

RESIDENTIAL MARKET

In 2016, 6,650 new apartments were sold in Prague, which is a 5.1% increase; in Brno there was even a 50% progress.

The average price of available apartments in Prague rose to 75,520 CZK/m², which is a year-on-year increase of 17.4%.

The top-functioning sub-segment in the residential market are family houses. Apartment houses are only built in a minimum extent.

There are still problems in the functioning of the Association of Unit Owners (AUO).

The residential market is a crucial part of the lives of the population and economy of the state. The balanced and proper functioning of all its parts is very important, including owner-occupied housing in family houses, owner-occupied apartment housing, cooperative apartments and housing in rented apartments.

"Rental housing is distorted by social benefits. The state was unable to process rental pricing maps."

Petr Němeček, Hypoteční banka

"The rental housing segment is characterized by tenants' lack of information about their rights and obligations, as well as the low cultivation of the market by real estate offices."

Tomáš Běhounek, bnt attorney-at-law

Unfortunately, the government's approach to the housing sector based on the latest approved state housing concept or other materials and laws is only a motley series of isolated interventions in housing without a long-term vision. One example is the steering towards ownership housing first, and then switching to rental without a deeper analysis of preferences, without being accompanied by any meaningful measures, or the long-term failure to address social housing. Our politicians' opinions of new housing construction at a national and especially local level appear similarly confused.

There is lately no point in leading the popular discussion of which type of housing is the right one, whether ownership housing or rentals are

best. All forms are essential for the functioning of the market, and each of them has its own specifics, advantages, disadvantages, risks and benefits.

The best functioning forms in our residential market include the ownership of family houses and cooperative housing. Rentals and housing co-ownership is complicated by poor legislation and lengthy and unpredictable court decisions. New housing construction can be assessed similarly. Family houses are being built across the board throughout the country, mostly individually. However, almost no new apartment buildings were built in recent years, with some exceptions.

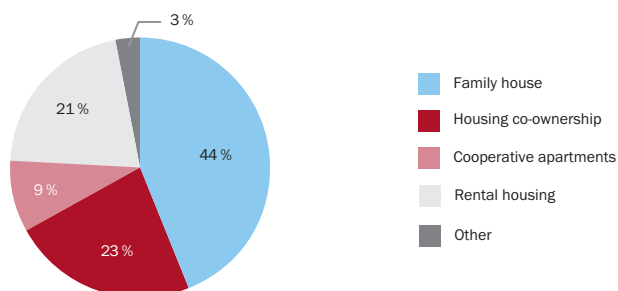
With a 21% share of rental housing, the Czech Republic lies in the block of Eastern European countries. The highest proportion of ownership housing is in Romania, Slovakia, Lithuania, Croatia, Hungary, Bulgaria and Poland. On the contrary, the most economically advanced countries of Europe have the highest proportion of rental housing, with Germany, Austria, Denmark, Great Britain, France and the Netherlands in the forefront. The EU average is approximately 30% of rental housing.¹

The Czech housing fund consists mostly of family houses (about 1.55 million houses), of which 1.15 million are stand-alone houses, 133 thousand are duplexes, and 257 thousand houses are terraced houses. More than 5.05 million inhabitants live in these houses. The family house fund and the number of households living in them continues to grow. We can expect this trend to continue in the future.



GRAPH In terms of apartment use, the distribution of the population in the Czech Republic is strongly leaning towards ownership housing. Distribution of the Czech population according to type of housing, 2017:

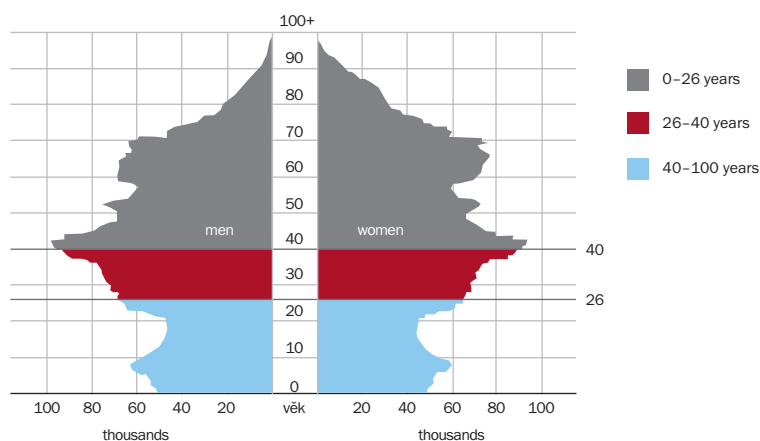
Source: Central Europe Holding a.s. from ČSÚ



¹ Source: Eurostat 2014.

GRAPH Czech population age distribution.

