

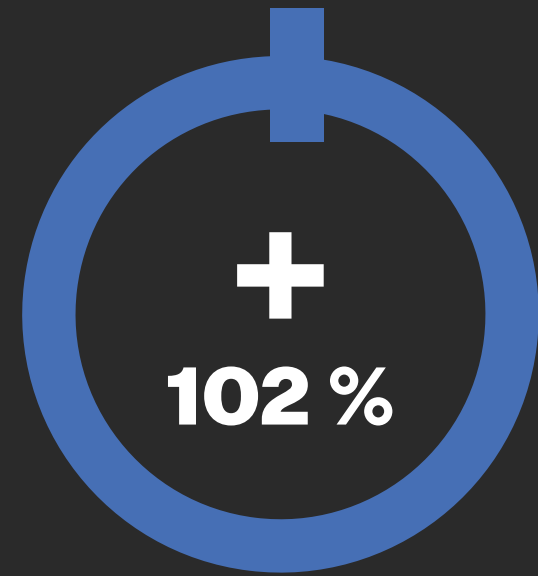
# PRAGUE RESIDENTIAL MARKET 2019

**LEXXUS**

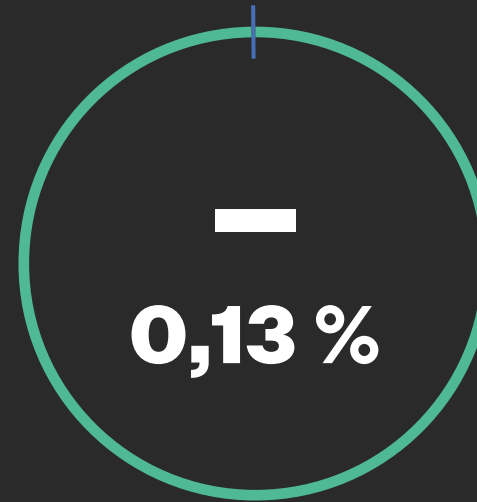
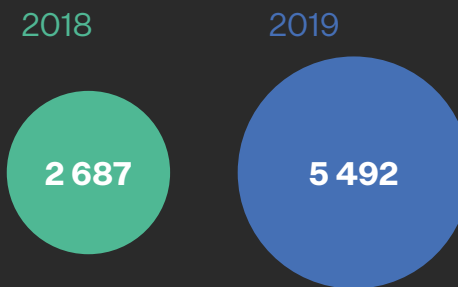
**savills**

An International Associate of Savills

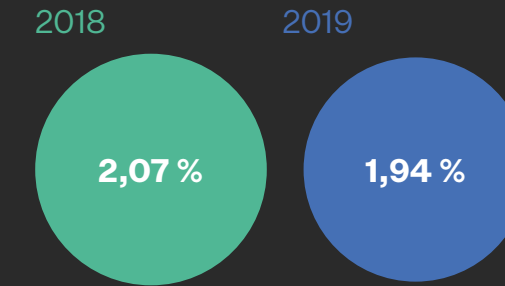
# Year-on-year comparison: 2018—2019



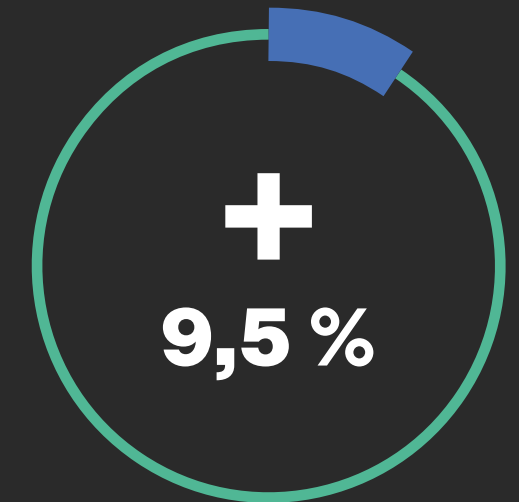
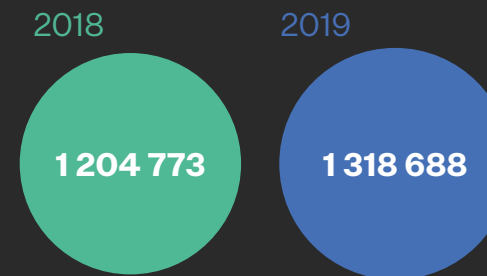
**Apartments in apartment buildings commenced**



