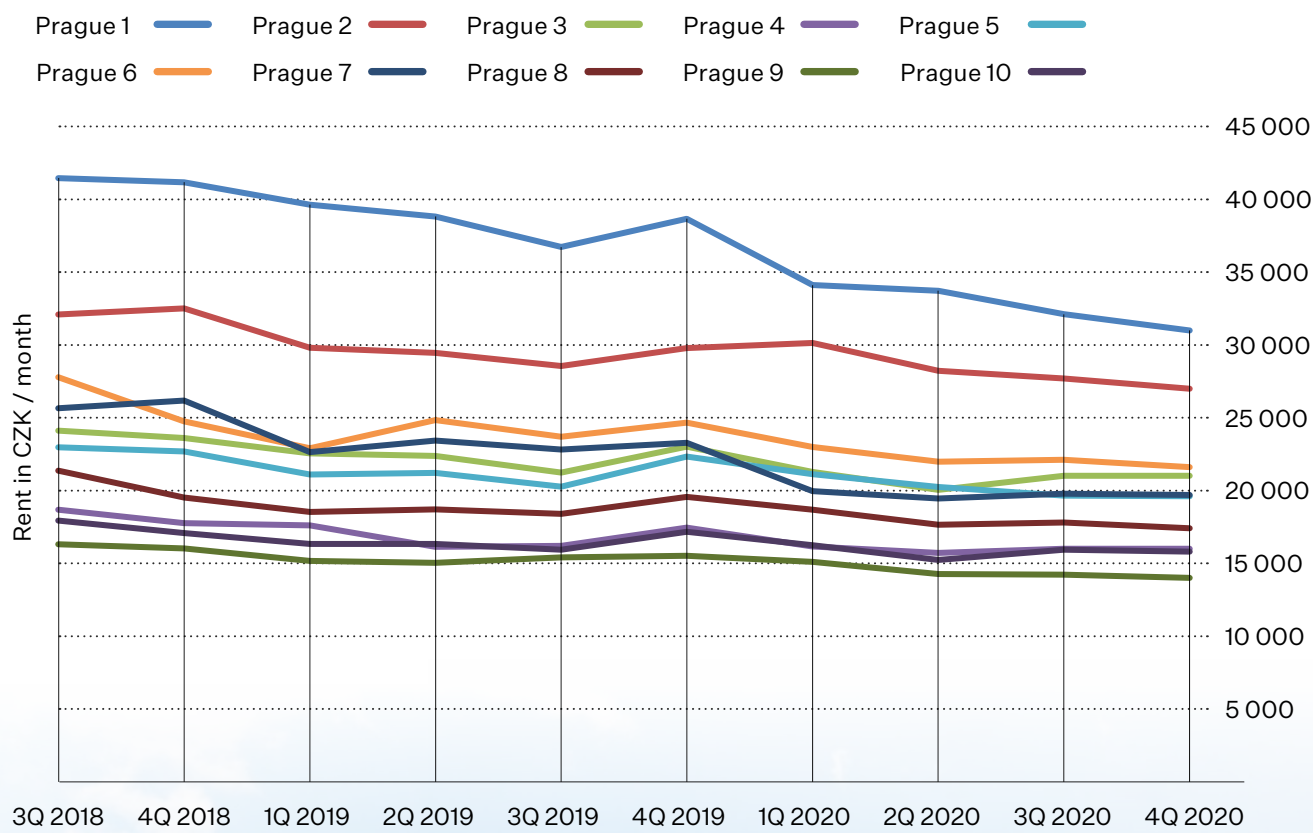
Although the prices of rentals and the yield of investments in rental housing are falling, we can see increased interest from domestic and foreign institutional investors that are thinking about entering

Prague’s rental market. At the current time, only 22% of the Czech population live in rented accommodation (32% in Prague). Investors believe that over the long term trends in housing will approach those on western markets, where the share of rental housing is markedly higher.