Source: Statistisches Bundesamt 2009



In contrast, the owned and co-owned housing segment will not expand significantly after many years of saturation, and it will reach roughly a quarter of the total housing fund.

Approximately 10,000 apartments are modernized and about 25,000 new apartments are built in our country every year. New construction consists of the individual construction of family houses, very few apartment buildings are built in this relationship. Prague and Brno are the only exceptions. However, new apartments are lacking even in these cities.

Approximately 19,000 apartments were built in Prague between 2013 and 2016, of which about 13,000 were built within development projects, which is a very small number. As expected, this had to have repercussions on real estate prices, which are rising due to a lack of suitable real estate and a change in the orientation of developers from cheaper to more expensive projects.

New construction in Prague is insufficient to meet the housing needs resulting from population growth. Since 2011, this is about 30,000 mostly adult citizens. The population growth in Prague is mainly due to the positive migration balance. The population is increasing most in Prague 6, 5 and 8, and decreasing in the city center.

Demographic change is one of the most important factors affecting the apartment and house market. The number

of young people in the age group that usually buys its own housing is steadily decreasing. These used to be people around 30 years of age, now we can see a decrease in population in people around 40 years of age.

In 2013–2016 (QIII), a total of 92,656 apartment units were built in the Czech Republic, with about 25,338 units in apartment buildings. This shows that mostly family houses are built.

From the total number of about 6.2 thousand monitored municipalities, the strongest construction following Prague and Brno took place in Plzeň, Ostrava, Olomouc, České Budějovice, Pardubice, Liberec, Opava, Hradec Králové and Kladno. Increased construction can also be seen in many smaller municipalities in the suburban zones of these cities, such as Brandýs nad Labem, Nehvizdy, Jesenice u Prahy, Říčany, Hostivice, Slavkov u Brna, Šlapanice, Moravany, etc.

ASSOCIATION OF UNIT OWNERS AND HOUSING COOPERATIVES

In previous Trend Report editions, we focused on the pitfalls of the Association of (housing) Unit Owners (SVJ). For many clients this may be a reason to focus on the family house segment. Now we will try to compare the Association of Unit Owners and cooperatives, if only because they have similar or common problems.

TABLE Demographic evolution in the Czech Republic in 2017–2033.

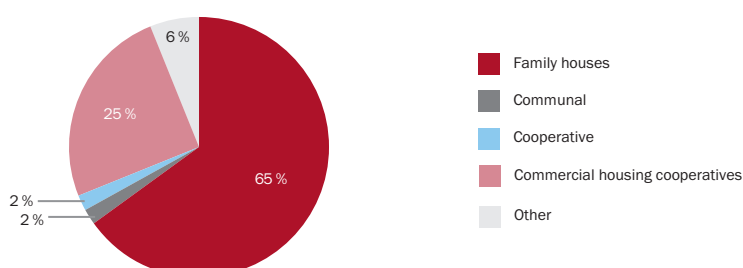
Source: ČSÚ



AGE GROUPS (2017)				AGE GROUPS (2033)			
AGE	TOTAL	%	% WOMEN	AGE	TOTAL	%	% WOMEN
40+	5 654 628	53.7	52.7	40+	6 301 695	61	52.3
26_39	2 121 761	20.1	48.7	26_39	1 484 205	14.4	48.5
<26	2 759 393	26.2	48.7	<26	2 537 065	24.6	48.6
total	10 535 782	100	50.9	total	10 322 965	100	50.9

GRAPH Distribution of new apartment construction in the Czech Republic in the period 2011–2015.

Source: Central Europe Holding a.s. from ČSÚ



The extortion of payments (debt) in co-ownership payments for management and maintenance is a growing problem. Cohabitation with unadaptable, irresponsible owners of units or cooperative members also poses a problem.

Unfortunately, the new Civil Code or Business Corporations Act does not give other members of the association or their statutory body many options for solving these problems. Cooperatives and the SVJ do not have priority in satisfying claims against their members, and debtors usually have multiple creditors, leaving no resources for the cooperatives or the SVJ.

Courts work very slowly and often see these law suits as unreasonable, where the strong SVJ/cooperative is suing its weak member. The fact that it is the member's fundamental duty and responsibility to fulfill his obligations has not yet become commonplace. The law does not allow penalties, and laws deal with the transition of debt when transferring ownership to a unit or share unclearly, there are a number of interpretations.

A legislative adjustment that would ensure full payment of the cooperative's and SVJ's receivables with the forced sale of units, or prevent the transfer of shares or units without fulfilling all obligations, would be helpful.

"The actual functioning of Unit Owners' Associations is often very problematic; not only in terms of their legal framework, it is also necessary for owners to learn to care for the property and not just own it."