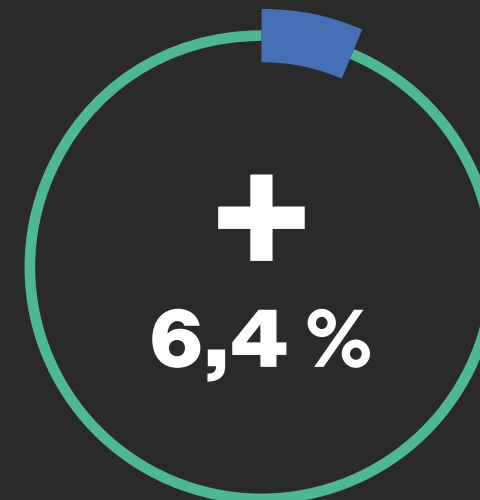
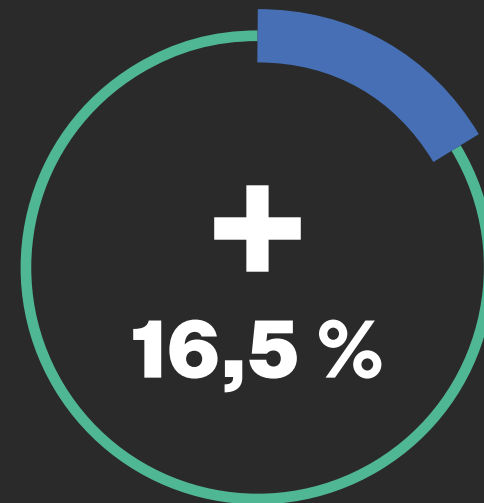
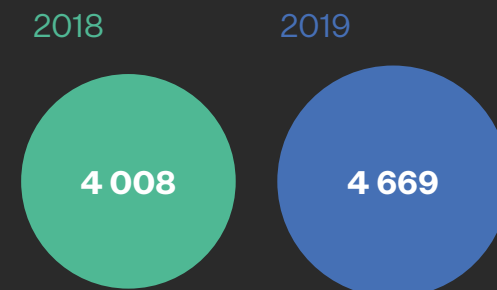
**Unemployment**



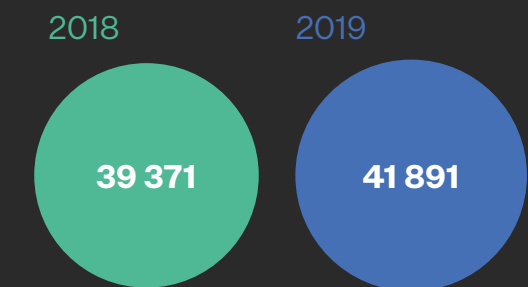
**Population of Prague**



**Apartments in apartment buildings completed**



**Average salary in Prague**





# Construction of apartments commenced and apartments in apartment buildings completed

Started / completed apartments in new builds in Prague  
2007—2019



The insufficient construction of new apartments is one of the main causes of rising prices of apartments, which are becoming unaffordable for the middle class.

