

Modřanský Háj: QPG offers insurance as a bonus

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In May this year, the domestic volume of mortgages dropped 36% year-on-year, to about CZK 6.8 billion. These figures only confirmed the trend established from the beginning of the year - this is even more evident this May, since the results in the fifth month of the year have usually outperformed previous months, but this time the volume of mortgages did not even reach the March and April levels.

Crisis harmful to mortgages

“We find ourselves in a crisis,” says Milan Roček, of Hyposervis, one of the biggest mortgage brokers in the Czech Republic (arranging credits for seven thousand clients totalling CZK 13.7 billion). His words truthfully echo the situation on the mortgage market. In the first quarter of 2009, Czech citizens were provided 10,440 mortgages in the total volume of CZK 17.7 billion, according to the Ministry for Regional Development; this marks a year-on-year decline by 31%. The slump in the number of people interested in mortgages in Prague, the traditional driver of the residential, i.e. mortgage, market, is especially noteworthy: the drop reached 34% there.

The current results are not a sign of exceptional performance this year overall. “We thought that the beginning of the year would be poorer than last year. Although the interest in mortgages increased in March and April, the year-on-year drop is still larger than we expected. By the end of the year, we can probably expect renewal of the record-high monthly results of the previous two years. If mortgages in the total volume of 90 billion crowns are provided, we will see that as a great result. The truth is that this estimate has been adjusted several times. It only confirms that right now market estimates are very tough,” Jan Sadil, head of Hypoteční banka, currently No. 1 on the domestic mortgage market, comments on the outlooks.

Unappealing rates, unattractive prices

Among other things, the situation of mortgage banks is aggravated by the development of interest rates. Opposite to the development of the central bank’s fundamental rates, which are currently only at 1.5%, interest rates are rather moving upward today. The banks, against the backdrop of a generally pessimistic environment, are increasing their risk margins. In Hyposervis’ sales centre in Černá Růže, Prague, the electronic display therefore shows a rate range starting at 5.59% in Česká spořitelna, up to 6.59% in mBank. Although these are annual rates, currently used by only 10% of all clients according to some data, they are not too appealing at the first sight.

People interested in buying their own homes, i.e. usually people applying for mortgage credits, therefore see the more hope in the development of prices of residences as such. Although the prices of real estates have been on the decline since Q3 2008, for the first time in the last twenty years, they do so in various ways. The downward movement is the most evident in the little popular prefabricated houses, and less in the much more sought-after new houses. There have been permanent discussions on the level or scope of this decline. The generally recognized conclusion is that it is virtually impossible to quantify the price fluctuations. “The decline in economic growth and the potential recession will have a huge impact on the further development of property prices. In the first half of 2009, we expect a continuous freezing of demand and the related price cuts,” says Petr Hlaváč, of Hypoteční banka.

Searching new ways

“What worries our potential clients most?” Miloš Roček asked himself a question at a press conference. And answered right away: “They fear they could lose their job!” This is true for the whole developed world today - the willingness to undertake long-term financial commitments, such as mortgages, is visibly lower. The SichrJob insurance policy (the bilingual twist in the name has to be appreciated) is a rather wise answer to this condition, especially in combination with the property developer’s “contribution”. The premium for the first three years, which amounts to CZK 85,000 to 120,000 for a mortgage of three million crowns, will be paid by Quinlan Private Golub (QPG) on behalf of the client - debtor - insured. It looks like three years are the maximum estimate of the current economic crisis. SichrJob will provide protection against the inability to pay instalments in case of loss of job and serious incapacity for work. Compared to other policies of this type, it is said to be less restrictive, e.g. insured events include not just termination of employment by the employer, but also agreement to terminate employment which, according to Roček, better reflects the current condition on the labour market; another new feature is that the insurance policy also extends to people without permanent employment, i.e. freelancers.

SichrJob is at least the second attempt to motivate hesitating buyers by offering advantageous conditions for mortgage credits, not bonuses such as cars and flat furnishings. Of course, obtaining the free insurance policy (according to Hyposervis’ data, the costs for the property developer are equivalent to a discount of 2 to 4% of the selling price) is contingent upon a specific purchase - within the Modřanský Háj project. For the Czech residential market, its implementation is definitely better news than a new type of benefit for the buyers, at a time of uncertainty and limited investments. It is generous project - a total of 600 housing units in houses and villas on a site of 12 hectares. QPG intends to start construction in summer this year; the first stage (122 flats) should be finished about a year later. “In the second half we can expect the first signs of revival. Construction of new flats will slowly pick up once again, especially as regards smaller projects in attractive locations,” - with the exception of size, Jan Hlaváč’s prediction is correct in connection with Modřanský Háj. “We already have 15 reservations and are getting ready for some more,” says Lenka Tučková, of QPG, with optimism.

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