Market Report

H2 2018

svoboda&williams | CHRISTIE'S INTERNATIONAL REAL ESTATE

Prokop Svoboda
Managing Partner of
Svoboda & Williams

While we were in the process of preparing this year's Market Report we found ourselves in a slightly paradoxical situation. Our data from the second half of 2018 indicated that the demand for properties for sale was cooling and that the achieved price per m^2 had decreased a little (for new apartments -1%, for resale apartments -3%). After the Christmas holidays, our telephones began ringing and the apps on our mobile phones started pinging at a much higher volume than in the fall. Not all of these calls were about properties for sale, however, and it remains to be seen whether they will result in realized real estate transactions. Despite these questions, the increased interest in our services has made us cautiously optimistic. Our mood was also helped by the fact that, according to our statistics, the decline hasn't affected the tip of the real estate iceberg: truly exceptional properties have maintained their clientele and have made new sales price records for several years in a row.

Whether our moderate optimism will turn out to be justified depends on a variety of factors. As we all know, the real estate market situation depends on the economy. The Czech economy has been healthy and robust for a long time, but it's inextricably linked to exports. The economic growth of the Eurozone, where the vast majority of Czech goods are exported, is slowing and the EU – leaving aside the uncertainty of Brexit – is facing fears of mounting Italian debt. A debt crisis on the Apennine Peninsula could cause a chain reaction across Europe. How stock markets will react to the cooling of the Chinese economy, Donald Trump's confrontational trade policies, and increasingly tense international relations, still remains to be seen. The slowing down of the global automobile industry, which would adversely affect the Czech economy, is another matter.

The development of the real estate market is directly affected by the state of the construction industry, which has had to contend with rising costs of building materials and labor throughout Europe. Developers are finding it harder and harder to subsume these higher costs into sales prices, which frequently reach the limits of the population's purchase power. A specific local factor is the new Building Act, which we all believe will "uncork" new construction projects in Prague. Whether this hope will be fulfilled depends on how the law is worded, which is currently being discussed. The position of Prague's new municipal council on this issue will influence Prague's construction market. The municipal council seems positively inclined toward residential developments and is promising to revitalize brownfields, but which plans will be realized cannot as yet be predicted.

Many questions remain, but since you no doubt expect a clear prognosis in conclusion, my answer is: "Try as we might, we just don't know…" I believe, however, that the previously mentioned sliver of optimism is warranted. Should the real estate market stagnate or slow down, healthy market mechanisms will surely cause it to rise again. Whatever will come should be seen as a natural function of the economic cycle. The development of FinTech has reaffirmed my faith in the strength of market mechanisms. It offers an alternative to the classic financial products offered by banks, which are weighed down by a growing number of restrictions. One can expect that many developers will use FinTech in the future to finance their projects, including residential rental projects that banks are hesitant to finance.

The Real Estate Market Through The Eyes of Svoboda & Williams

Key Trends in Prague's Premium Residential Property Market

Sales

- demand decreased in the second half of 2018
- sales transactions took longer to conclude, the rate of price reductions continued to increase
- the floor areas of the apartments sold decreased
- housing costs in Prague reached the limit of people’s purchasing power, but construction costs continued to rise – developers are going through a difficult time
- in the sample of premium apartments we examined, we noticed a decline in the average achieved price per m^2 in 2018 – a decline of 1% for new apartments, 3% for older apartments

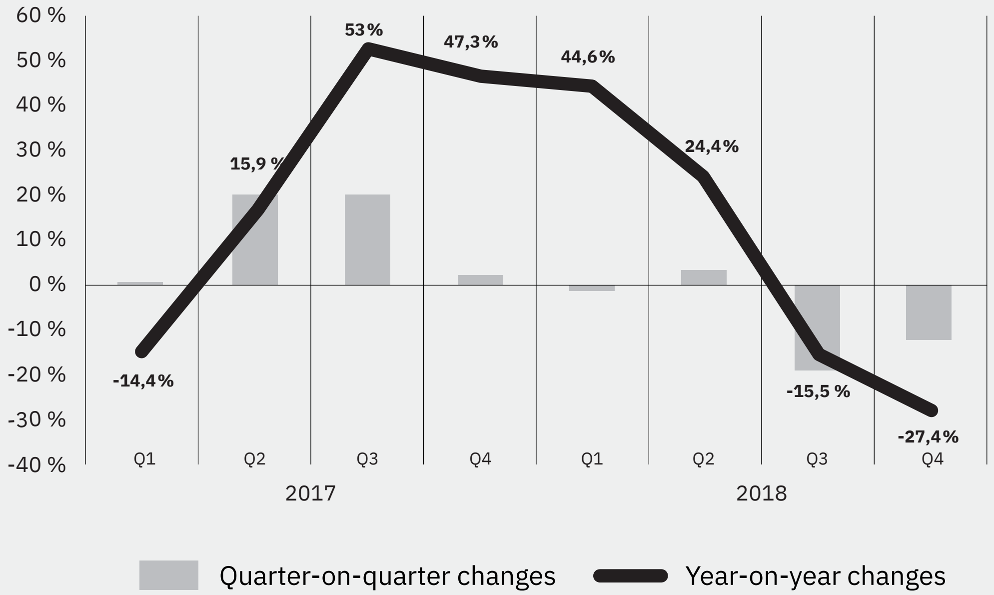
Rent

- in the second half of 2018 the high demand for rental apartments continued, developers continue to intensify their activities in this segment
- the number of high quality rental apartments is increasing and catching up to the high demand for them
- the increase in rents slowed in the second half of 2018; rents decreased slightly (-1.4%) compared to the first half of the year; year-on-year growth was only 2.1%
- the rental market is ceasing to be a landlord’s market

Decline in the Demand for Apartments to Buy

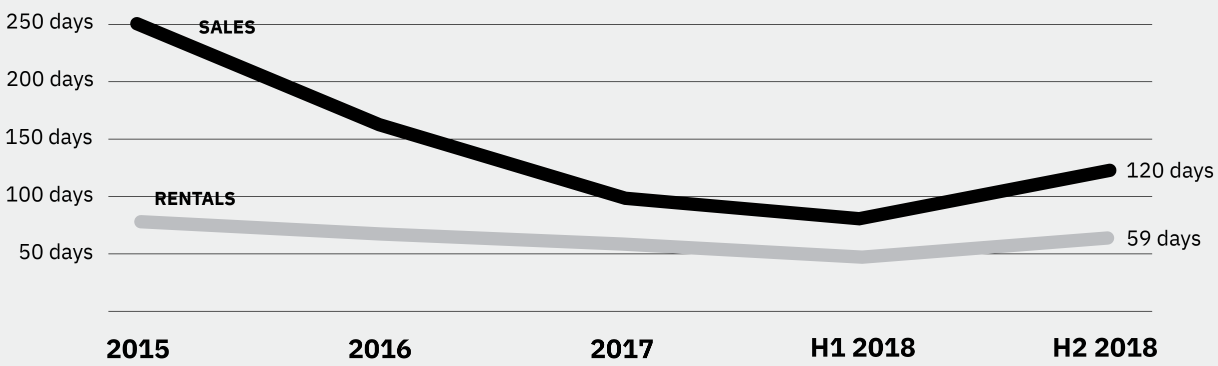
The second half of 2018 confirmed the cooling of the real estate market, which we had already started to feel at the end of the second quarter. We noted a considerable decrease in the demand for residential properties for sale from the portfolio of Svoboda & Williams in the third and fourth quarter, both in the quarter-on-quarter and year-on-year comparison. Whereas in the third quarter demand was down by 19% compared to the previous quarter (16% year-on-year decrease), in the last quarter of 2018 the number of potential buyers decreased by a further 12% and the year-on-year drop was almost double (around 28%).
The reasons for this trend are high housing costs that potential buyers are not able or willing to accept, combined with the ever stricter mortgage restrictions by the Czech National Bank (ČNB) and the growing mortgage interest rates. At the end of 2018, most were over 3% for five-year mortgages.