The construction of 5,429 apartments in apartment buildings was commenced last year, whereas the number for 2018 was only 2,687 apartments. This is a year-on-year increase of more than 100 % per cent.

The long-term upward trend in the number of apartments commenced in apartment buildings for the whole Czech Republic started in 2012, but there were fluctuations in 2016 and 2018, when there were year-on-year falls. The number

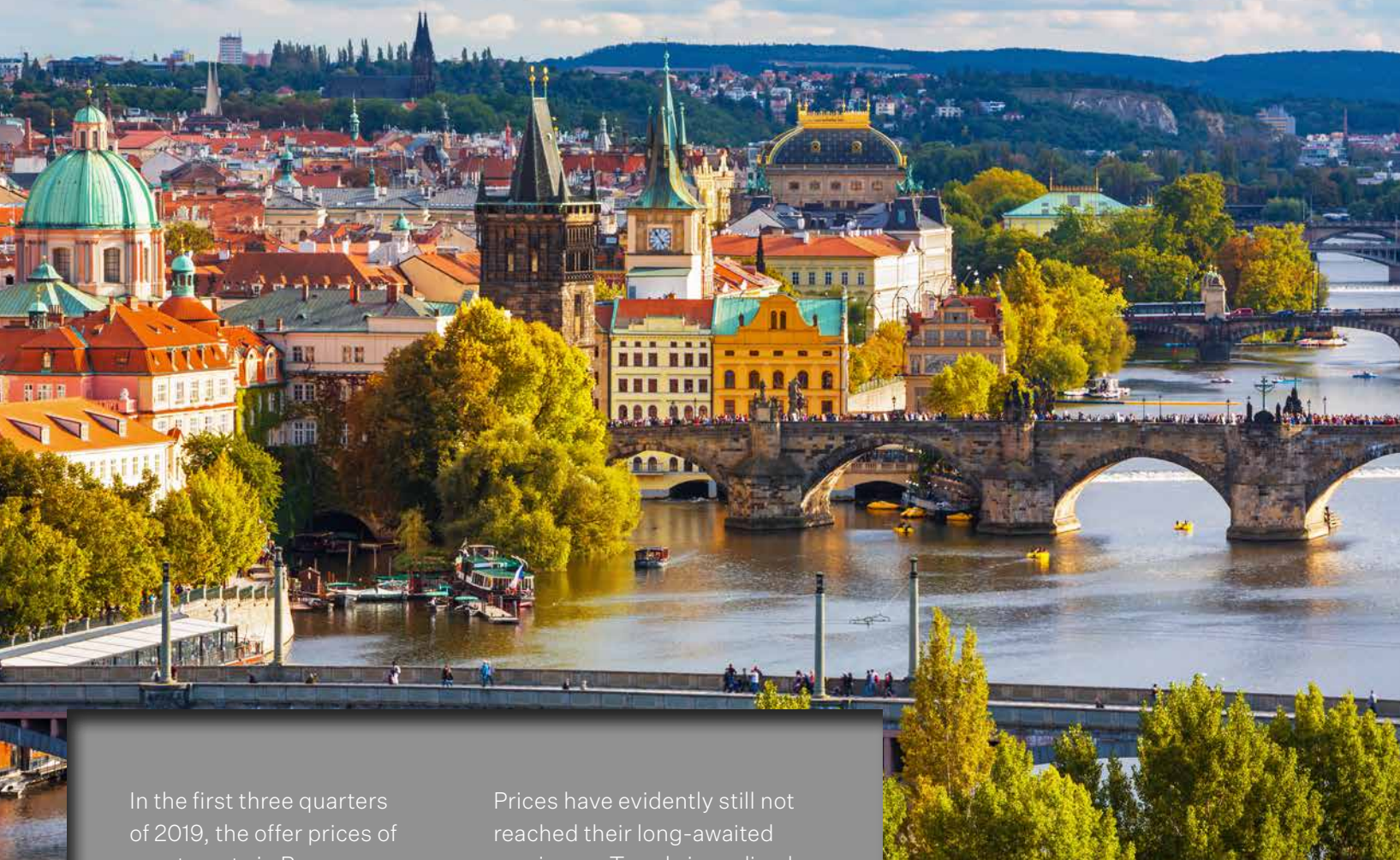
of apartments commenced rose from 4,022 in 2012 to 12,491 in 2019. The year-on-year increase between 2018 and 2019 is 42%.