Peter Višňovský, Lexus

It is true for a large part of the SVJ that the activity of unit owners in relation to the management of common parts of the house, i.e. the SVJ operation, is very low. Provision §1194 of the New Civil Code, which governs the liability of a member of the Association for his debts, is important and unknown to many

members. The liability is dependent on the amount of shares, and its amount is not limited.

Each unit owner should therefore regularly take interest in the economy of the Association and attend meetings, which does not happen in many cases. This poses considerable problems for the Association.

There are almost 9,000 cooperatives operating in the Czech Republic, with most of them in Prague (3.9 thousand) and the Moravian-Silesian Region (1.4 thousand), and the least in the Karlovy Vary and Zlín Regions. Their housing fund contains 467,000 apartments, with most of them in the Moravian-Silesian Region with large apartment buildings (95,000 apartments) and in Prague (92,000 apartments).

The number of SVJs has surged since their inception at the turn of the millennium. Today there are over 60,000

SVJs registered in the Czech Republic. Most of them are in Prague (10.8 thousand) and South Moravia (6.6 thousand), with the smallest number in the Liberec and Pardubice Region. Their total housing fund contains over 1.5 million apartments. In Prague, most Associations are in Prague 10 (1.4 thousand), followed by Prague 11, 12, and 2. There are over 400,000 apartment units in Prague that are owned or co-owned.

The number of owned apartments registered in the Prague real estate register grew evenly by about 35,000 units per year. It's interesting that in addition to large Czech and Moravian cities, there is a considerable amount of SVJs in Trutnov (almost 1,000), Jihlava, Znojmo and Frýdek-Místek. The privatization of municipal and former corporate apartments contributed to the increase in the number of owned or co-owned apartments the most. This privatization usually significantly affected the functioning of the market and virtually stopped new construction of residential buildings in many municipalities.

The largest amount of owned apartments in Associations is a maximum of 40 units (57%). Only 12% of apartments are in an SVJ that has more than 100 units.

In terms of the depth of the market, the situation of owned apartments in the Czech Republic is not good. There are very few transactions and the numbers are not growing. The survey by Central Europe Holding a.s. shows that about 22,000 units are sold in Prague each year, and the estimate for the whole country is about 60,000 units. The apartment market is young, it only began to form in the late nineties (the Apartment Ownership Act was adopted in 1994), and it logically grew over many years.

On average, apartment owners change every 20 years; owners of family houses change after more than 50 years. This suggests the Czechs' conservative approach to real estate ownership.

RESIDENTIAL REAL ESTATE INVESTMENT

Investment in residential real estate is a globally interesting and relatively safe investment. However, it is still necessary to carefully consider this step and be prepared in terms of sufficient information, financial resources and the time needed to care for the acquired property. Insufficient information, low responsibility and investment naivety may ruin such an investment.

An investment is not only the acquisition of real estate for further rental, but also the acquisition for one's own needs, when rent is imputed. The knowledge that the protection of ownership rights is poor with excessive protection of tenants, which the dishonest often use to their advantage, is important in the course of renting.

GRAPH Increases in the number of apartments registered in the Cadastre of Real Estate in the CR.

Source: Central Europe Holding a.s. from ČSÚ



The extortion of rent debts is very limited, and losses can be significant.

Charging VAT is also important and not often discussed. Apartment rental is an exempt transaction, and it is therefore not possible to deduct VAT on input costs, resulting in higher costs for the lessor.

- **FAMILY HOUSES:** this type of investment is a traditional form of real estate ownership functioning for hundreds of years. The Czechs love owning houses and building them across the country. The area of properties of newly built houses is increasing, usually exceeding 1,000 m². Selling prices have little volatility, and they are roughly at the same level as inflation.

In our country, we associate living in a family house with ownership. Unlike most developed countries, in our country the rental of family houses is not in demand, and the realized rent for family houses is relatively low. The yield (calculated by the ratio of charged rent to the market price) usually ranges between 1–2%. The ownership of a family house in the Czech Republic is also associated with very little transaction activity, the owners of family houses change very rarely.

- **OWNED APARTMENTS:** co-ownership of apartments works since 1994, after the adoption of Act 92/74 Coll., and it continues in the form of apartment co-ownership in the New Civil Code. The advantage is the ability to purchase one's own apartment with the advantages of real estate ownership under relatively

existing contracts, the average rent inside Prague is around 180 CZK/m², but in the center it may reach values exceeding 350 CZK/m². Smaller apartments have higher rent relativized to m² (approx. 220 CZK/m²), and it decreases with the increasing area of the unit.

It is necessary to deduct costs for managing the house, contributions to funds for the repair of common parts, insurance policies and vacancy from the rent payment, and to create reserves for the repair and modernization of the apartment interior. Interest and fees on loans or the costs of equity are also additional costs. The yields from renting an apartment without extra costs are currently at the level of 2.0%–3.0 % per annum.