Demand for properties from the portfolio of Svoboda & Williams 2017-2018



Longer Transactions, More Price Reductions
The declining demand in the last half of the year was reflected only slightly in the number of sales realized by Svoboda & Williams. On average, sales transactions last several months and so the fluctuating interest in purchasing apartments had a delayed impact on the number of transactions. For brokers, selling a property was more work and required more effort than in the previous "shopping euphoria" years, when demand far outweighed the supply.
Another manifestation of the decline in demand is the longer **average length of a realized transaction** and the growing frequency and the rate of **reductions in price that were offered.** While in the last two years, potential buyers had little chance of negotiating the price and any reduction was only symbolic (up by 3%), currently, for many properties, lowering the price is a precondition of a successful transaction. Svoboda & Williams' data reveal that in the past half-year the difference between the offered sales price and the actual achieved sale price was around 7%.

Average Length of a Real Estate Transaction



The average length of a real estate transaction (i.e. from listing the offer on the website of Svoboda & Williams, sending e-mails to clients about off-market offers, to signing a sales contract or a future sales contract) was once again longer than in the first half of the year, going from 84 up to 120 days. The reason for this longer length is the decline in demand in the second half of 2018 as well as the fact that many owners had been "testing" the market with higher offered prices, which they then reduced over time, lengthening the overall real estate transaction. This trend of testing the market was also reflected in increased price reductions.

Compared to the first half of 2018, the average time it took to find a tenant lengthened by 20% (i.e. from posting the offer on the website of Svoboda & Williams to the signing of the rental contract), from 49 to 59 days. This is due to the increase in high quality apartments available for rent.

Slight Decline in Prices, but Record-Breaking Transactions
In the sample of premium apartments that Svoboda & Williams monitored, a slight year-on-year decrease in the average achieved price per m^2 occurred in 2018. For new apartments, it decreased by 1% to CZK 113,300/m^2, and resale apartments were sold for 3% less for an average of CZK 107,400/m^2 (for more details, see the Price Analysis section).
To a certain extent, the proverbial tip of the real estate iceberg has eluded this trend: the prices of truly exceptional properties still know no limits and have broken records for many years in a row. The latest record was set in Prague 1, where we brokered the sale of an apartment for CZK 327,000/m^2.

The Offer of Resale Apartments Is Stable, There Is a Lack of New Apartments

Currently, there are enough apartments for sale on the resale market. Each month, S&W's portfolio grows by 40 resale apartments from private owners. We have detected a lack of offers on the primary real estate market. We are witnessing a general decline in the number of apartments that are part of new residential projects, which is due to the slow tempo of construction, in the premium segment as well.

Developers Have Their Sights on Rental Apartments

Due to high apartment sales prices, which many potential buyers can no longer afford or refuse to accept, as well as stricter mortgage terms, real estate developers are facing declining interest in purchasing apartments in the middle and high price ranges (over CZK 90,000/m^2). In reaction to this situation in the market, some developers are considering changing their residential projects that were originally built-to-sell to built-to-rent projects or to combined projects. Developers who focus on the lower price segment did not perceive a decline in the demand for apartments in their projects. Currently, apartments with

Developers in Trouble

Bureaucratic Obstacles

"Few new apartments are currently being built in Prague." This sentence summarizes the topic that dominated the news and the conversation among experts. Developers have to overcome so many bureaucratic obstacles that the time necessary to prepare a project and then construct it is paradoxically shorter than the time it takes to receive a zoning and construction permit. This is primarily due to the fact that the relevant municipal offices don't respect the deadlines established by law, and submit their decisions late. Politicians and civil servants at all levels of the government are aware that slow housing construction is a problem, but it's unlikely that significant changes will take place before the amendment of the Building Act is passed.

The amendment is also being discussed in conjunction with the so-called **assumption approval clause**, which means that if the relevant municipal authority doesn't issue its decision by the deadline established by law, then the project is automatically considered as approved. The **establishment of a central building authority**, which would oversee large and exceptional buildings and construction within the territory of the capital city of Prague, is also being considered. This would speed up and professionalize the decision-making process. Whether these measures will receive enough political support still remains to be seen.

The Situation in the Construction Industry

The current situation in the construction industry is not an easy one for developers. **Building and material costs have gone up significantly in the last several years,** and some materials are now in short supply. According to the latest analysis of the Czech construction industry by *CEEC* Research, year-on-year labor and material costs increased by 14% last year. The cost of completing residential projects is also on the rise – an increase of 6.5% is expected in 2019. Developers can no longer factor the increased initial costs into the sales prices, which are reaching the limits of the local population's purchase power. They are also having a hard time finding contractors for many jobs. Construction companies cannot keep up with the demand for their work, and they are dealing with a lack of qualified workers. According to the above-mentioned study, these companies are at 98% capacity. This has led many developers to put some of their projects on hold, which will likely result in an even lower number of new apartments for sale.

Examples of Planned Rental Housing Projects:

- The Nová Invalidovna apartment building combines unconventional architecture with statues by David Černý and offers around 140 units. A park and space for shops and other services will be located on the ground floor of the almost totally enclosed block. **Trigema**'s project received a zoning permit, and construction is scheduled to start this year. Planned completion of the project: 2021.
- The View Spořilov project by **K&K Invest Group**, whose original intention was to sell the apartments. The project is expected to receive final approval in the third quarter of 2020 and will offer 68 units.
- **PASSERINVEST GROUP** is projected to build two residential projects on Vyskočilova Street in Prague 4. One will offer short-term rentals *(Aparthotel V3)* and the other 94 units for long-term rent *(V3 Rezidence)*. The building's ground floor will feature commercial space for several businesses. Planned completion of the project: 2021.
- The **Siko koupelny** company bought the *Dům odborových svazů* building last year and will turn it into a rental apartment building. Co-owner Vítězslav Vala has extensive experience with the rental market; he previously worked on the successful Luka Living project.
- **Zeitgeist Asset Management** purchased several buildings in the center and wider center of Prague for a German pension fund. It plans to reconstruct and turn them into rental apartments. The units will be available for short-term as well as long-term rent, including student housing.
- The project originally nicknamed "Marshmallow" on U Milosrdných Street, which was bought by **V Invest** last year, will offer 30 apartments for rent once it's finished. It is currently in the preparation phase.

prices under CZK 90,000/m^2 have waiting lists. Nevertheless, in the wider center of Prague these types of projects are rare; they can mostly be found on the edge of Prague and in the city's suburbs.