In 2019, a total of 4,669 apartments in apartment buildings were completed in Prague. From 2016 to 2018, the number of completed apartments fell from 5,036 to 4,008. There was also an increase in the number of completed apartments in apartment buildings in the Czech Republic. A total of 12,751 apartments were completed last year, whereas the total for 2018 was 10,325. Prague contributed 37.5% to the total national result. Despite the increasing number of commenced and completed

apartments, housing construction in Prague is still insufficient, so buyers' interest is moving outside Prague. 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



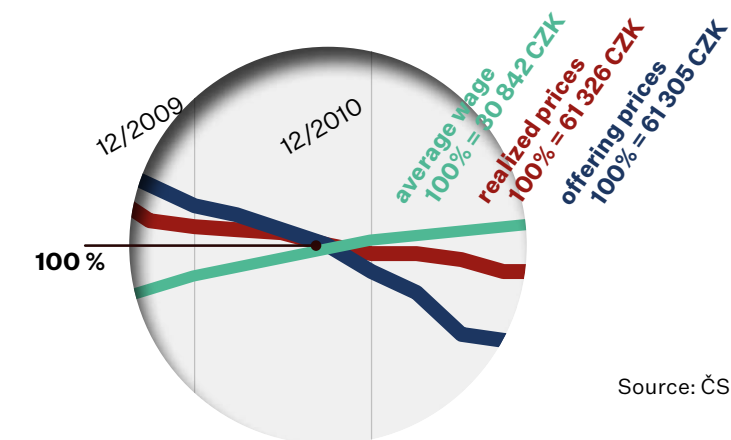
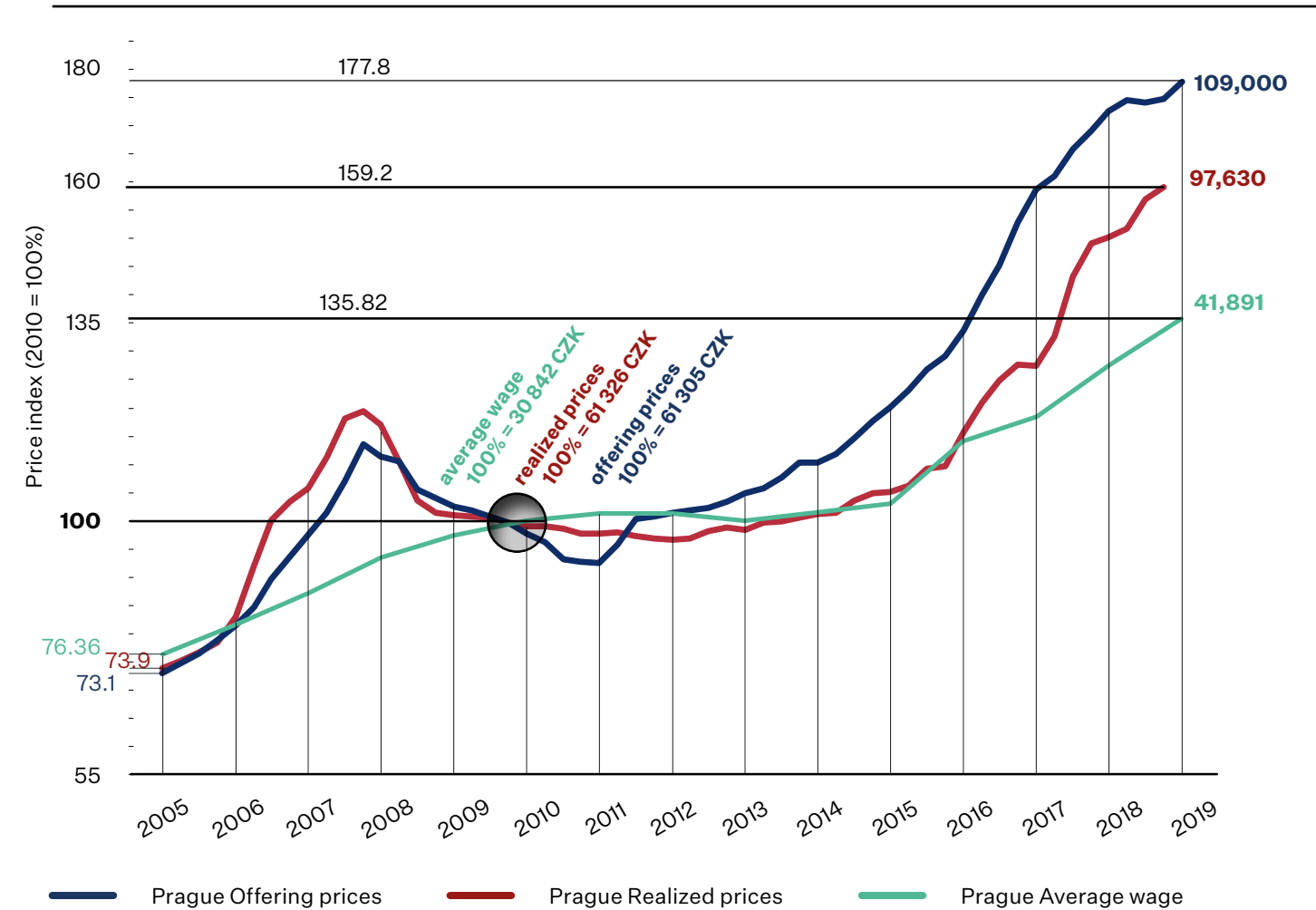
In the first three quarters of 2019, the offer prices of apartments in Prague more or less stagnated, whereas last year the increase in the same period was 7.2%. After temporary stagnation of prices, at the end of the year prices started rising again, and increased by 5.9% in the last quarter.

Prices have evidently still not reached their long-awaited maximum. Trends in realized prices (i.e. the prices of apartments actually sold) increased by 7.5% in the first three quarters of this year, in contrast to offer prices, which somewhat reduced the growing difference between offer and realized prices.

Trends in the prices of apartments should be compared with trends in the average gross salary in Prague (currently CZK 41,891), 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 78 % from 2010, the average gross salary has increased by only 36 % in the same period.

Price index of apartments in Prague + Average wage



Source: ČSÚ, Deloitte



# Development of sale of apartments

In 2019, 5,124 new apartments were sold in apartment projects in Prague, the year-on-year growth was 13.1%. The number of apartments sold fell from a maximum of 7,000 in 2015 to a mere 4,530 in 2018.

Although there was a year-on-year increase in sales of apartments in 2018, in the past the market fell so low that a return to normal values will take a very long time. The revival of sales could also only be temporary as a consequence of an increase in new residential projects on offer.

Development of sold flats in Prague residential projects (2008—2019)



The number of available new apartments has been around three and a half thousand for several years. Supply therefore does not cover demand for new accommodation. The greatest range is in Prague 5, where developers are selling a total of 884 new apartments. Prague 9 is offering 652 apartments, Prague 4 has 593 apartments on offer in new buildings and 557 new apartments are being sold in Prague 10. The least

new or refurbished apartments sold as a part of development projects are traditionally in the capital's centre.

