

# Tomáš Duda, Professionals: Rapid decline of the prices of residences cannot be expected

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**The usually formal question “How is it going?” has more content in current business. So - how is it going?**

It's not so good, probably just like anywhere else. We are lucky to deal with residential as well as commercial properties. People sometimes ask us why we don't specialize more, but today this is definitely an advantage. However, we are all experiencing worse times; compared to last year and 2007, we're getting out of the headlights. So we cannot celebrate - but you can live with the crisis.

**Where do you see the biggest market decline?**

It's hard to say generally, the market has so many segments, but commercial properties help us a lot today. The sales of residential properties have really slowed down.

**Sales usually depend on price levels. Most property developers, or sellers, have been cutting their prices recently. Does it work?**

You know, many things are presented as discounts, but it is rather a semblance. Those various bonuses - cars, kitchens and so on - are almost negligible compared to the very price of the flat or house. Plus it is highly impractical - you may not need the car or the offered kitchen may not be suitable. And the offered benefits, bonuses and discounts often have a single goal: get the potential buyers to the building or shop. But regardless of all this, we have found out that the general level of price cuts is low - about 5% vs. the pre-crisis levels.

**Property developers need to sell, do they have to lower their prices even more?**

People interested in purchase would certainly welcome that. Today they mostly buy the discount; they want to feel that they concluded a good deal, but often do not look from where the price went down - there is the dominant feeling that they got something.

**Where do you think the prices can go down to?**

That's the crucial question. I think any large price cuts for residential projects cannot be expected. You said a while ago that property developers have to sell, but it's not true for everyone. Of course, buildings under construction have to be finished - and in case of these projects the property developers could use large discounts to sell the flats and amortize the credit. But it only applies to them. If finished projects have for example 10% of unsold flats, it is not a big problem for the property developer because of the margins, which are about 25%. And new projects are halted - property developers can wait. And often there is nothing else left to do. The banks' requirements on 40% pre-sales and 40% of own capital are senseless. If someone has a project at this stage, he doesn't have to use banking services at all. So everyone is waiting, construction is halted. The same applies to commercial properties, in this respect the situation is the same everywhere.

**Property developers are waiting, buyers are waiting, but this cannot go on indefinitely?!**

I would say the residential market will be revived by renewed demand rather than by price cuts. Look, for example the market in Prague is able to absorb 10,000 flats a year, which is obvious from previous years. And the crisis, which I would rather call “foul mood”, did not change much there. Unemployment stands at three percent, i.e. it is close to zero, wages were growing last year, while the prices of everything are going down - petrol, food and clothes. Everyone has more money, yet people are saving. This is a growing potential for demand. I think the best time to buy is right now. As soon as demand picks up again, the stock will be sold out soon and since construction activities are currently suppressed, demand will exceed supply and prices will go up.

**Property developers and real estate agencies are therefore ahead of some good times.**

Unfortunately that’s not true. When buyers finally start buying, there will be nothing to sell. The residential market is just like any other market - production is dampened or even stopped, stocks are sold out, warehouses are getting empty. So far flats are being sold, but it won’t take long - the scope of residential construction in Prague declined to about half of the previous years. If I had money and courage, I would start building right now. The land is cheap, the prices of construction work are very low, these are ideal times. And again: not only for residential construction. We will see insufficient supply in all segments of the real estate market in a couple of years.

**Nothing is being built because of problems with funding. When will it change?**

When lines are created to get flats and maybe even offices and warehouses. Then banks will start lending again, but it will be slow - instead of 40% pre-sales or pre-rentals they will only want 38%, then 35%. Recovery back to normal will take years.

**There is one more question, about the time of such changes - when will come the time that the Czech real estate market starts recovering?**

Nobody knows, all projections are worthless. Don’t forget that not so long ago all economists, with a few rare exceptions, permanently reassured us that the boom would be endless. I’ll tell you something else: each crisis ends one day. And every crisis is described as the worst when it is the deepest.

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