The Gradual Saturation of the Rental Market

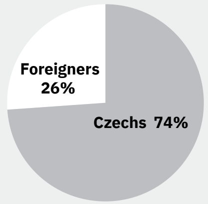
Due to the situation in the real estate market described above, for the second year in a row we are seeing a record-breaking demand for rentals. Until recently, the offer of rental apartments in Prague has lagged behind the demand for them, and so rents went up together with sales prices. The market, however, reacted to this situation and **the number of high quality apartments for rent significantly increased last year.** The number of apartments purchased by private investors who bought them during the "shopping euphoria" of the last two years is rising; apartments that their owners rented out through short-term rental platforms such as Airbnb are being returned to us. There are also more wholly rental housing projects being built – new buildings and renovated apartment houses. These were previously the domain of smaller developers, but we are recording an increased interest in the construction of rental apartment buildings from larger developers. Most rental projects are so far in the preparation phase. Financing their construction is more complicated and the investment return is slower. Nevertheless, some projects will likely start being built in 2019. In the future, we can expect that the offer of apartments for rent will only increase.

Relieving the Pressure on the Growth of Rents

The high demand for rental apartments together with last year's robust offer of apartments for rent was reflected in the 20% turnover increase of the Residential Rentals Division of Svoboda & Williams. The gradual saturation of the market was accompanied by the loosening of pressure on the growth of rents. According to **The Rental Price Index by S&W+VŠE**, in the second half of 2018 the year-on-year increase was only 2.1%. The index also measured a **slight decrease in achieved rents (-1.4%)** compared to the first half of the year.

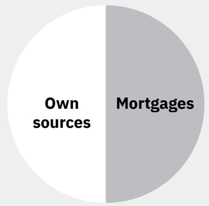
Clients of Svoboda & Williams:

Sales:
Among the clients for whom Svoboda & Williams mediated the sale of a residential property in 2018, 74% were Czechs and 26% were foreigners (15% were EU citizens and 11% were citizens of non-EU countries). Half of Svoboda & Williams' clients paid for the residential property they purchased in full with their own money, while the other half paid in part in cash and in part with a mortgage.



Sales: Ratio of Czech to foreign clients

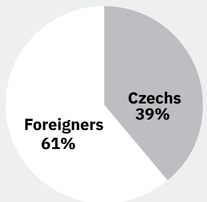
Rentals:
Foreign clients still make up the leading group of clients who rent properties through Svoboda & Williams, but this is slowly changing. In 2018, 61% of the people who rented a property through Svoboda & Williams were foreigners and 39% were Czechs. Compared to 2017, the number of our Czech clients went up slightly (roughly by 5%), mostly in the middle price range (CZK 25-55,000/month). While only 28% of those who rented apartments in this price range in 2017 were Czech, in 2018 this figure rose to 40%. This change was caused by the increase in rents in the last two years, which led a large portion of the apartments that Czechs were usually interested in to move from the lower to the middle price range. Most of these were 2-bedroom apartments and larger, generally occupied by families with children, which are incredibly difficult to find in the wider center of Prague within the CZK 25,000/month price range today.



Ratio of mortgage loan and client's own resources

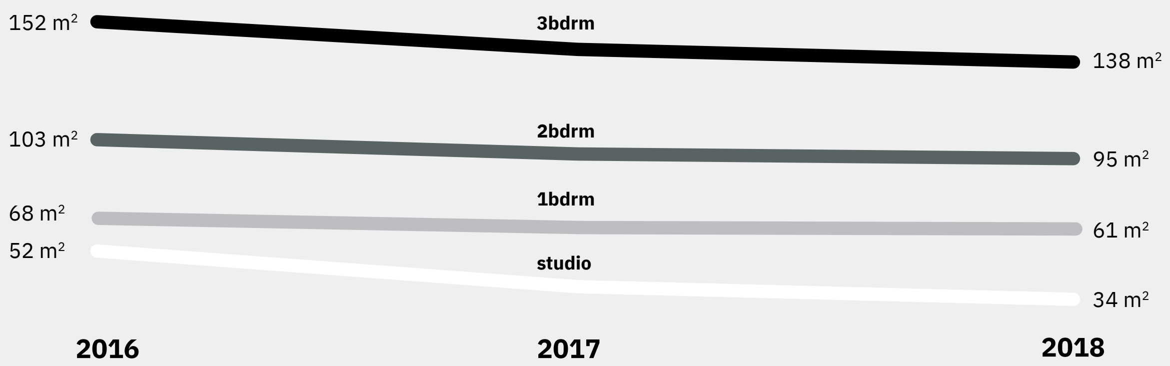
Comparison of rental transactions realized by S&W with the demand in various price segments

	Expressed interest		Realized rental transaction	
Price segment	**Czechs**	**Foreign**	**Czechs**	**Foreign**
< CZK 25,000	52%	48%	43%	57%
CZK 25,000 - 55,000	51%	49%	40%	60%
> CZK 55,000	42%	58%	22%	78%
Total	49%	51%	39%	61%



Rentals: The ratio of Czech to foreign clients

The average floor area of the most common apartment layouts



Data collected by Svoboda & Williams reveals that since 2016, when real estate prices began to skyrocket, the average size of the apartments sold went down. This decrease in size mostly affected studio apartments since there were significantly smaller apartments, some of which are only 30 m^2 in total, on the market.

The Rise of the Tenant's Market

If the previous rental market period had the obvious features of a landlord's market, which allowed landlords to choose from a multitude of potential tenants, now the situation is slowly reversing and potential tenants are gaining the upper hand. "Landlords with high demands on potential tenants are starting to have problems filling their properties because our society is not just made up of *singles* with upper management jobs with no children or pets," said David Šimeček, head of residential rentals at Svoboda & Williams.