Convenient interest rates decrease the growth of acquisition costs. The location of a residential investment significantly affects the purchase price and the rent, but yields are relatively the same in all segments. We might see differences in the functioning of the management of the building and the SVJ and in the responsibilities of the unit owners in the building. With mismanagement of common parts of the building or irresponsible behavior of the apartment owners, the investment can be undermined, and vice versa.

- **APARTMENT BUILDINGS:** the apartment building market started with restitution in the early nineties. The number of transactions is not high and prices are still unbalanced. The type of funds that an investor enters the market with is very important.

TABLE Number of sold apartment buildings in Prague.²

Source: Central Europe Holding a.s., data from the ČÚZK

CADASTRAL AREA IN PRAGUE	NUMBER OF TRANSACTIONS			AVERAGE PRICE PER CZK/M ²	CADASTRAL AREA IN PRAGUE	NUMBER OF TRANSACTIONS			AVERAGE PRICE PER CZK/M ²
	2014	2015	2016			2014	2015	2016	
Nové Město	10	20	15	50 614	Vršovice	3	5	4	30 600
Žižkov	9	13	13	32 600	Karlín	6	3	3	38 500
Vinohrady	8	10	12	42 500	Košíře	2	4	3	34 800
Smíchov	4	11	15	28 500	Bubeneč	2	2	4	31 100
Nusle	6	5	12	38 200	Strašnice	2	0	3	25 100
Holešovice	4	10	7	24 700	Vyšehrad	0	1	2	54 800
Libeň	7	4	7	38 900	Josefov	0	2	1	58 020
Staré Město	6	5	6	64 200	Dejvice	0	0	1	55 000
Malá Strana	5	3	5	94 700					

more acceptable financial conditions. The pitfall, however, is the co-ownership of common parts of the house, which requires cooperation, responsibility and the activity of unit owners (see above).

The acquisition of residential units for further leasing is not a new phenomenon; apartments were acquired for this purpose since the market emerged. According to the survey by Central Europe Holding a.s., 30% to 40% of acquired units in the SVJ are subsequently leased.

Investment yields vary. Apartment rent in Prague grew slightly in recent years, but it doesn't copy the growth of apartment prices. According to the survey by Central Europe Holding a.s. conducted among selected administrative companies, which have accurate data from

The acquisition of an apartment building and its subsequent management requires large amounts of information and time. One must expect many influences, especially from the government, which attack the return on the investment. Recently, these influences include the installation of heat meters in all heaters, an energy performance certificate for buildings, chimney inspections, elevator modifications, registration of foreign tenants, etc. Most of these are costs incurred unnecessarily, because they have no impact on the housing quality. The only actively functioning market with apartment buildings is in Prague; in other cities it is only functioning in rare cases. With data obtained from the ČÚZK, Central Europe Holding a.s. created an overview of all transactions with buildings (excluding

² Average prices were calculated with the ratio of the achieved purchase price to the total area of the building. In most buildings, these areas are available to the executor from his own investigations, or they were derived by the standard procedure of multiplying the built-up area by the number of floors, minus 20%.

trades through shares) in the period 2014–2016. They indicate that the largest number of transactions took place within the (broader) center of Prague, in the cadastral areas Nové město, Žižkov and Vinohrady. The following table shows a summary of data from selected cadastral areas.

SOCIAL HOUSING

The issue of social housing and its satisfactory resolution is a matter for both politicians and social workers. It directly affects the commercial sector, which often replaces the function of the government's social policy due to its failure and pays for it. Simplifying it to a "trade with poverty" is a distraction.

If it is possible for private entities to get rich and exploit social housing, why don't municipalities and state organization do so themselves? The privatization of public housing for low prices and plans for the expensive construction of new apartments seems like a "Gotham solution".

The law on social housing that was in preparation for many years cannot be commented on seriously due to its constantly changing form.³ However, previously published versions showed that the law is very politicized and is not well developed. For its final version and success, it is important that it meets several requirements:

- It should not be defined too broadly and the target group must be clearly defined. It must include people that are competent for housing, but have no chance of paying commercial rent for objective reasons. It should not serve people who parasitized the system and repeatedly disappointed. A target group that is defined

too broadly or vaguely will lead to the collapse of an overloaded system, favors and corruption.

- The possibility of the method of terminating social housing must be clearly indicated, the need for a special eviction regulation in the Civil Code.
- It must contain motivation to leave the social rental and make way for others; an incorrect setup can lead to an increasing number of people attempting to get into the system and stay there.
- An analysis of state and municipal budget costs, which is currently lacking, must be performed in advance; it is not entirely clear how the social housing will be financed.
- The law must not damage the market housing and commercial construction area or limit the competence of municipalities; the system should also motivate municipalities to operate social housing, as well as protect it and properly care for it.
- Social housing apartments should not be segregated in limited areas; social housing should be a system that uses part of the housing fund.