The statistics for apartments offered are closely related to where the most apartment projects are being built. The east and south of the capital are dominant, because in the past developers obtained a lot of land there suitable for apartment construction, which

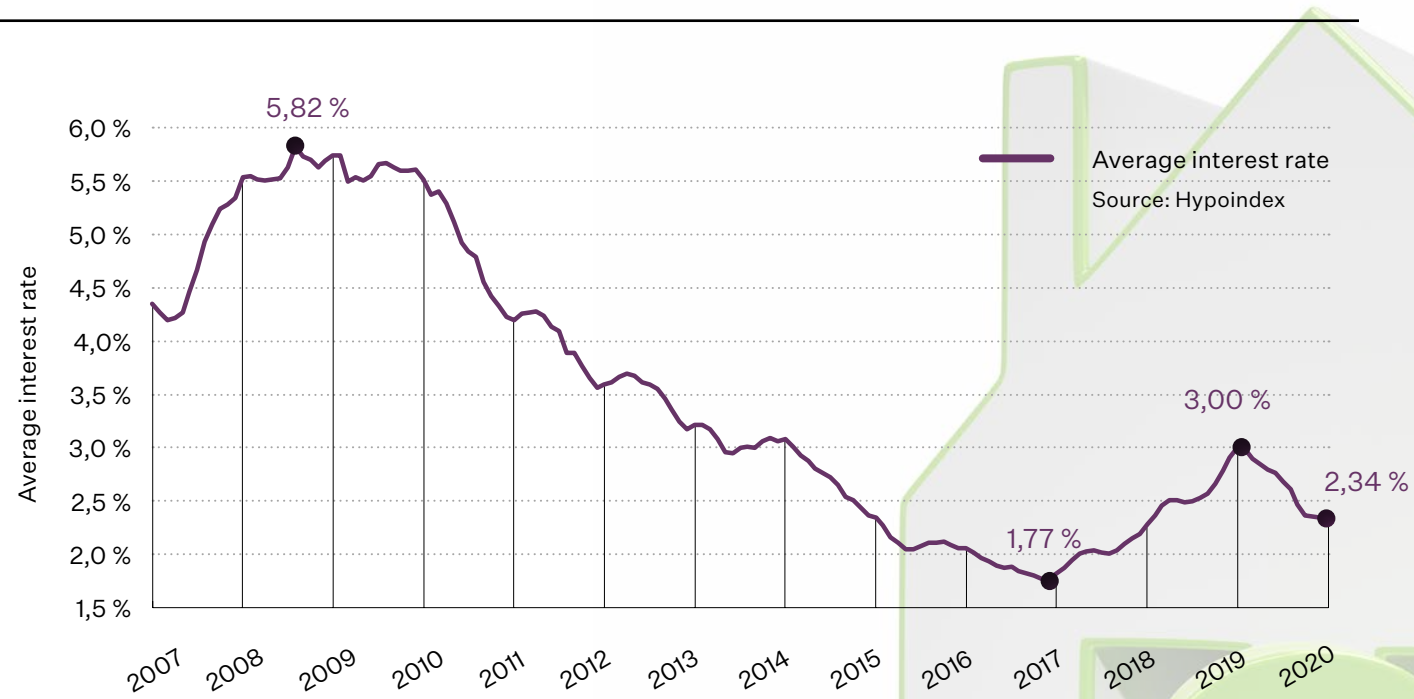
they were unable to do in the centre of Prague.

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. There is also an increase in the share of apartments bought as investments, investors are focused primarily on small apartments - studio and one-bedroom flats.

# Mortgage financing

Average interest rate of mortgages



When the conditions of mortgage financing were made stricter (October 2018), this influenced the availability of mortgages, especially for “first buyers”.

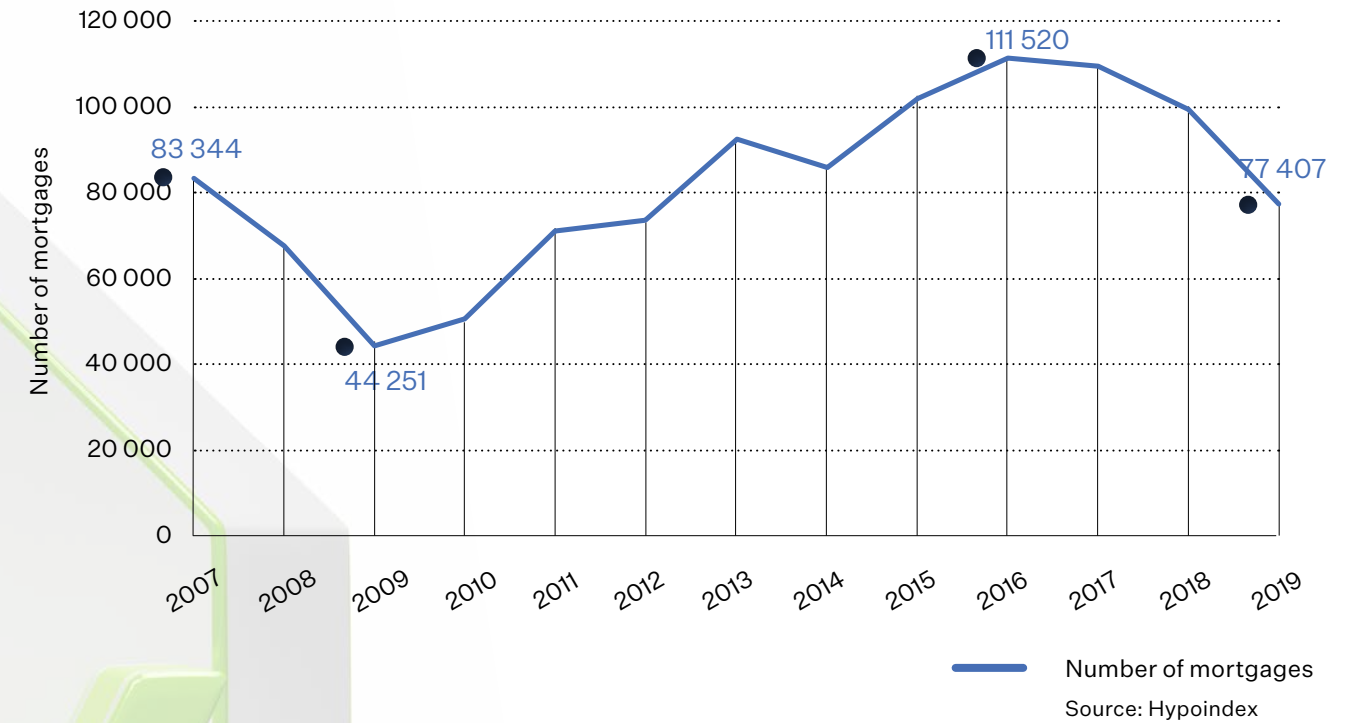
The number and volume of mortgage loans has fallen since 2017. This year banks have provided a total of 77,407 loans, which is a year-on-year fall of 22,070. There was a year-on-year fall in the total volume from CZK 218.411 bn to CZK 181.583 bn (the fall is CZK 36.828 bn). This is a year-on-year drop of 16.8%.