Price Analysis: The Prague Residential Market

Methodology of Data Processing

The following analysis is based on data obtained from the database of properties which Svoboda & Williams had in its portfolio in the course of the monitored period. The data concerning sales transactions is further supplemented by data about the sale of properties which correspond in terms of their parameters to the portfolio of Svoboda & Williams: in this case the prices are acquired from the Land Registry. The monitored sample contains nearly **600 sold** and **1,150 rented real estate units** for a period of 12 months. Therefore, it is fair to say that the data of Svoboda & Williams covers a significant part of the premium segment of the Prague residential market.
The monitored real estate includes flats in Prague 1-10. Svoboda & Williams has a minimum representation of flats in other municipal districts. In each municipal part, premium areas where higher prices are achieved are represented, e.g. Prague 6 is mainly represented by Bubeneč, Dejvice, Střešovice and Břevnov, Prague 4 is represented by Pankrác, Vyšehrad and Podolí, Prague 8 is represented by Karlín and partly Libeň, Prague 5 mainly by Smíchov, etc. The monitored prices of real estate and the level of rents are **actually achieved values of transactions**; we do not monitor advertised prices. For the calculation of the price per m² we take into account the price for parking spaces which we deduce from the achieved selling price. The floor space of a flat (according to the Civil Code) includes a part of the exterior (terrace, balconies, loggias and gardens). We apply a specially developed algorithm to the conversion of the space of the exterior which reduces this area progressively and it also takes into account the ratio of the exterior space to the interior space.
Average prices are calculated from the transactions carried out over the last 12 months (01/2018-12/2018), percentage changes are year-on-year (2018 vs. 2017).
For sales we also differentiate between the achieved price per m2 for new flats in residential projects and for resale homes. In order to be able to compare all project prices, it was necessary to unify the stage of construction progress for several units using an average assumption of CZK 30,000/m² for the stage before reconstruction - *shell & core* and CZK 10,000/m² for the stage before completion of surfaces - *white walls.* **We do not follow the price per m² for rentals.** While the price per m² is relevant for sales, for rentals the price is determined mainly by layout (in addition to the location). For example, a flat with two bedrooms and kitchenette (2+kk) with the area of 50 m² is normally leased for nearly the same price as a flat with the area of 60 m², whereas the purchase price of the larger flat can be up to 15 to 20% higher. Therefore, in our analysis of residential rentals, we work with the total rent, and not with the price per m². For a better picture we also state the achieved price for the most frequent layouts within sales and rentals arranged by Svoboda & Williams which are 2+kk apartments (one bedroom + kitchenette) and 3+kk apartments (two bedrooms and kitchenette).
For the price development of rentals, we compile on an annual basis **The Rental Price Index by Svoboda & Williams + VŠE**. It is an analytical tool developed by Svoboda & Williams in cooperation with the Faculty of Informatics and Statistics of the University of Economics in Prague and it works similarly as the Consumer Price Index compiled by the Czech Statistical Office. See more information about *The Rental Price Index by Svoboda & Williams + VŠE* HERE.

Data analysis

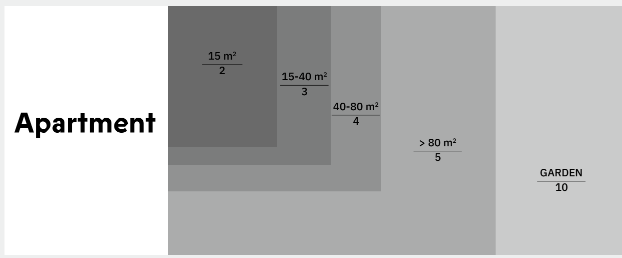
Methodology of Svoboda & Williams

LISTED PRICE

ACHIEVED PRICE

$$\text{PRICE PER SQ. M.} = \frac{\text{ACHIEVED SALES PRICE - PRICE OF PARKING}}{\text{APARTMENT AREA + PROPORTIONAL PART OF THE EXTERIOR (B/T/G)}}$$

Algorithm for conversion of the exterior



THE AREA OF A TERRACE WHICH EXCEEDS 30% OF THE INTERIOR IS DIVIDED BY TWO.

Prague

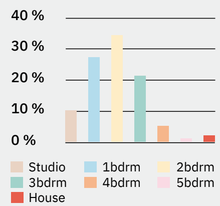
In 2018, the average achieved price for an apartment in the sample monitored by Svoboda & Williams was CZK 111,200/m², and the average sales transaction was CZK 12,191,800. While the average price of a resale apartment reached CZK 107,400/m², a new apartment in a residential project cost an average of CZK 113,300/m². The average achieved price of apartments in the most popular size range was CZK 7,032,700 for one-bedroom apartments and CZK 10,425,900 for two-bedroom apartments. In all of these average prices, with the exception of the average sales transactions, we noted a slight decrease from the year 2017. It should be noted that the premium segment of the residential real estate market that we monitored is rather small in range and so the average prices are more sensitive to changes in the structure of the sample. Therefore for each city district we discuss the projects and types of apartments that had the biggest impact on these average prices.

The average achieved rental price for an apartment in Svoboda & Williams' sample reached CZK 31,960/month in 2018. In the sample of rental transactions, most of the apartments were also one-bedroom and two-bedroom – 67% of all transactions monitored by Svoboda & Williams. One-bedroom apartments were rented for an average of CZK 23,600, and clients paid an average of CZK 33,500/month for two-bedroom apartments.

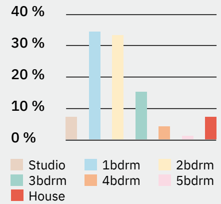
According to **The Rental Price Index by Svoboda & Williams + VŠE**, year-on-year rents rose by 2.1% in the second half of 2018. Compared to the first half of the year, the Index even measured a slight decrease in achieved rents (-1.4%). The Rental Price Index by S&W + VŠE is an analytical tool that Svoboda & Williams developed in cooperation with the Faculty of Informatics and Statistics of the University of Economics in Prague. This tool can capture the change in price levels of a heterogeneous product more precisely than simply monitoring the development of average rents or median rents. You can find more details about The Rental Price Index by S&W + VŠE HERE.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 12,191,800 **+ 5%**	CZK 113,600 **- 1%**	CZK 107,400 **- 3%**	CZK 7,032,700 **- 4%**	CZK 10,425,900 **- 6%**
RENTAL	CZK 31,960 **+ 2%**	N/A	N/A	CZK 23,600 **+ 2%**	CZK 33,500 **+ 3%**

SALES



RENTAL



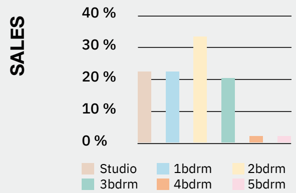
Prague

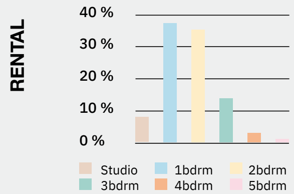
01

The year-on-year average achieved sales price of apartments in Prague 1 in 2018 saw an increase of 8% and settled on CZK 15,430 000. The average price per m² for new apartments was 56% higher than in 2017, because the monitored sample included sales transactions in the high-end projects *U Bílého jablka* (Úvoz Street), *Celínka* (Elišky Krásnohorské Street), and *Ferdinand Palace* (Příčná Street). The latter included investment apartments with smaller layouts, thanks to which studio apartments from S&W's sample of monitored properties in Prague 1 rose from 11 to 22%. The average achieved price of resale apartments went down slightly and was CZK 150,700/m² by the end of the year. The significantly higher average prices for one-bedroom apartments in Prague 1 (CZK 14 million) were helped by the sale of several larger apartments on Pařížská Street and its immediate area.