There is no dispute about the fact that we need social housing. However, adopting an incorrectly set up system could cause a disruption in the existing housing environment, bring significant financial losses, and also cause moral damage, while possibly not helping those who are most in need.

JIŘÍ PÁCAL

Central Europe Holding a.s.

³ The Minister for Regional Development Karla Šlechťová (ANO) signed the bill on social housing with reservations on February 1, 2017.

DEVELOPMENT OF NEW APARTMENTS

Despite the increasing price, the sale of new apartments prospered in 2016. A total of 6,650 new apartments were sold in the Prague market. This was a 5.7% year-on-year increase, if we take into account the outcome for 2015 adjusted for the sale of projects without a valid zoning decision. If we also include apartments in projects without a zoning decision, the year-on-year growth would amount to 7%.

Several facts contributed to the relatively good sales. New projects with a price below the average limit appeared on the market. The planned tightening of the provision of mortgage loans and their announced price increase apparently had an effect on indecisive candidates, despite the fact that interest rates reached historic lows last year.

At the end of the year there were over 110 developers in the Prague market. Four thousand available apartments were offered in almost 200 development projects. The number of new apartment buildings in the outer center of Prague increased relatively, quantitatively outweighing the activities of developers in Prague's outskirts. People were mostly interested in 2+kk apartments (2 rooms + kitchen corner). The most interesting districts to buyers were Prague 5, Prague 9 and Prague 10.

The results in Czech regions were similar to those in 2015. Sales topped 5,000 units. Approximately 4,500 available apartments were on offer towards the end of the year.

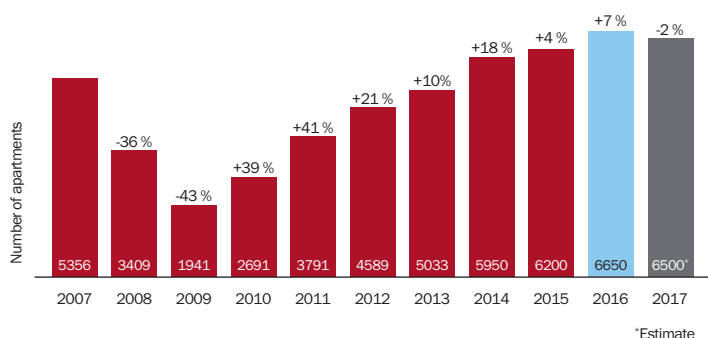
The pricing conditions for the purchase of a new apartment differ from the situation in the capital in the vast majority of regions, reflecting local conditions. For example, the average price in the Liberec Region, Moravian Silesian Region or the Vysočina Region is half as high as it is in Prague.

PRICE DEVELOPMENT OF NEW AVAILABLE APARTMENTS

2016 was characterized by a fall in the supply of available apartments and their rising prices. The number of apartments offered in the market decreased by 1,800 year-on-year, which represents a 31% decrease.

The estimated value of available apartments on the market fell below 25 billion CZK.

GRAPH Development of the sale of new apartments 2011–2017.



Source: Ekospol (2007–2010)

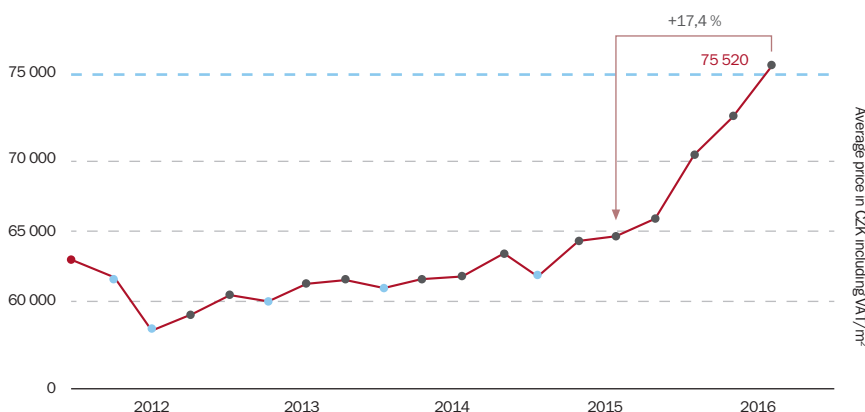
Trigema (2011–2013)

Trigema, Ekospol, Skanska Reality (2014)

Trigema, Central Group, Skanska Reality (2015–2016)

Estimate: Trigema

GRAPH Development of the average price per m² of available apartments in Prague 2012–2016.



