

**ARTN SURVEY: THE PRICES
OF RESIDENTIAL REAL ESTATE
ARE REACHING THEIR PEAKS
AND CONTINUE TO GROW**

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The increase in residential real estate prices, which was predicted in Trend Report last year, came true. Experts are beginning to talk about a price bubble.

The strong demand for residential real estate in large cities such as Prague, Brno, Plzeň and Olomouc is mainly motivated by low interest rates of mortgages.

The Czech National Bank came up with a regulation of the mortgage market and it limits the highest possible LTV to 80%. Another drop in the mortgage market will come with increasing interest rates.

Airbnb increases the prices of long-term rents in large cities. Experts warn that own housing as well as rental housing is becoming unaffordable for people with lower incomes, especially for young people.

ABOUT THE SURVEY

Trend Report 2018 is a unique publication that maps the Czech real estate market. ARTN has been publishing it every year since 2002,

„Financial resources are very cheap and very well accessible in the long-term, which encourages interest in investments in real estate. At the same time, there is a lack of suitable investment opportunities, especially in Prague, while the capital is attractive for investors from many reasons – rents are stable in the long term, the average wage is higher than in other parts of the country, etc.“

Zdenka Klopalová, Knight Frank

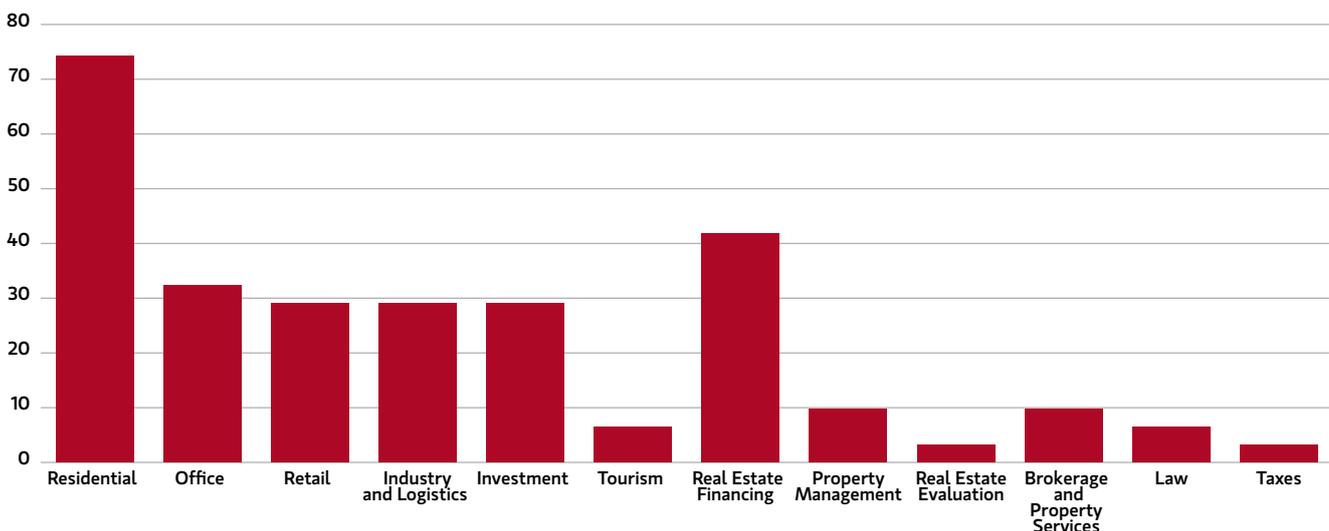
and since 2005 a comprehensive survey that summarizes the views of experts from all sectors in the real estate market has been its integral part. The survey respondents and authors of individual chapters of Trend Report are leading figures in the Czech real estate market. They are leading representatives of develop-

ment and investment companies, real estate, legal and consultancy firms, banks and other organizations that are active in the market.

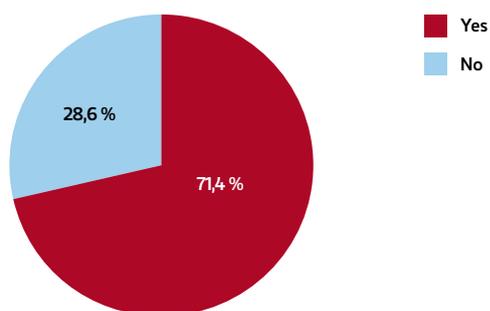
Important representatives and senior management of public administration, members of academic staff and university teachers that focus on this area are among the respondents.