The average rent of an apartment in Prague 1 last year was CZK 40,800/month. The average achieved rent of the most frequently sold layouts was CZK 29,400 for one-bedroom apartments and CZK 42,700 for two-bedroom apartments. These prices were only slightly corrected. An example of a residential rental housing project in Prague 1, in which Svoboda & Williams brokered rental transactions in 2018, is *Palác Rosetta*, which offers apartments in a reconstructed residential house on Jungmannova Street.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 15,430,000 **+ 8%**	CZK 221,800 **+ 56%**	CZK 150,700 **- 9%**	CZK 13,973,900 **+ 42%**	CZK 15,882,800 **- 7%**
RENTAL	CZK 40,800 **- 4%**	N/A	N/A	CZK 29,400 **+ 5%**	CZK 42,700 **- 7%**





Prague

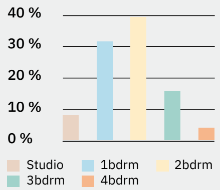
02

Last year, the average sales price of apartments in Prague 2 was CZK 10,690,000. The prices of new apartments reached an average of CZK 132,400/m²; older apartments were sold for an average of CZK 116,800/m². From the sample monitored by Svoboda & Williams, a one-bedroom could be purchased for an average of CZK 7,780,400, and a two-bedroom for CZK 10,589,300. One of the residential projects we monitored is the newly built *Rezidence U Muzea* or the reconstructed *Na Švihance 11* and *Rezidence Silencio* apartment buildings on Polská Street, in which apartments were sold in their original state or prior to the completion of the final surfaces.

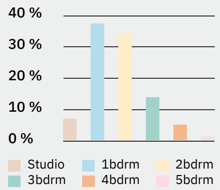
Last year, rents in Prague 2 increased slightly in all categories. Prague 2 has been a popular residential district for a long time and has the second highest rents behind Prague 1. The average achieved rent was CZK 36,500/month – a one-bedroom apartment had an average rent of CZK 25,200/month and a two-bedroom CZK 37,800/month.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 10,690,000 **+ 4%**	CZK 132,400 **+ 4%**	CZK 116,800 **+ 9%**	CZK 7,780,400 **+ 11%**	CZK 10,589,300 **+ 6%**
RENTAL	CZK 36,500 **+ 11%**	N/A	N/A	CZK 25,200 **+ 4%**	CZK 37,800 **+ 13%**

SALES



RENTAL



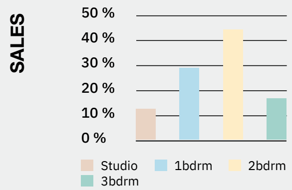
Prague

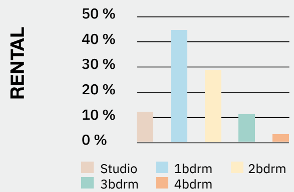
03

The average achieved price of an apartment in Prague 3 in the sample that Svoboda & Williams examined was CZK 8,280,000 at the end of 2018, and the year-on-year growth was 11%. The average price in Prague 3 (together with Prague 8) is the lowest compared to other parts in Prague, as seen in the Data Summary found at the end of this section of our Market Report. One of the reasons is the average size of the apartments we monitored in Prague 3 and 8 in 2018, which was only 80 m^2. In other parts of Prague, it is around 90-120 m^2. Another reason for the relatively low achieved prices for one-bedrooms and two-bedrooms is the fact that, in the sample analyzed by Svoboda & Williams for this part of Prague in 2018, there were several residential projects in which apartments were sold either in a state before reconstruction or prior to the completion of the final surfaces (for example *U Rajské zahrady, Řehořova 37*).

The average year-on-year achieved rent for Svoboda & Williams' listed apartments in Prague 3 rose by 6% to CZK 26,600 in 2018. This price (together with Prague 10) is one of the lowest average rents compared to other parts of Prague, caused by the smaller average size of the rented apartments (see the Data Summary). The examined sample, in fact, contained a large number of small apartments in typical Žižkov courtyard buildings, the sizes of which are not as generously apportioned as in neighboring Vinohrady. The demand for these small and less expensive apartments is highest among young people (singles/couples). Last year, tenants paid an average rent of CZK 21,300/month for a one-bedroom apartment and CZK 28,500/month for a two-bedroom apartment. The offer of new apartments increased by the addition of apartments in the *Garden Towers* residential complex.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 8,280,000 **+ 11%**	CZK 107,400 **+ 8%**	CZK 95,000 **+ 4%**	CZK 5,957,500 **+ 18%**	CZK 8,975,200 **+ 15%**
RENTAL	CZK 26,600 **+ 6%**	N/A	N/A	CZK 21,300 **- 6%**	CZK 28,500 **- 3%**





Prague

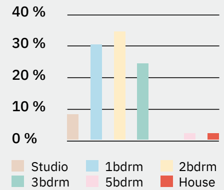
04

In Prague 4, the average price of a sales transaction was CZK 11,030,000. The sample of residential projects that we examined the prices of in 2018, contained the premium *V Tower* and *Castle View* projects as well as more affordable priced projects, such as *Modřanský háj* or *4U Living*. The average price of a new apartment thus reached CZK 98,500/m². A resale apartment sold for an average of CZK 88,000/m².

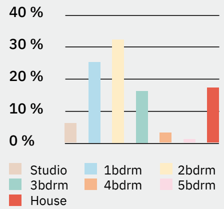
The average achieved rent in Prague 4 in 2018 was CZK 28,900/month. One-bedroom apartments were rented for an average price of CZK 19,700/month, and two-bedroom apartments for an average of CZK 28,600/month, adding up to a year-on-year increase of 18%. The Svoboda & Williams rental sample featured a large number of apartments located in new residences built in Podolí (for example *Castle View, WhiteGray*), which offered spacious apartments for higher rents.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 11,030,000 **+ 14%**	CZK 98,500 **+ 7%**	CZK 88,000 **+ 23%**	CZK 5,938,200 **+ 8%**	CZK 10,413,900 **+ 4%**
RENTAL	CZK 28,900 **- 1%**	N/A	N/A	CZK 19,700 **- 5%**	CZK 28,600 **+ 18%**

SALES



RENTAL



Prague

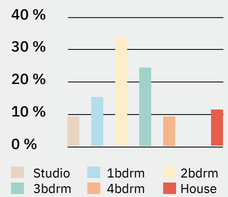
05

The average achieved price for an apartment in Prague 5 in the sample monitored by Svoboda & Williams saw a year-on-year decrease of 9%, amounting to CZK 11,320,000. The average achieved price per m² for new apartments in 2018 came to CZK 102,400, which was lower than for resale apartments (CZK 104,600/m²). This was due to the fact that the sample of resale apartments contained apartments in the vicinity of *Janáčkovo nábřeží*, while the new apartments were located further away from the center (for example the *Barrandovská zahrada* project, or *Sakura* on Na Pomezí Street.)