Source: Ekospol (2007–2010)

Trigema (2011–2013)

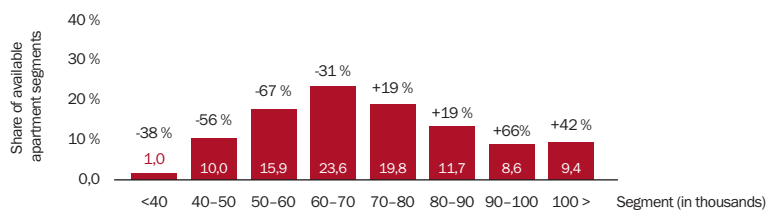
Trigema, Ekospol, Skanska Reality (2014)

Trigema, Central Group, Skanska Reality (2015–2016)

Estimate: Trigema

GRAPH Comparison of the price segments of available apartments in Prague in 2015 and 2016. (detailed view)

Source: Trigema,
Skanska Reality, Central Group
2015 k 31. 12. 2015 (5800 dostupných bytů)
2016 k 31. 12. 2016 (4000 dostupných bytů)



The main reasons for this decline include the lengthening preparation of new development projects, which is caused by the current state of domestic legislation and the generally complicated process of the authorization itself. The absence of mandatory plans that govern where and under what conditions one can build in the city contributes the uncertainty in the market. This primarily includes the Metropolitan Plan and Prague Building Regulations, which have fortunately finally gained their final form during the year, and the market can follow them since August 1, 2016.

Since mid-2015, specifically the second quarter, we can see a continuous rise in the average prices of new apartments per square meter. Since the given period, when the market started to develop dynamically, the average price of available apartments in Prague rose to 75,520 CZK

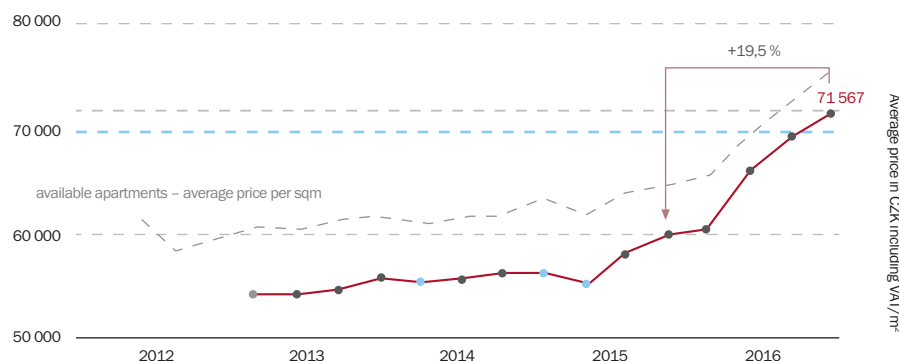
including VAT/m². In a year-on-year comparison, this is a 17.4% increase.

If we eliminate pricing extremes on the market, i.e. we remove the 5% of the most expensive and cheapest apartments on offer from the data, according to the average price per m², then the average price at the end of the year was 70,094 CZK including VAT/m². The median, or the mean average price per m², amounted to 66,872 CZK including VAT/m² in the same period.

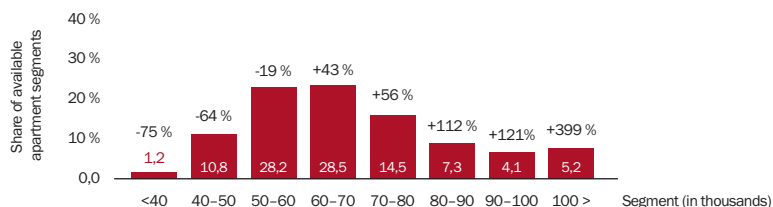
The average price of apartments sold increased year on year by 19.5%, and at the end of the year it reached 71,567 CZK including VAT/m². The average price adjusted for extremes, 5% of the most expensive and 5% of the cheapest apartments, amounted to 70,280 CZK including VAT per m², and it increased by 6.3 % compared to

GRAPH Development of average price per m² of apartments sold in Prague in 2012–2016.