This unique survey is a significant and completely extraordinary insight into the Czech real estate market. Experts from various areas summarize the previous years and come up with their expectations for future trends in all areas – from residential and office markets, retail, industry and logistics, tourism, law, taxes and investment to real estate financing. We regularly ask what can be expected in the individual sectors of the real estate market and related sectors of economy. We investigate what key factors will significantly influence the real estate market. We analyse in what sectors of the real estate market the biggest increase in the number of new projects can be expected. We examine the direction in which the attention of both Czech and foreign investors will turn. We also map the news and trends that we shouldn't forget about in the fields of finance, taxes and law.

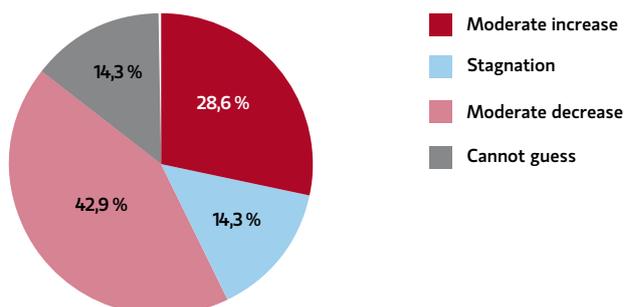
GRAPH What development do you expect on the Czech real estate market? Select segments expected to see major changes.



GRAPH Do you still consider investment purchase of real estate attractive?



GRAPH How will the volume of loans for financing real estate provided by banks to private investors - citizens develop in 2018–2019?



Thanks to a lot of knowledge and the deep interest of authors in the real estate market, the resulting Trend Report 2018 is a comprehensive report that ensures that this sixteenth edition summarizes the situation in this field objectively with an added value, which is provided by experts from various sectors of the real estate market.

THE RESIDENTIAL MARKET IN FIRST PLACE

It is clear from the research that the sector of residential real estate received the greatest attention in relation to the real estate market. Topic number one was the noticeable increase in real estate prices and stricter conditions for mortgages. This restrictive measure was undertaken by the Czech National Bank during 2017 to slow down the constantly growing volume of newly provided mortgages.

Most of the respondents believe that real estate prices reached their peak. They mention the acute shortage of residential properties in Prague and they are concerned with the fact that having one's own housing in large cities is becoming unaffordable for a certain group of people, particularly young people. These people don't have financial buffers, which are necessary to cover twenty percent of the amount of mortgage required by banks, as well as four percent to cover the tax on the acquisition of immovable property. On the other hand, they also mention that Prague is still cheap for investors and is therefore attractive, so they don't expect their outflow to other locations. They define the Czech Republic as an attractive and safe country with good macroeconomic indicators.

„After many years of cheap money, these trends started to significantly change. In combination with increasing prices of real estate, we can expect the outflow of domestic investors who won't be willing to buy expensive real estate and borrow money with relatively higher interest rates. On the other hand, an increasing interest of foreign investors can be expected – Prague is still very affordable for them.“

Peter Višňovský, LEXXUS

Experts expect steady rent growth in all segments of the real estate market. It will probably be the most noticeable for housing, because in February 2018 the resigned government came up with a proposal to increase taxes by several tens of percent for people whose main incomes are from apartment rents. The proposal should concern all natural persons whose incomes are exempt from the payment of social and health insurance. For people with incomes exceeding 1.5 million crowns, the taxes will increase by 60 percent, but they also agreed that the location and quality of the project will be decisive factors.

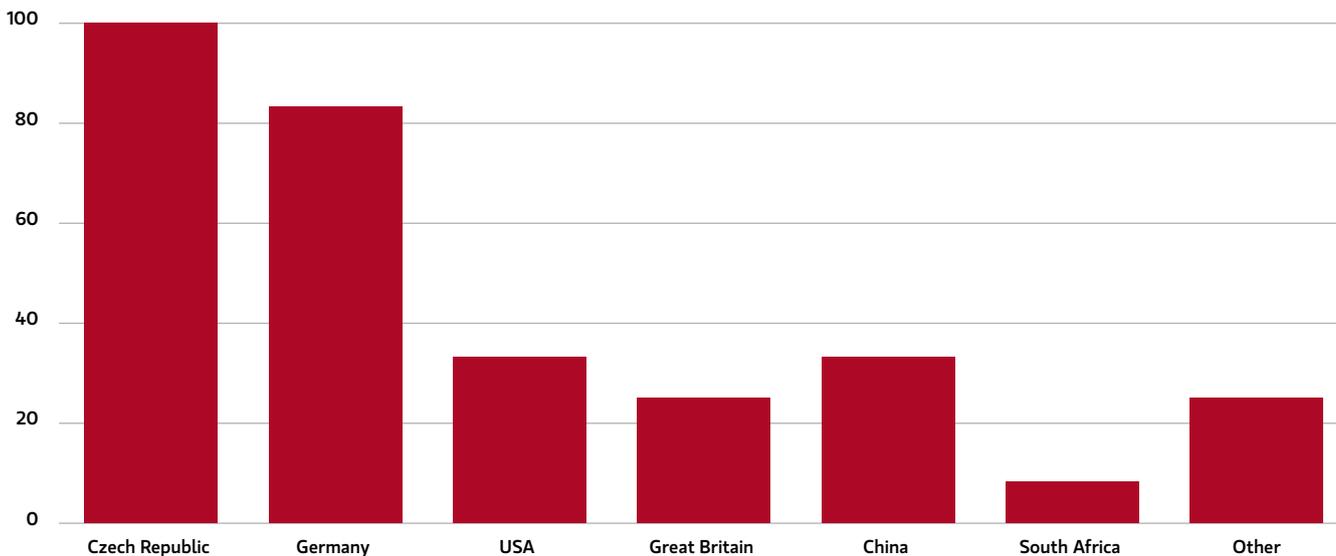
Financing properties in the form of mortgage credit is a topic of its own. Experts agree that after years of plenty, a decrease in the volume of provided mortgages will come. This will be caused by the continuous increase in interest rates, the impact of new regulations introduced by the Czech National Bank and the potential further tightening of conditions for mortgage financing.