The current situation on the market is contributing to the rising share of rental housing. Due to rising apartment prices, owning your own home

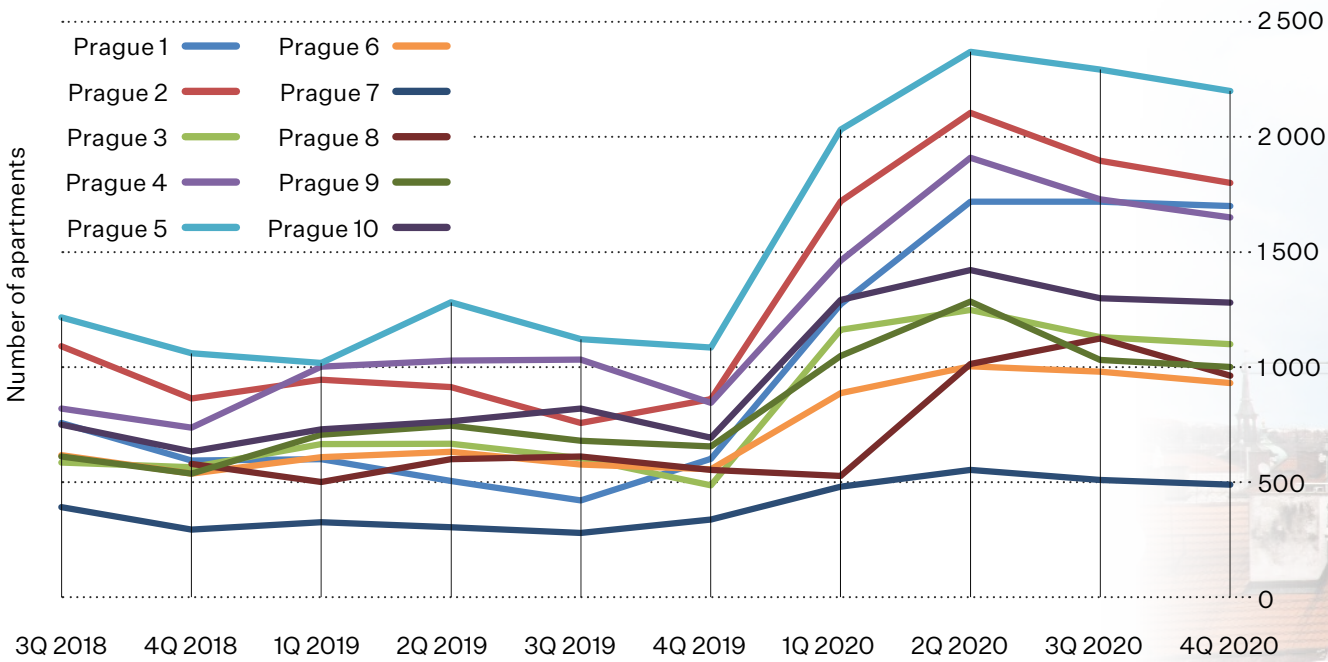
is less and less affordable. The difference between the amount of rent and installments on a mortgage is not that large given the current fall in rentals. For a large number of those interested in own housing, however, it is difficult to secure own funds, the amount of which is marked even in the event a purchase is financed primarily by a mortgage. This fact is one of the factors that could increase the share of rental housing.

Rent amount in individual parts of Prague (average)