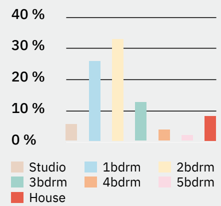
The average achieved rent for an apartment in Prague 5 in the Svoboda & Williams sample was relatively high, which is caused by the large number of apartments in Smíchov or bigger apartments in the residential quarter under Strahov. The offer of properties in Prague 5 last year was increased by the inclusion of high quality apartments for rent in the *Waltrovka* new residential project or the smaller *U Vojanky* rental project.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 11,320,000 **- 9%**	CZK 102,400 **+ 2%**	CZK 104,600 **+ 16%**	CZK 6,708,900 **- 17%**	CZK 11,446,000 **+ 6%**
RENTAL	CZK 30,500 **+ 5%**	N/A	N/A	CZK 23,000 **- 3%**	CZK 29,100 **- 5%**

SALES



RENTAL



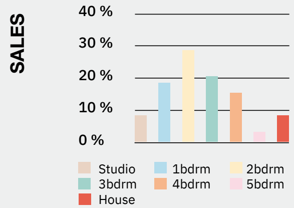
Prague

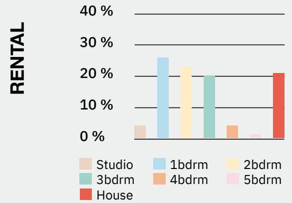
06

The year-on-year decrease in the average price of a sales transaction in Prague 6 amounted to 24%, down to CZK 13,660,000, is due to the fact that the number of smaller one-bedroom and two-bedroom apartments increased in this location in 2018, while in 2017 practically 60% of all sales were larger three-bedroom and four-bedroom apartments. The high average price for a one-bedroom apartment in 2018 is influenced by the average size of these apartments. In 2018, it was almost 80 m², while in 2017 it was only 65 m². An example of the projects monitored in Prague 6 is *Hendlův Dvůr, Šárecký Dvůr*, or *La Crone*.

Last year, the average rental transaction in Prague 6 was CZK 33,500/month. The year-on-year decrease amounted to 7%, and the location continues to be third behind Prague 1 and 2. Thanks to its unique residential character and the large number of international schools located there, Prague 6 attracts Czech and foreign families with children. Therefore, most of its rental properties are large apartments and family homes. A one-bedroom apartment in this location was rented for an average of CZK 21,000/month and a two-bedroom for CZK 31,200/month. The sample of rental apartments contained, for example, apartments in the new *Břetislavka* residential rental project in Šárecké Valley, which offered apartments with small floor areas, or the generously apportioned apartments in *La Crone*, which was completed in 2017.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 13,660,000 **- 24%**	CZK 114,000 **- 10%**	CZK 97,800 **+ 6%**	CZK 8,784,200 **+ 47%**	CZK 10,186,400 **- 8%**
RENTAL	CZK 33,500 **- 7%**	N/A	N/A	CZK 21,000 **+ 2%**	CZK 31,200 **+ 6%**





Prague

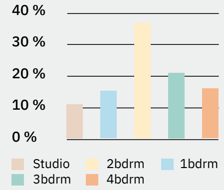
07

The average price of the sales transaction in Prague 7 last year reached practically 12 million Czech crowns. This was due to the composition of the sample, which mostly consisted of larger apartments – the average size of an apartment sold there was 110 m². The achieved price per m² for a new apartment amounted to CZK 99,400/m², which was lower than the average price for a resale apartment in 2018 (CZK 104,400/m²). The sample of resale ("secondhand") apartments was located mostly around Letná, while the new buildings were mostly located in the lower part of Holešovice, specifically, for example, the *Marina Island* project with an average price of around CZK 90,000/m².

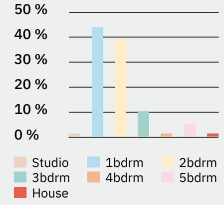
The offer of apartments for rent in Prague 7 was increased by the addition of apartments in the new *Marina Island* and *Vltavská vyhlídka* residential projects in Holešovice. One-bedroom apartments in Prague 7 had an average rent of CZK 22,900 per month, and tenants paid an average of CZK 29,000 per month for two-bedroom apartments.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 11,930,000 **+ 32%**	CZK 99,400 **- 5%**	CZK 104,400 **+ 9%**	CZK 6,293,000 **+ 11%**	CZK 9,132,600 **- 2%**
RENTAL	CZK 29,300 **- 5%**	N/A	N/A	CZK 22,900 **- 3%**	CZK 29,200 **- 14%**

SALES



RENTAL



Prague

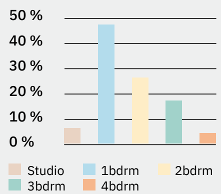
08

The average size of an apartment in the Prague 8 2018 sample was only 80 m², which had an impact on the average price of a sales transaction, which amounted to CZK 7,950,000, the lowest in Prague. A new apartment sold for an average of CZK 102,800/m², resale apartments went for an average of CZK 88,500/m². The residential projects in the sample included the newly built PRAGA Residence in Karlín, the next stage of the DOCK project in Libeň, or the reconstructed apartment house on Lyčkovo náměstí Square.

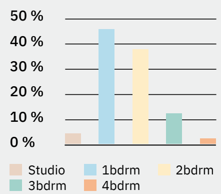
Most of the rental transactions brokered by Svoboda & Williams in Prague 8 were located in the attractive neighborhood of Karlín. Price-wise, they are right behind apartments in Vinohrady. The average rent there was CZK 31,700, while the average monthly rent of a one-bedroom apartment rose to CZK 24,300. Rents for two-bedroom apartments actually increased by 30% to CZK 36,100, thanks to the large number of apartments in new residential complexes, such as *Rezidence Vltava* or *Cornlofts Šaldova*.

	ø papt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 7,950,000 **- 9%**	CZK 103,000 **+ 8%**	CZK 88,800 **+ 3%**	CZK 5,904,800 **+ 5%**	CZK 8,734,100 **- 5%**
RENTAL	CZK 31,300 **+ 20%**	N/A	N/A	CZK 24,300 **+ 8%**	CZK 36,100 **+ 30%**

SALES



RENTAL



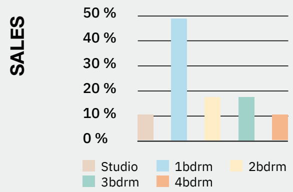
Prague

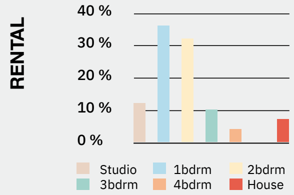
10

The average price for an apartment in Prague 10 last year amounted to CZK 9,620,000. The year-on-year increase of 27% was partly caused by several generously apportioned apartments in *Rezidence Hradešínská*. The sample of residential projects here contained, for example, the Vršovice projects *Petrohradská* or *4Block* (sale of the last remaining apartments). The average price for a new apartment reached CZK 96,200/m², and older apartments went for an average of CZK 86,000/m².