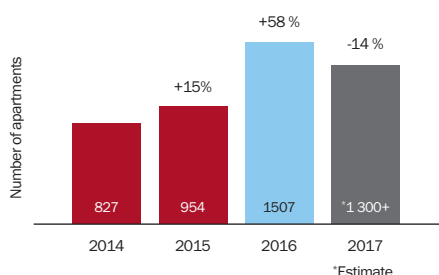
Source: Trigema, Skanska Reality, Central Group

**GRAPH** Comparison of price segments of apartments sold in Prague in 2015 and 2016. (detailed view)

Source: Trigema, Skanska, Central Group
2015 (7000 apartments sold),
2016 (6650 apartments sold)

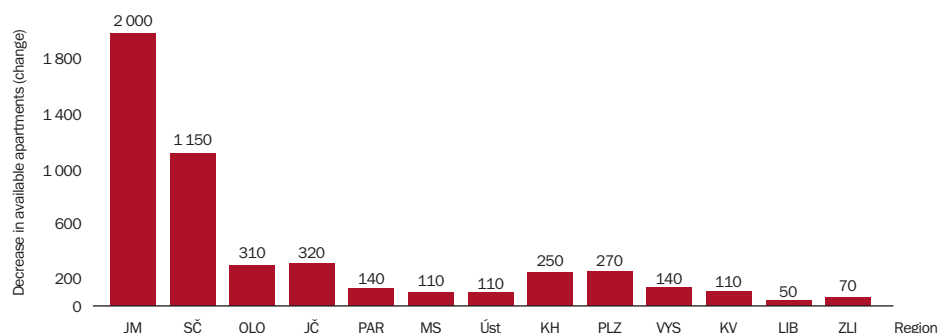
**GRAPH** Development of the sale of new apartments in Brno 2014–2017.

Source: Trikaya, Trigema
Estimate: Trigema




GRAPH Sale of new apartments in the Czech Republic in 2016.

Source: Trigema



the third quarter of 2015. The median was 67,481 CZK including VAT/m².

DEVELOPMENT IN REGIONS OF THE CZECH REPUBLIC

In Brno, which is the second largest market with new apartments after Prague, 1,507 apartments found new owners. Given that in previous years there were about a thousand sold apartments, the local market increased in one year by more than a half.

With regard to the rising price of new apartments in Brno, the gradually thinning supply (same symptoms as in Prague) and complications around the Zoning Plan of Brno, we can assume that the demand for new housing will continue to grow, but most likely at a slower rate.

In regions, sales took place mostly in South Moravia, Central Bohemia and the Plzeň Region. At the end of the year, there were around 4,500 available apartments in all regions of the Czech Republic, of which two thirds were in these specific regions.

In the South Moravian and Central Bohemian Region, the relatively high demand for new housing caused the average price per m² to increase by 7.9% and 11.3% respectively. This may also be one of the main reasons why the average price increased nationwide at the end of 2016 to 44,597 CZK including VAT/m².

OLD HOUSING

The housing fund in the Czech Republic is one of the oldest in Europe, averaging 53 years. Compared to most other countries, its renovation has been slow. According to data from the Association for Real Estate Market Development, this is only about 10,000 apartment units per year.

Analyses and the experience of protagonists of the real estate market show that the reconstruction of apartment buildings significantly increases the price of individual apartments and accelerates their eventual sale. The evaluation of individual apartment units is about 10%–15%. The most common forms of reconstruction include the replacement of windows, insulation or the installation of new electrical wiring and water pipes.

At the end of 2016, about 9,400 second hand apartments were available. The market with older apartments is nearly 2.5 times larger than the market with development apartments. In the capital city, the largest offer of available second hand apartments is in Prague 5, where 17% of all apartments in Prague are located. In Prague 10 and 4 it was 16.0% each.

At the end of last year, the average price of a second hand apartment was 70,943 CZK including VAT/m². The median was 66,489 CZK including VAT/m². With the elimination of extreme values, the average price at the end of the year was around 68,775 CZK including VAT/m². The source of information for the given price analysis were about 9,000 ads on about 20 local real estate websites.

For the next period, we can assume that the demand for second hand apartments will continue to rise slightly. This will most likely be accompanied by the continuing increase in the average price of old housing. In the capital, this trend will primarily concern Prague 3, 5, 6, 7 and 8.

MARCEL SOURAL
Trigema a.s.

TABLE Average price CZK/m².

Source: Second hand apartments: as of December 31, 2016, Trigema (approx. 9,000 publicly available records in Prague from about 20 real estate websites in the Czech market). Adjusted for new apartments currently offered in development projects.
New apartments: Trigema, Skanska Reality, Central Group.

CITY DISTRICT	NEW APARTMENTS	SECOND HAND	DIFFERENCE
Prague 1	124 910 CZK	125 286 CZK	-0.3 %
Prague 2	121 574 CZK	102 778 CZK	+18.3 %
Prague 3	72 003 CZK	78 842 CZK	-8.7 %
Prague 4	71 246 CZK	58 819 CZK	+21.1 %
Prague 5	88 159 CZK	69 003 CZK	+27.8 %
Prague 6	100 937 CZK	79 747 CZK	+26.6 %
Prague 7	87 907 CZK	84 504 CZK	+4.0 %
Prague 8	89 346 CZK	69 160 CZK	+29.2 %
Prague 9	64 525 CZK	59 546 CZK	+8.4 %
Prague 10	64 164 CZK	63 793 CZK	+0.6 %

TABLE Apartments sold in Prague in 2016.

