

# Prague residential: no signs of a new boom yet



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At the end of last year, Central Group signed a contract for construction of three new buildings with a total of 320 flats in Prague 5 - Zličín and they plan further 298 new family houses and 159 flats in Pitkovice near Prague; Ekospol wants to start construction of 700 new flats in Prague and its surroundings while last year this company started construction of “only“ 245 flat units. FINEP started construction of the second stage of Bytový park Prosek and also launched sales of its third stage. Less visible players of the residential market are also active, e.g. TBIW started construction of 60 flats in Prague 5; Sidi Prague started construction of the first of two stages of the multi-purpose complex Byty Malešice with 290 flat units. Moreover, new companies are entering the market. American-Turkish investment group Odien, owner of travel agencies Čedok and Firo-tour, wants to build 367 new flats in five blocks of flats in Prague’s suburb of Letňany by the end of 2014; the Finnish company YIT introduced their Czech pilot project. There is also construction in the vicinity of Prague - MS development wants to start construction of a new suburb with nearly 300 flats and a multi-purpose building in Lysá nad Labem, M & K Development has started the project Čakovický park which will offer nearly 300 flats in the first stage and 800 flats in total.

Of course - not all will be built right off, in many cases the developer announced staging which will “break up“ the projects into several years, even so the commercial residential construction is busy at first glance, much more than in the recent past. What is the experts’ explanation for this maybe a little surprising phenomenon?

## **Petra Cuřínová, Czech Statistical Office**

Statistics of building permits data has not confirmed the information on turn of situation in Prague residential market. The number of flats where a construction permit was issued from January to October 2010 is far below previous years. Indications of a slight recovery in recent months can be seen in the construction of houses, which is however traditionally low in Prague. The number of building permits for flats in blocks of flats has been sharply declining since 2008 and today it doesn’t even reach the level of 2002. Building authorities based in Prague have already issued building permits for some residential projects presented in the media, however, most of the planned projects do not occur in the building permits statistics and they are thus in preparation stage.

## **Evžen Korec, EKOSPOL**

Turning point in the Prague residential market occurred at the beginning of 2010. Since January this year, we have recorded increasing demand for new flats as evidenced by the results of our monitoring. Only in the first three quarters of last year, the same number of flats as in the entire previous year was sold in Prague. I expect the demand for new housing to continue to grow significantly in 2011. New demand

incentives will show. Firstly, there is the threat of unifying of both VAT rates from 2012 which would increase flat prices in a big jump of up to 10%, secondly, Prague residents will also be getting ready for the rental deregulation from 2013. Everybody will then think twice whether it is better to pay 10 or more thousand on rent or to pay off a mortgage of the same or lower amount. And finally - thanks to the subdued construction activity in last and this year - there will be a real lack of small and affordable flats. The developers were thus preparing for even more favourable year 2011 through their increased activity in the second half of last year.

### **Ondřej Novotný, King Sturge**

Although hundreds of new flat units have been announced in Prague for this year, there will be no significant turnaround in the residential market, in my opinion. The demand of buyers still plays the main role and the speed of sales process is key for developers and their schedule whether they finance the construction from own resources or through a bank loan. The crucial factor of success will be developer's pricing policy, just like last year. If the flat prices correspond with location, type of project and project standards, they will find their buyers. In case one of these aspects doesn't match the current circumstances and requirements of potential buyers the sales period will be longer. It will also be interesting to watch the competitive fight between completed projects, projects in pre-sale phase and so-called second-hand flats.

### **Jaroslav Novotný, RK RAK**

I personally see this that it is a similar situation as if the sales of rolls fell and as a result bakers stopped to bake altogether. They cannot, it's their living. If a developer's main or only activity is flat construction, then they have to continue "baking" - and assume that the goods will sell. In addition, we need to bear in mind that the project preparation does not happen from day to day, the project may take even several years to prepare. The current media echo may then be the result of completing unfinished projects. I personally think that there isn't more activity in the market than in previous years. I have no precise statistics for this claim, however, I am convinced that the decline occurred mainly in the frequency of transactions due to weakening demand and other factors. However, work on the projects in progress has visibly not diminished. Yet there may be and there is project phasing. It is an economic necessity and express of confidence in the future.

### **Jiří Pácal, Central Europe Holding**

I think that the announcement of intention to build new flat projects is not an avalanche or a turning point. It is logical that a property developer has only two options - launching new projects or shutting down. Announcing optimistic news is surely also a part of good marketing, while nobody would print a release on a couple of tens flats in a project. New residential construction in CR is very weak in reality. Prague has approximately 570,000 flat units, building another several hundreds or thousands is nothing. If construction since 19th century had been like in the last twenty years, Prague would be half its size today. A change in the market situation will come after conditions on the side of demand change, not when new projects are started. I think that a major project with hundreds of flats will have difficulty succeeding. There is a minimum of locations with high demand. Larger projects are also discouraged by a longer implementation period, difficult management of large houses etc. The market may be helped especially by revival of economy, and thus increasing and stabilization of household incomes, elimination of distortions and adoption of better legislation. From the point of view of the number of flats, neither Prague nor other regions have a problem, there is enough of them. Despite this, construction of new blocks of flats is necessary. Though not through increasing the density of built-up areas with projects on every free plot but by substituting low-quality housing with new and better quality housing. This is where I see the future of property development activities.

### **Marcel Soural, Trigema**

The announced new residential projects and number of prepared new flats may be related to speculations of developers in one-off increased interest in flats in relation to the expected increase in VAT rate in 2012. Otherwise, it wouldn't be realistic to start further massive construction of flat projects in 2011, at the present state of supply - there are 7,000 flats prepared, under construction or completed, but unsold. The second reason for making these big plans public is the fact that most developers do not want to admit to themselves the changes that are happening in the residential market. In the worse case, they are not even aware of them. If it were so the following year, ie. year 2012 will be very interesting.

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