Towards the end of the year there was, on the contrary, a year-on-year increase in the number of contracts concluded and their total volume. In the month of December 2019 7,074 mortgage contracts were concluded. Compared to last December there was an increase by 509 mortgage contracts. The volumes of loans agreed also rose in December. A year-on-year comparison shows an increase in volumes from CZK 14.935 bn to CZK 17.996 bn, which corresponds to

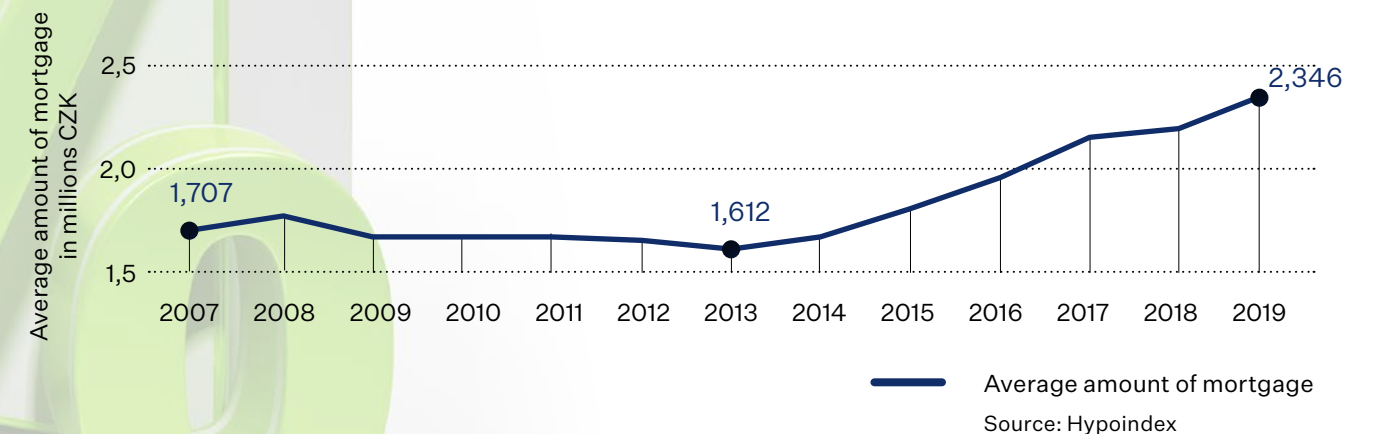
a year-on-year increase in the last month of the year by 20.5%.

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 2019, when the interest rate was 3 %, it has progressively fallen to 2.34 % (December 2019).