Although Prague 10, together with Prague 4 and Prague 9, is one of the most affordable locations in Prague, the average rent there was not that different from neighboring Prague 3, because 75% our sample contained apartments in Vršovice and Vinohrady. In 2018, tenants paid an average rent of CZK 25,300/month for an apartment in Prague 10. The average rent for a one-bedroom apartment was CZK 19,500, and CZK 27,800 for a two-bedroom apartment.

	ø apt. price/ rent	**ø price per m²**		**ø apt. price/rent**	
		New apt.	Resale apt.	1bdrm	2bdrm
SALES	CZK 9,620,000 **+ 27%**	CZK 96,200 **+ 13%**	CZK 86,000 **+ 4%**	CZK 5,813,600 **+ 16%**	CZK 9,306,400 **+ 21%**
RENTAL	CZK 25,300 **- 2%**	N/A	N/A	CZK 19,500 **+ 6%**	CZK 27,800 **- 1%**





Data summary

Average achieved rents vs. sales prices for specific layouts in Prague 1-10 in 2018

Layout	ø monthly rent	ø surface area (rentals)	ø selling price	ø floor space
studio	CZK 16,300	39 m^2	CZK 4,179,400	34 m^2
1bdrm	CZK 23,600	63 m^2	CZK 7,032,700	61 m^2
2bdrm	CZK 33,500	98 m^2	CZK 10,425,900	95 m^2
3bdrm	CZK 48,600	137 m^2	CZK 16,509,400	138 m^2
4bdrm	CZK 62,000	179 m^2	CZK 23,997,600	195 m^2

Overall summary of average achieved rental prices in municipal districts in 2018

Municipal district	ø monthly rent	ø apt. floor space	1bdrm	2bdrm
Prague 1	CZK 40,800	99 m^2	CZK 29,400	CZK 42,700
Prague 2	CZK 36,500	94 m^2	CZK 25,200	CZK 37,800
Prague 3	CZK 26,600	75 m^2	CZK 21,300	CZK 28,500
Prague 4	CZK 28,900	94 m^2	CZK 19,700	CZK 28,600
Prague 5	CZK 30,500	94 m^2	CZK 23,000	CZK 29,100
Prague 6	CZK 33,500	101 m^2	CZK 21,000	CZK 31,200
Prague 7	CZK 29,300	90 m^2	CZK 22,900	CZK 29,200
Prague 8	CZK 31,300	86 m^2	CZK 24,300	CZK 36,100
Prague 9	CZK 28,500	93 m^2	CZK 17,500	CZK 31,800
Prague 10	CZK 25,300	78 m^2	CZK 19,500	CZK 27,800

Overall summary of average achieved sales prices in municipal districts in 2018

Municipal district	ø apt. price	ø price per m²	ø apt. floor space	ø price per m²		ø apt. price	
				New apt.	Resale apt.	1bdrm	2bdrm
Prague 1	CZK 15,430,000	CZK 174,900	91 m²	CZK 221,800	CZK 150,700	CZK 13,973,900	CZK 15,882,800
Prague 2	CZK 10,690,000	CZK 128,000	91 m²	CZK 132,400	CZK 116,800	CZK 7,780,400	CZK 10,589,300
Prague 3	CZK 8,280,000	CZK 103,600	80 m²	CZK 107,400	CZK 95,000	CZK 5,957,500	CZK 8,975,200
Prague 4	CZK 11,030,000	CZK 95,700	98 m²	CZK 98,500	CZK 88,000	CZK 5,938,200	CZK 10,413,900
Prague 5	CZK 11,320,000	CZK 103,500	103 m²	CZK 102,400	CZK 104,600	CZK 6,708,900	CZK 11,446,000
Prague 6	CZK 13,660,000	CZK 107,100	119 m²	CZK 114,000	CZK 97,800	CZK 8,784,200	CZK 10,186,400
Prague 7	CZK 11,930,000	CZK 102,800	110 m²	CZK 99,400	CZK 104,400	CZK 6,293,000	CZK 9,132,600
Prague 8	CZK 7,950,000	CZK 98,700	80 m²	CZK 103,000	CZK 88,800	CZK 5,904,800	CZK 8,734,100
Prague 9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prague 10	CZK 9,620,000	CZK 93,000	91 m²	CZK 96,200	CZK 86,000	CZK 5,813,600	CZK 9,306,400

Focus: Rental Housing Past and Present

In Prague anyone who could tried to live in their own house, but the large migration of people from the countryside into cities during the industrial revolution caused the number of tenants in urban environments to rapidly increase.

1800

1850

The first attempts to adapt the market to the new situation can be seen in the first half of the 19th century – this is when the first rental apartment houses were built. Owning one of these buildings became economically attractive, and much more reliable than having an industrial business.

Economic factors caused apartment layouts to shrink, but planners considered what sorts of services would be offered in the new apartment blocks, culminating in the idea of a collective house (in Czech koldům), promoted by the avant-garde theorist Karel Teige.

1930

1939

The First Republic boom in rental housing was disrupted by the Second World War and the communist regime. Architecture during the period of normalization in the 1970s had a single mission: create the most apartment blocks and housing units in the shortest possible amount of time.

The generation of millennials is playing a greater economic role. This generation of people born between 1981 and 1996, unlike their parents' generation, cares less about material property and prefers the sharing economy.

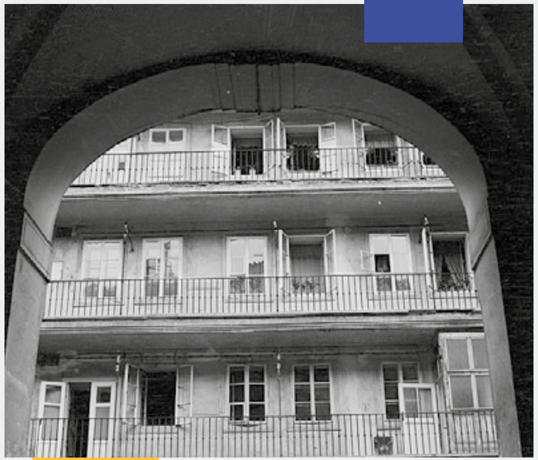
2018

Last year, the rental market experienced record-breaking prices. Private investors and developers are reacting to the high demand with new offers of apartments, and rental housing is no longer a purely financially motivated necessity but is becoming a lifestyle choice. We decided to look at the renaissance of rental housing from a historical perspective.

In the first two post-1989 decades, the residential real estate market was strongly influenced by people's desire to live "in their own place" – finally making up for decades of deprivation under the communist regime. Owning real estate was thus the clear choice for anyone who could afford to do so. Luxury, premium rental apartments in the center of Prague occupied only a small portion of the market and were mostly favored by expats who worked in the Czech Republic in multinational corporations or in foreign embassies.