Source: FlatZone

Number of apartments on offer

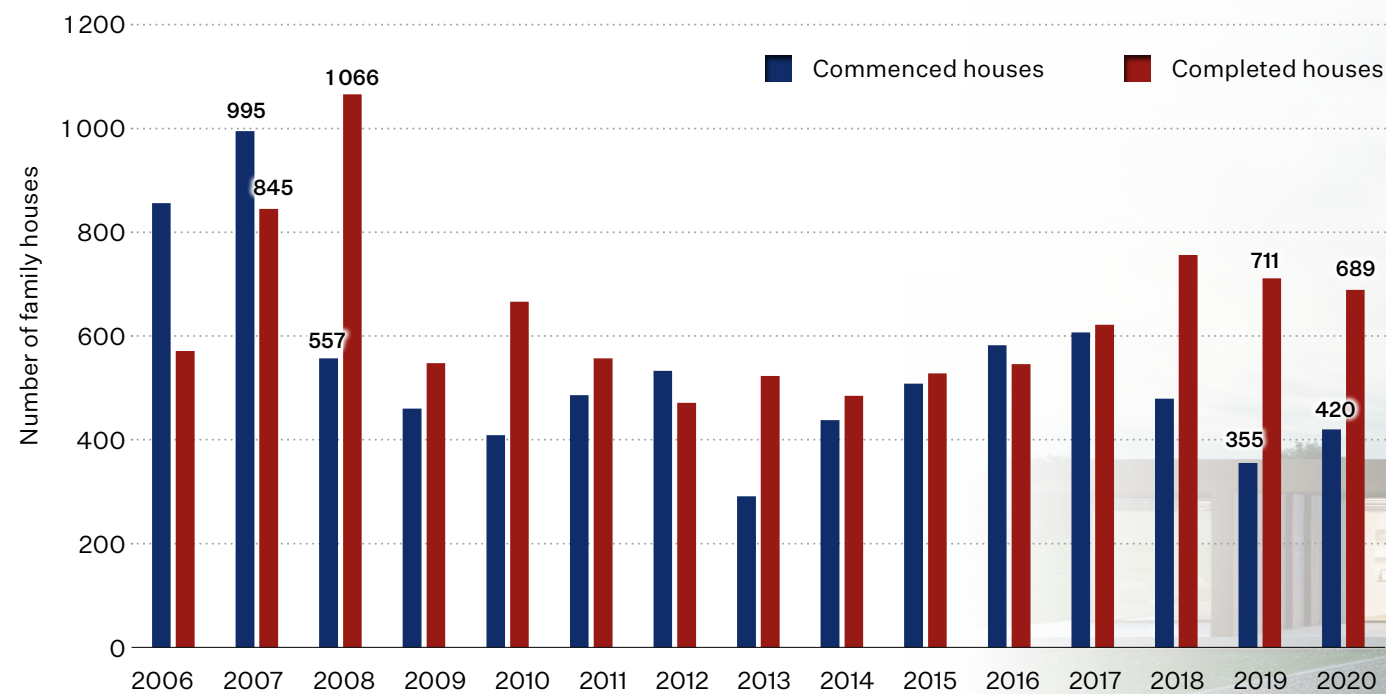


Source: FlatZone

Houses

In Prague, in contrast to the other regions of the Czech Republic, apartment construction clearly predominates over the construction of houses. 500—800 houses annually have been completed since 2009. The number of houses commenced is 300–600 and this number is continuing to fall. At the current time, 182 houses are for sale in 18 development projects. Of them, there are 110 houses for a price not exceeding CZK 13 million excluding VAT. Houses at this price level could be competition for large family apartments in some apartment projects.

Construction of family houses in Prague



Source: Czech Statistical Office

Projects of family houses in the wider center and on the outskirts of Prague



Development projects in Prague

Developers offered apartments in 137 residential projects in 2020. Very good sales results are achieved by development projects that have construction commenced or that follow on from a previous stage. Standard pre-sales are 25%–30% before the start of construction, but it depends on the pricing strategy and the project's marketing.

Conclusion

**GROWTH
IN SALE
PRICES OF
APARTMENTS**



**REDUCTION
IN RENTAL
PRICES**



- **Insufficient supply**
 - Long permission processes, low level of construction
- **High demand**
 - Low mortgage interest rates
 - Relaxing of rules for obtaining mortgages
 - Cancellation of property transfer tax
 - Liquidity on the market - property as a safe investment

- **One-time increase in supply**
 - Apartments originally intended for short-term rental

- **Reduced demand – outflow of tourists**





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