

Residential market: all have to slow down or it's time for fat cutting

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“The problem is that all the statistics and prognoses are not based on reality and real facts but on the interests of those who present them to the general public,” has recently said Jaroslav Novotný, chairman of the Real Estate Association. Even laymen are able to recognize it. In the light of it warnings about the upcoming shortage of flats in near future (translated as “buy before it's too late”) issued by some developers that appear from time to time (but aren't usually published) are almost moving. However, what laymen, i.e. potential buyers of a flat or family house, don't know is that there are no reliable statistical data on the number of sold or built flats or houses or on their prices in the Czech residential market. The bigger space is then devoted to purposefully distorted or very inaccurate statistics and prognoses. One of the experts on casting doubts on them is Jiří Pácal from Central Europe Holding who at a recent scientific seminar stated: “The only one who has reliable data is banks.” And the answer? “Yes, we probably have the most reliable data on what is going on in the market. However, we don't hurry with their release. Information is goods, it is our know-how and our competitive advantage,” said Jan Sadil from Hypoteční banka. The point is that banks are the only ones to have data on real prices. It is no more worth to derive anything from advertised, i.e. offered prices, which is often the case. Their variation from real prices is estimated by dealers at 10 - 30 %. However, there is one thing no one casts doubt on and that is the price tendency - prices are falling.

“Correction” is in vogue

The time when people grabbed still wet drawings from designers' tables and in their contracts with sellers undertook to accept virtually anything (like waiving their rights of complaint) is irrevocably over. Common action of several global and national factors (like increased purchases of flats in 2007) has caused a significant change on the residential market. Sales have slowed down and prices - not surprisingly - are falling. It is not a slump but slight decrease, usually in hidden forms, most often in form of various bonuses. Developers are far from being delighted, they try to avoid the term “price reduction” as hard as they can. That is why the term used - usually with a slight smile - is “price correction”. No one can reliably determine (see above) what is the extent of the correction. It seems probable that it is around 10 % y-o-y, but with some types of older constructions it is probably much more distinctive. In addition, individual projects start to vary so prices of dwellings differ within one area more than they did in the past. This deeper segmentation as well as the drop in prices are probably the only certainty on our residential market.

Play of nerves

After euphoric prognostic craze when one increase led to predicate another, increase in prices at the beginning of the year led to their further increase at the end of the year, and everybody (except for the clients) liked to listen to it, the real estate market became a prognostic Sahara. Even those for who it is the core of their job, i.e. multinational counselling companies, nowadays try hard to avoid having to describe the future and they resort to description of the current situation and as for future they just shrug. It applies to commercial as well as residential properties. As for the latter, it looks as if the flat market witnesses a war of nerves. Developers don't want to cut prices while people refuse to buy for the offered prices. And it looks as if everybody has a lot of time. People can wait a bit with their purchases and developers? Flats aren't bakery and they don't get stale so they are not pushed to adopt any hasty means. This applies notably to those who more or less build for their own money, without bank credits (someone

may be surprised how many of them there are, for example Central Group, Ekospol or - from smaller companies - JRD). Those with credits will be prevented from significant price corrections not only by their own calculations, but also by banks that take into account particular sales prices when providing loans. And if a developer fails to endure a longer-distance run, banks will prevent insolvency proceeding (during which flats could be sold for much less than the presumed price) and will get their collateral. From the financial point of view - their condition is exceptionally good - it is absolutely no problem for them to keep the prices and wait another six months or longer - till potential buyers lose their nerve. By the way, something similar is already happening to Central Park Praha, chased by bad luck, and according to the "well informed" the same is awaiting Orco. To sum up, a fall in prices of residences cannot be expected.

No much time left or time for draw

The flat market has got seemingly stuck in windlessness whose ends are invisible. However, it's not true, neither of the parties has so much time. Consumers or potential buyers of flats cannot postpone the solution to their existential need - a place for living - over and over again. Flats and family houses are not bought out of cheer profligacy in our country as well as abroad but because people need to move because of their job or they need more space for their increasing families etc.

Although it may seem that demand on the residential market pulls the shorter end of a rope, it's not completely true. Even developers and banks are pressed by the time. Flats don't get stale but every builder knows that any unused building gets old very quickly. Apart from the need to run, keep, heat and guard (!) the unsold flats. The image of empty blocks of flats where only the wind runs through for long months or even years must be and certainly is a nightmare for all those on the side of offer.

And the result? Both sides will have to soften their claims, the golden mean will be a non-dramatic but necessary solution. Prices will drop a bit more but not so much as those interested in purchase optimistically imagine. It wouldn't be meaningful to precisely quantify the price cut as nobody knows what the prices are today. Much more useful would be to estimate the moment when offer meets demand and the market gets moving a bit more (it is moving even nowadays). Common sense spiced with practical experience suggests that it can't take too long because of many reasons. As was already mentioned, the situation on the residential market is not only an economic problem (it involves enormous amount of fields of business), but also social or demographic. In the meantime (12, 18 months) developers should stop shedding tears because media spoil their business. (By contrast, in 2007 media almost half-wittedly played into their hands by blazing to the world how flats were going to get more expensive after VAT correction and thus stirred unusual shopping craze - as many a person thought, nothing like that happened.) Instead, developers should think about how to build for more reasonable prices, prices that are more adequate to the economic situation of this country and its inhabitants' income. There's no reason for flats in Prague being more expensive than those in Copenhagen or Berlin. Actually, there was - in form of an excessive demand.

Market marches towards balance

The market is straightening up. The once poor client will have greater say, not only as a flat buyer but also as the one who orders construction works or is interested in building land. With the exception of end users, however, all (including builders and construction material producers) will have to cut their fat layers from opulent years but such a diet is always useful. Nevertheless, it will be necessary to get rid of the dearly built flats from recent past. Banks might think about a cheap mortgage similar in its effect to the car-scrap bonus. An interest rate of one or two percent under the market level would undoubtedly be as attractive as price reduction. Property developer Lighthouse has already started trying something like that in form of a "two-year instalment holiday". It would probably be more useful than the car-scrap bonus.