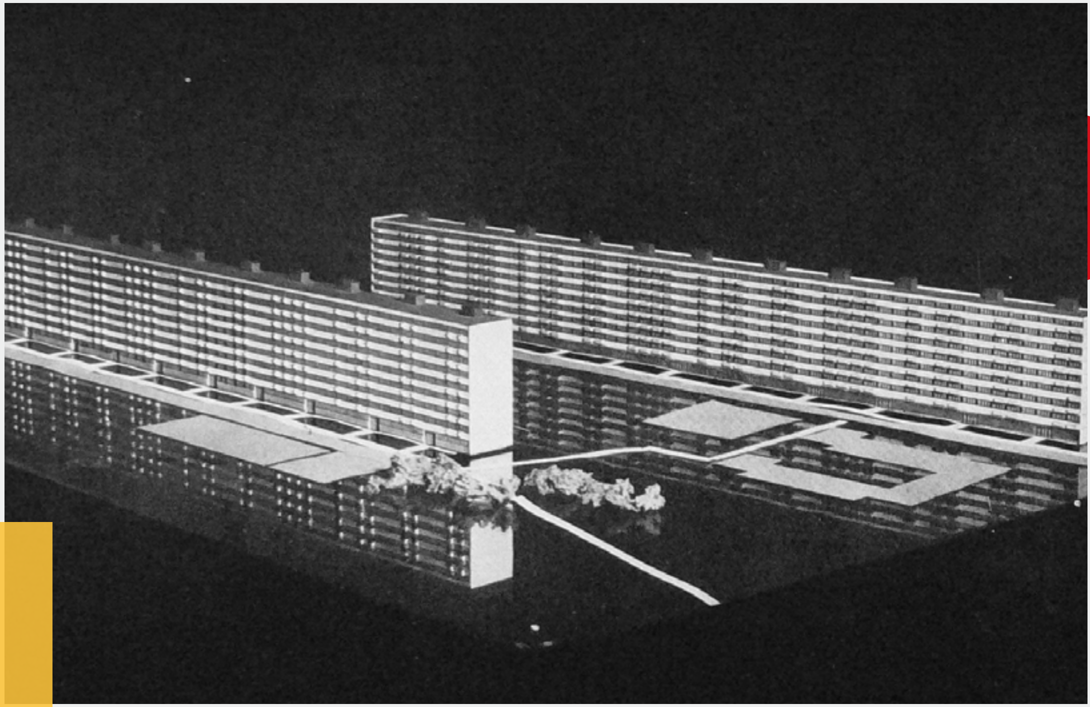
The situation has been changing in the last several years, when Czechs' interest in renting apartments in the center of Prague increased significantly. The generation of millennials is also playing a greater economic role. This generation of people born between 1981 and 1996, unlike their parents' generation, cares less about material property and prefers the sharing economy. Millennials value freedom in all facets of life, including the freedom of not being tied down by a property or a mortgage. In Prague and other larger cities in the Czech Republic, the renaissance of rental housing is related to the rapid growth of property prices, which are making it impossible for many people to own an apartment in the very center of Prague and its surrounding neighborhoods. Prague is well on its way of becoming just like a major European city, such as Berlin, Vienna, Brussels, or Zurich, where the percentage of people who are renting has for a long time been around 60%. The fact that more and more developers (see The Real Estate Market Through the Eyes of Svoboda & Williams) are considering building residential rental housing proves that rentals are "in." For many years, developers have solely focused on constructing properties for sale.

The rise of the residential rental market, however, isn't just a 21st century trend. When we looked at it from a historical perspective, we found out that around the year 1800 in Prague anyone who could tried to live in their own house, but the large migration of people from the countryside into cities during the industrial revolution caused the number of tenants in urban environments to rapidly increase. The first attempts to adapt the market to the new situation can be seen in the first half of the 19th century – this is when the first rental apartment houses were built. Owning one



of these buildings became economically attractive, and much more reliable than having an industrial business. The first apartment houses looked like typical Czech buildings with courtyard balconies. The kitchen was entered from the balcony, and in the best-case scenario, there was another room off the kitchen. This room was often sublet, especially to laborers who worked in the nearby workshops. Separate housing for workers, most of which looked like small one-story houses, were built for factory workers.

Tenants gradually grew more demanding about their personal space, privacy, decor, and furniture, and the places they lived in ceased being adequate in these respects. Just like developers in the 21st century, who are reacting to the current demand for rental housing, First Republic construction companies met these heightened demands. Builders began to respect the social hierarchy and offered apartments in various standards of quality – basements and top floors were for the poor, and the first to third floor for the rich. Rental properties were no longer chosen merely due to financial constraints – high quality rental housing in a good location became a respected and even preferred alternative to property ownership as well as a social status symbol. Today, we are witnessing a similar development.



The massive boom in rental housing construction lasted until the end of the 1930s, when Czechoslovak Functionalist architecture was at its peak. Many architectural competitions for housing developments took place; new forms were sought; social housing projects were built; employee residential estates were established; workers' houses and garden districts proliferated. Prague Functionalist architecture's approach to rental housing emphasized rationalism, efficiency, hygiene, and a healthier and more dignified environment. Economic factors caused apartment layouts to shrink, but planners considered what sorts of services would be offered in the new apartment blocks, culminating in the idea of a collective house (in Czech koldům), promoted by the avant-garde theorist Karel Teige. More modestly designed collective houses provided residents living in their own apartments

with a multitude of communal amenities, from central garbage chutes, food deliveries, to nurseries, schools, laundry rooms, cleaning services, sports grounds, and common halls. In comparison, some current housing developments in Prague can be seen as an interesting parallel. They often combine fully equipped apartments for rent with the offer of hotel-like services that make life more convenient, including restaurants, a reception, or cleaning services. Luka Living or the Břetislavka rental complex in Šárecké Valley are both examples of these types of residences.

The First Republic boom in rental housing was disrupted by the Second World War and the communist regime, which established new ownership conditions and unified and streamlined construction and housing standards as well as the population's lifestyle. Architecture during the period of normalization in the 1970s had a single mission: create the most apartment blocks and housing units in the shortest possible amount of time. Esthetics and the environment were unimportant.

Since the first post-1989 decades didn't focus on rental housing, the long-awaited renaissance of high quality rental residences that hark back to the First Republic tradition has been taking place in the last several years. Today, just as it was back then, living in an attractive apartment is a sign of one's social standing, and renting is no longer a matter of financial necessity. While the tenants during the rise of industrialization were typically poor workers who lived in a single room or in a workers' housing project, the current offer of rental properties is once again extremely diverse and the spectrum of tenants is much wider: young couples, students, single roommates, as well as wealthy individuals and families with children. Expats working in Prague are also included in this group. Until recently, potential tenants were at a disadvantage because the demand for apartments for rent was much greater than the supply. Now, however, the number of high quality apartments for rent is rising and this trend is expected to continue due to developers' interest in this segment. It's likely that the competition for them will make more residential complexes offer hotel-like services in order to attract residents. We can thus expect that the quality of housing will continue to go up, while rents are not projected to increase as much as they have in the past few years.

svoboda&williams | CHRISTIE'S INTERNATIONAL REAL ESTATE

Na Perštýně 2, 110 00 Praha 1 | svoboda-williams.com | info@svoboda-williams.com