

Prague: 2 300 flats empty! Or 4 000?

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The Czech residential market is undergoing difficult times. The global economic recession has brought about an all-in-all crisis in the residential market. On one hand, a price fall is evident (long denied and concealed in marketing by various “specials“ and “bonuses“). It cannot be clearly defined, due to the logical market segmentation, however it ranges between 5 - 20 %. On the other hand, the residential property development is suffering a crisis of demand. The mentioned decline has not affected everybody, an example is the property development company Central Group which sold 933 properties for CZK 2,9 bill. in 2009. It had been 896 properties for CZK 3,1 bill. the previous year. The head of the company, Dušan Kunovský, also admitted that these better results were influenced by “marketing events“, ie. discounts. Another major property developer - FINEP - sold around 500 flats last year, a year-on-year growth by 23 %, however, the economic figures will probably be similar (the company does not disclose their figures). In contrast, another major company, Skanska, which dominates that market together with Central Group, FINEP and Ekospol, underwent a sales fall of 62 %. The crisis has hit everyone in some way or another. Last year´s development-residential number amounting to 1941 flats is significantly worse than the balance in 2008 (3409 sold flats). The results from the previous years were markedly weaker than those from the boom years of 2005 - 2007. “I estimate that during the boom, around 5 000 flat buildings were sold in Prague,“ said Jiří Pácal from Central Europe Holding.

Unsold flats represent a fifth of the production

Ekospol´s analysts who analyze price-lists of all property development projects in Prague with 50 and more flats, have calculated that the total of 2 301 completed unsold flats accounts for roughly 20 % of unsold completed development projects. There are 85 projects of this size in Prague. According to Evžen Korec, the General Manager of Ekospol, this situation could logically lead to a complete elimination of “paper“ flats sale which was common not long ago, however, this is not the case. He documents this by the success of their own two projects 60 % of which were sold before the completion of construction.

According to Korec, the secret of this success is low price: “Buyers lose interest after looking at the price-lists of completed flats. Many property developers simply cannot afford to decrease their prices because the loan financing and pricing of these projects were done at the times of the real estate boom. They only carry out window dressing of a few per cent, which definitely does not reflect the current market situation. The flats in new projects are hundreds thousands cheaper and it is worth waiting for potential buyers for new housing for 1 - 2 years. Some experts, however, point to differences in listed and final prices where apparently vast differences exist.

The Ekospol analysis also shows, that the highest number of vacant, completed flats is registered in the Prague 9 metropolitan district (a total of 574 flats, 25 % of the total in Prague), especially in the areas of Čakovice, Vysočany and Jarov. The second worst results are in Prague 5 (483 flats, 21 %) and the areas of Zličín and Stodůlky. Many unsold flats are also registered in Prague 4 (331 flats, 14 %) and Prague 10 (319 flats, 14 %).

However, most major property developers have announced growth in sales of new flats for this year´s first quarter. But the analysts assess this data very carefully and they point to the current and lasting fall in the mortgage market. According to the data by Fincentrum Hypoindex, banks granted 5 385 loans with the volume of CZK 8,88 bill. in the first two months. This is approx. 500 loans and CZK 1,3 bill. lower year-on-year. The fact is that property developers and salespeople report a significant fall in sales financed by loan. “Around 90 % of sales today are concluded in cash, whereas 70 % of contracts were

financed by mortgages in the past,” says Martin Jan from Codeco.

Central Europe: similar problems

According to the data from the consultancy King Sturge, the situation in residential markets in the surrounding countries is not too different from the domestic conditions. For example in Bratislava, the prices of new housing has decreased by 11 % (currently it is at EUR 1 715 per square metre), this is more than in “second-hand“ flats (- 10 %). The demand started to recover gradually in the second quarter.

A steep fall in sales (by 70 % year-on-year) was also seen in Warsaw in the first half of the year. A certain stabilization followed in the second half, after decreasing prices (by 10 % and more) and sales of smaller and middle-sized flat units improved, the sales of more expensive and larger flats were more complicated. The Polish market cannot be compared to the Czech market in terms of volume - a record number of flats - 72 300 units - were marketed in Poland last year.

Prices of flats and family houses have declined by 10 % in Hungary, too, where the residential market is facing an exceptionally high interest (10 - 11 %) and also in Germany where sales prices of residential property have fallen on average by 5 - 10 %. “An guide price of new flats in Berlin is EUR 2 000 per square metre,” adds Markéta Miková.

The only Central European capital city where prices of residential property grew last year, by 9,8 %, is Austrian Vienna. Despite the crisis, the residential property attracted buyers´ interest, whether for themselves or for the purpose of further rental. The average price of new housing in Vienna has increased from EUR 2 943 per metre in the first quarter of 2009 to EUR 3 231 per square metre at the end of last year.

Graphs: Ekospol

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