Number of mortgages provided to inhabitants of the Czech Republic



Average amount of mortgage in the Czech Republic

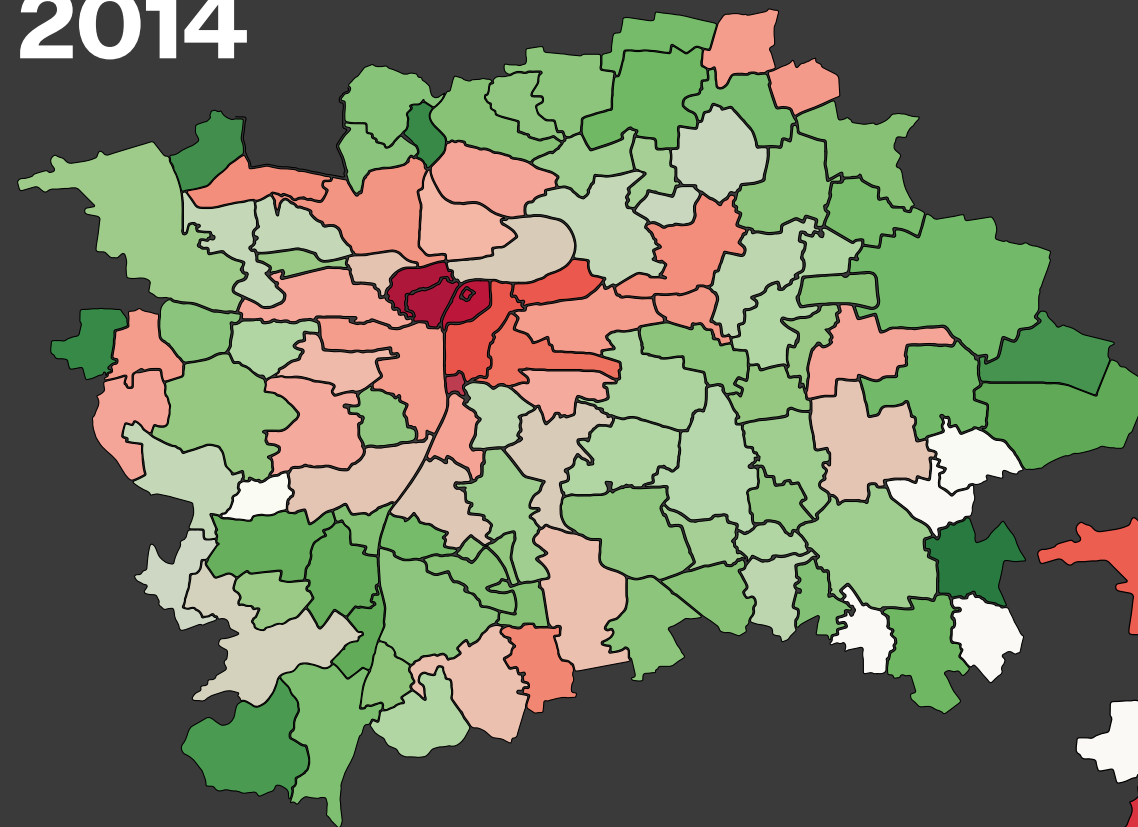


# Rental market in Prague

At the current time rents are rising sharply in Prague. In the last five years rent per square metre increased almost by half – rent rose from CZK 214/m<sup>2</sup> in the first half of 2014 to CZK 307/m<sup>2</sup> in the middle of this year. The average year-on-year increase was 7.3%, the biggest increase was in 2017, by 12.5%. Rental of an average 60 m<sup>2</sup> apartment therefore costs approximately CZK 18,500 excluding charges, the increase in the last five years is therefore CZK 6,000.

The reasons for rising rental prices are, inter alia, high prices of new apartments and low interest rates, which enable purchases of smaller apartments to let as a good investment. This means there is a rise in short-term rentals using Airbnb and a fall in the range of apartments offered for short-term and medium-term rentals. According to developers' data, up to a third of new apartments were sold for the purpose of subsequent rental. The greatest demand by investors is for apartments of up to 50 m<sup>2</sup>. It is smaller apartments that are the most in demand from investors.

