

Livelier demand, fewer loans, lower prices and reduction of property development according to King Sturge



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The residential market as well as other segments of the real estate business depend largely on the development of the entire economy. And last year's wasn't the worst, it even improved significantly - with average 2.3 % GDP growth - compared to the recent past. It is mainly caused by recovery of industrial production. In contrast, King Sturge analysis also quotes pessimistic reports - they are coming mainly from the labour market, which has seen a regular increase of unemployment rate, they also include a permanent deterioration of consumer confidence reflected in low retail turnover. In addition, while Czech "private-entrepreneurial" economy is slowly recovering, the crisis has spilled over to the state sector and is reflected in austerity measures and dismissal of employees. The Czech residential market, according to King Sturge, is influenced by two macro-economic factors in particular: unemployment and consumer confidence, negatively last year. In addition, Czech National Bank (CNB) basic interest rates (at historically lowest levels - 0.75 % since May 2010) and development of GDP had positive impacts on the residential market last year, on the contrary.

Conservative recovery of demand

The volume of housing loans declined, according to the CNB data, for the third consecutive year. In 2010 a total volume of CZK 139.452 million were granted, which was 10 % lower than in 2009. Of this amount CZK 84.266 million accounted for mortgages - 13 % up on 2009 - on the contrary. There are three factors behind the growth of mortgages: decline in CNB's interest rates to a record low of 0.75 %, subsequent decline in mortgage rates (average interest rate in 2009 was 5.56 %, while last year it was 4.55 %) and a wave of banks' marketing activities. It is also worth mentioning reduction in state support for building savings within government austerity measures. In 2011 the volume of mortgage loans will not increase significantly. It is expected that the interest rate of mortgage loans may start to increase in the second half of this year.

The housing supply, which is mainly represented by Prague in the Czech residential market, doesn't correspond evidently. The number of vacant residential units in apartment houses and villahouses, which are actively marketed on the Prague market, has reached 8,750, according to King Sturge statistics. One third accounts for dwellings in completed projects, the second is currently under construction and the last

third is in the pre-sale phase.

At the time of crisis, Czech (Prague) residential market has changed into so-called buyer's market. The sales process has prolonged generally in the crisis - buyers are considering several alternatives, they repeatedly visit more properties, they have a wide range of various information which they compare and analyze, and thus are able to negotiate interesting lower prices. Last year many buyers were hesitating whether to buy, either due to fears of losing jobs and the resulting understandable reluctance to commit to long-term obligations, or they speculated on further decline in prices. However, a slight recovery in demand has occurred, in the second half of the year. When buyers decide, the first fiddle is played by location and price, quality is compromised. In the context of the crisis, the pressure on final lowest final cost is increasing, which is reflected in the quality of new residential projects, e.g. in basic equipment standards or smaller floor area. In 2010, approximately 3,300 flats units were sold in Prague, according to estimates by King Sturge.

Property development at a relaxed pace

According to Czech Statistical Office (CSO) data, roughly 36,500 flat units were completed in the Czech Republic last year; which is 5.2 % fewer than in 2009. In 2010 construction of 28,100 new residential units was also started, which is 25 % fewer than in 2009. According to the same source, 6,150 residential units were completed in Prague last year, 17 % fewer yoy and construction of roughly 2,900 units was started, a yoy decline of 50 %.

According to King Sturge statistics, about 3,400 flats in 58 apartment house and villahouse projects and a total of 211 family houses in 12 projects of this type. Most flats were built in Prague 5 (31 % of all new flats in Prague), Prague 10 (21 %) and Prague 9 (18 %). Newly launched construction is estimated at 4,150 flats in about 70 apartment houses and villahouses projects and 200 flat houses in 9 family houses projects. The highest number of apartment houses and villahouses is currently under construction in Prague 9 (24 % of total), Prague 4 (22 %) and Prague 5 (21 %).

Of property developers most active in the field of apartment houses construction in Prague were Central Group (17 % of the total number of housing units started), Skanska (9.5 %), Ekospol and FINEP (both 6 %). In all cases, they are strong development companies with their own financial background.

Of the 3,000 vacant completed flat units in Prague 1,150 units were completed in 2010, 1,400 the year before and 420 flats were approved for occupancy in 2008 and earlier. The sales process is longer due to the crisis, however, it is necessary to come with an innovation in case most flats are still vacant after completion. It is standard to expect that roughly 60 % units are sold before completion of building shell.

Banks will be more forceful

With regard to project financing, or development construction, banks remain cautious. Negotiations on loans are longer and acquisition of loans is still neither implied nor easy. As in the past, relatively strict conditions still apply especially in the form of 30 % pre-sales and 30 % own resources.

In autumn 2010, management of some banks started to speak of a more active approach to dealing with outstanding loans of some property developers (from the adjustment of payment schedules to forced sales of projects). One of the first examples in residential development was the December auction of a flat project by the company Kvalt in Milheimova street, Pardubice.

Banks are friendlier towards their minor clients. In 2010 an avalanche of marketing activities came leading to a yoy increase of granted mortgage loans by 13 %. Banks completed in decreasing loan interest rates, which - as has been said - declined during the past year to an average 4.55 %, ie. by more than one per cent lower year-on-year.

At the end of 2010, the volume of “problematic“, ie. outstanding residential loans amounted to mere 23.38 million CZK, which represents 3.21 % in terms of last year´s housing loans. In 2009 this proportion was lower, only 2.54 % and the year before it was even just 1.54 %. According to the King Sturge analysis, a further increase in the number of insolvent mortgage clients is expected, and somewhat more forceful approach of banks to dealing with such situations, for example by execution or involuntary sale.

Prices and rents falling

According to King Sturge, residential property prices in CR decreased on average by 3.25 %. The highest decline was recorded in Kladno (-12 %), Beroun and Pilsen Plzeň, České Budějovice and Karlovy Vary (-9 %) and Kutná Hora (-8 %). The highest growth of residential prices was recorded in Ostrava (9.5 %), Rakovník (9,5 %), Olomouc (6 %), Opava (4 %) and Brno-střed (4 %).

In Prague, residential property prices declined by 4.1 % on average, the most in Bohnice (-16 %), Čimice (-14 %), at Žižkov and Pankrác (-14 %), Chodov (-12 %). Prices increased in a few Prague locations, they were Záběhlce(11 %), Veleslavín (9 %) and Zbraslav (7 %). King Sturge analysts expect flat prices to remain steady this year. According to CSO, net rents increased by 8.4 %, of which regulated rent rose by 16.8 % and market rents dropped by 1.8 %. Deregulation, whether real or anticipated, reduces the level of market rent. In Prague, it was the historical city centre in particular (market rent levels fell by 15 - 20 %) and wider centre, e.g. Smíchov (decline of roughly 17 %), Bubeneč (-10 %) and Vinohrady (-8 %).

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