„Services like Airbnb influence the price of real estate – especially in locations that are attractive for tourists. Such services are real competitors of hotel accommodation. The yield of such properties is much higher, which is reflected in their market prices. The regulation for them should be the same as for hotels. It is also a question for the representatives of self-government whether they want the centres of their cities to only serve to short-term accommodation, or whether they would like to have long-term apartment users who really live their lives in this location and create a lively local community.“

Pavel Berger, Komerční banka

NEW/OLD TRENDS IN THE REAL ESTATE SECTOR

Modern design and store fit out as well as the improvement of provided services by both shopping centres and sellers will play an important role in the growth of competition. Online orders and pick-up at the store will be a common thing, as well as targeting eco-friendly clients. A greater emphasis will be placed on client data collection and its subsequent use. Leisure shopping will be the new trend – joining fun, free time activities and shopping in one.


GRAPH Where do the most active investors on the Czech market come from?


Location and its transport accessibility are definitely one of the key factors when selecting an office building. The latter is particularly an important parameter for employees. The high quality of buildings, modern design and used space fit out are standard today. Last years' trend is an adjustment to the needs of employees who work in these buildings, whether it be the creation of common spaces for meeting colleagues and co-working, or for relax and sports.

A slight growth in the investment market in the sector of commercial properties will be mostly driven by the stable situation in the financial market in the future. However, experts agree that quality real estate is already taken, and the demand exceeds supply as in the sector of residential real estate.

NEW LEGISLATION

In January 2018, the amendment to the Building Act that brought many changes and novelties came into effect. The amendments should help building entities and ease the processes for building

authorities. The Ministry for Regional Development expects the amendment to bring the simplification of changes to territorial planning documentation, shortening of time limits to challenge a territorial plan, lengthening of time limits to create new territorial plans for cities and municipalities by two years, simplified

„The whole legislation situation in the preparation and execution of construction is the largest problem of the real estate market. The development segment cannot be sufficiently flexible to respond to the change in supply and demand in the market, but it is substantially determined by the capacity and the viability of the relevant administrative processes.“

Tomáš Kadeřábek, Asociace developerů

procedures and common proceedings for construction and building proceedings, etc. However, only practice will show whether these changes will lead to the stated aim in the form of speeding up and simplifying the permitting process.

Another major issue for 2018 is the GDPR (General Data Protection Regulation), a general regulation on the protection of personal data that will enter into force on May 25, 2018. Its purpose is to enhance the protection of personal data and set out rules associated with the processing and movement of this data.

WHAT DOES THE REAL ESTATE MARKET SUFFER FROM?

Two key factors that negatively affect the real estate market on which all respondents across the whole market agreed is the very slow process of permitting construction and the missing Metropolitan plan. The unclear and inflexible legislative situation related to the preparation and realization of constructions is seen as the greatest problem of the real estate market in the Czech Republic. Experts clearly criticize that the inflexibility does not allow responding to the current but long-term changes in supply and demand. The long-term insufficient and poor-quality transport infrastructure including motorway connections with neighbouring states is also mentioned.

Experts also have more or less similar responses with regard to the question whether Airbnb-type services influence the residential real estate prices and whether rents should be regulated – the services have a small influence on the price, but the impact on the depopulation of centres of large cities, especially in Prague, is more crucial. They see reasonable regulation as a suitable response to this issue, mainly in relation to taxes, which should ensure equal conditions for all types of residential businesses.