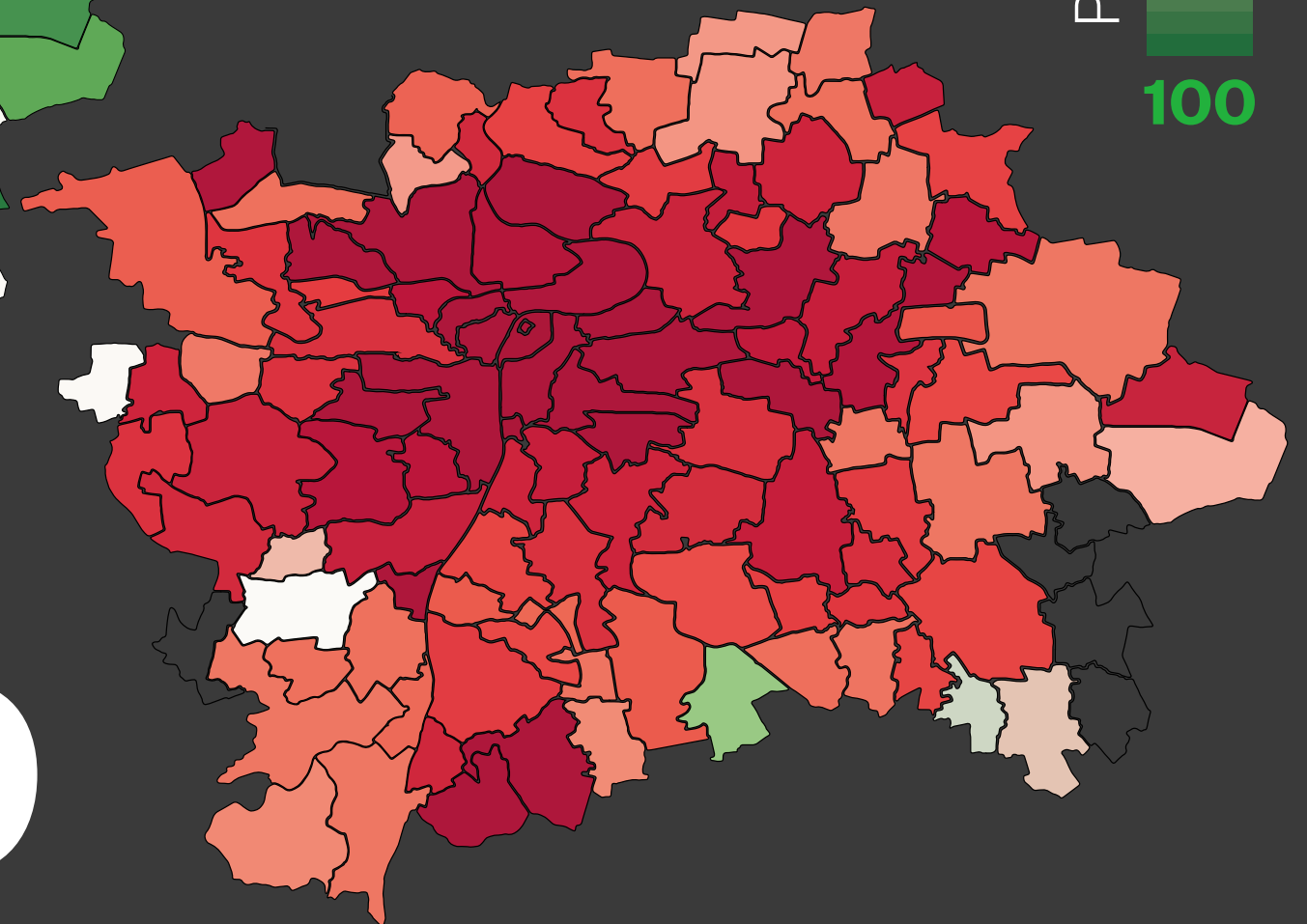
## 2014



## Rent in Prague



## 2019



Source: Deloitte



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. 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.

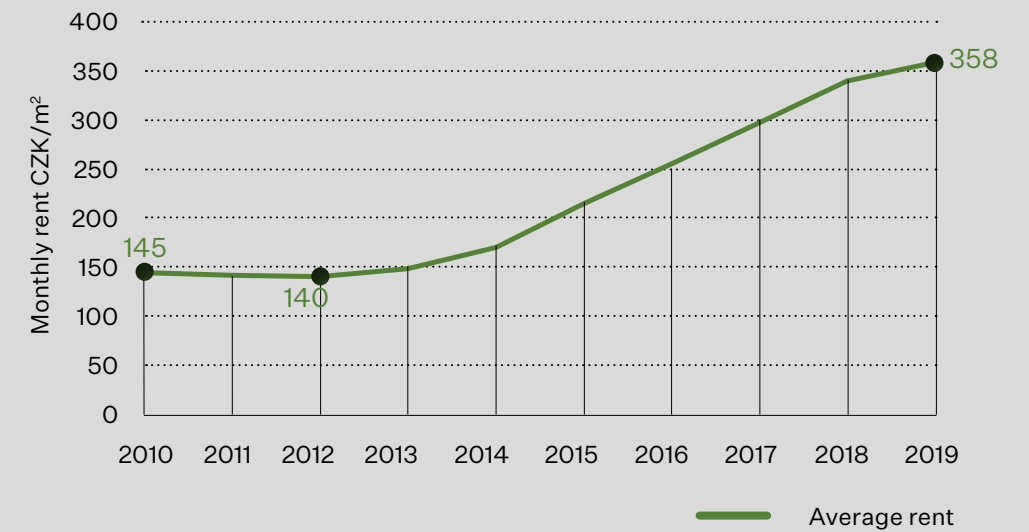
The growth in the sale prices of apartments, which has a fundamental influence on rises in rent, is caused by insufficient construction in Prague, which is due, in particular, to the drawn-

out process of getting permits for buildings, rises in the cost of construction work and rising acquisition costs.

Demand for the purchase of new apartments is falling and clients are starting to be more interested in living in rentals, because the prices of apartments are already too high and, after the significant

tightening of the rules for the provision of mortgages, some buyers do not meet banks' criteria for obtaining a mortgage. This is shown by the fact that the number of mortgage loans provided has fallen 25% year on year. Clients that cannot get a mortgage can choose from the range of apartments for sale beyond Prague's city limits or rent an apartment.

## Development of average rental prices in Prague







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