Source: Trigema

CITY DISTRICT	AVERAGE PRICE IN CZK INCLUDING VAT/M ²	CITY DISTRICT	AVERAGE PRICE IN CZK INCLUDING VAT/M ²
Prague 1	130 565.17	Prague 12	58 171.81
Praha 2	163 213.21	Prague 13	65 221.23
Prague 3	67 451.54	Prague 14	55 050.51
Prague 4	91 933.15	Prague 15	57 396.67
Prague 5	85 231.28	Prague 16	52 468.33
Prague 6	81 687.90	Prague 17	66 480.72
Prague 7	6 627.29	Prague 18	55 977.62
Prague 8	74 300.22	Prague 19	60 555.77
Prague 9	64 005.07	Prague 20	43 617.00
Prague 10	66 168.43	Prague 21	52 680.67
Prague 11	70 454.19	Prague 22	51 439.23

Prestigious locations in Prague form discontinuous areas. They largely copy historic luxury residential areas. The most expensive residential locations are located in the historic center on both sides of the Vltava River: Old Town, Josefov and Malá Strana, Hradčany. These locations also include the villa district Bubeneč, as a traditional diplomatic district.

Vinohrady with its typical Art Nouveau apartment buildings is now somewhat lagging behind the mentioned "top" areas. Residential districts with comparable price levels include selected areas of central Smíchov and Letná, along with traditional villa districts of Dejvice (Hanspaulka, Baba), Střešovice (Ořechovka), Troja, Smíchov (Hřebenka) and Barrandov. The traditional locations end with selected areas of Břevnov, Vokovice, Smíchov (Malvazinky) and Šárecké údolí.

Modern, formerly industrial locations that are entering a higher price level include the areas of Holešovice and Karlín/Libeň (former Holešovice port with docks and Rohanský ostrov) with new luxury projects.

A new phenomenon among prime locations is the Pankrác area, where the first high-rise residential building in Prague in a luxury standard and corresponding prices is under construction. The required high costs in the project may have an impact on the price of new scheduled projects in the area. Individual luxury real estate properties – separate villas are located in the wider Prague area. These are mostly new buildings imitating either austere functionalism or the flamboyant castle style. The locations generally do not match their expensive furnishing and price.

Efforts to build a luxury villa resort near Prague "on a green field" were met with the incomprehension of potential clients. A common phenomenon and attraction for those interested should be the connection to a golf course or renowned foreign architects that are signed under the project.

Luxury real estate reaches the highest prices in Prague; prices in the rest of the country are much lower. Karlovy Vary and Mariánské Lázně are two exceptions, thanks to their unique historical character and popularity among affluent visitors from countries of the former Soviet Union, Germany and the Arab States.

DEVELOPMENT OF SUPPLY AND DEMAND

The demand for apartments in the luxury segment in Prague is permanent. People are interested in both "one-bedroom" apartments at a good address with parking included, and large apartments, ideally with a panoramic view of the city with a terrace. Apartments in new buildings or in completely reconstructed houses are clearly preferred. Finding a buyer for individual renovated apartments in houses in their original condition with no elevator and parking takes longer, and their price corresponds with this fact. Luxury apartments with no parking automatically have 50% less candidates. Convenient parking without an elevator, automatic stackers or platforms is ideal.

The demand is concentrated in the abovementioned luxury locations, and their specific selection depends on the current supply and the client's preferences. Clients favor one location over another depending on the distance to their office, their childrens' school or their other properties and activities.

The supply of projects in the luxury segment is slightly increasing with the increase in prices and the stability of the residential market. Projects that have been delayed for years, which often changed owners or were put on hold due to the real estate crisis, are in preparation. After a drop in prices and the freeze in demand, placing them on the market would be too risky. In the meantime, the project preparation and lengthy authorization procedure took place.

CUSTOMERS

Buyers of luxury housing in Prague are largely affluent Czechs and Slovaks, and the rest consist mainly of foreigners from EU countries or the former USSR. The reasons for buying vary, but the main reason is depositing funds and good investment liquidity in the event of a crisis. One of the groups are expats who wish to return to their homeland permanently, or who have decided to buy their own property in Prague for occasional visits and stays. Many candidates don't buy a luxury apartment at first, but after a few years they decide to buy a new one, offering the old real estate for rent or selling it.

Finally, the buyers are investors who use the real estate to store their savings and profits. They monitor a rental income of around 3% a year, while speculating on the appreciation of their investment due to the growth in real estate prices.

Another group in the market that increases the demand are investors that rent premium real estate in the short term, mostly to tourists. Thanks to easy applications, their number has increased significantly, and the historic city center is their safest option.

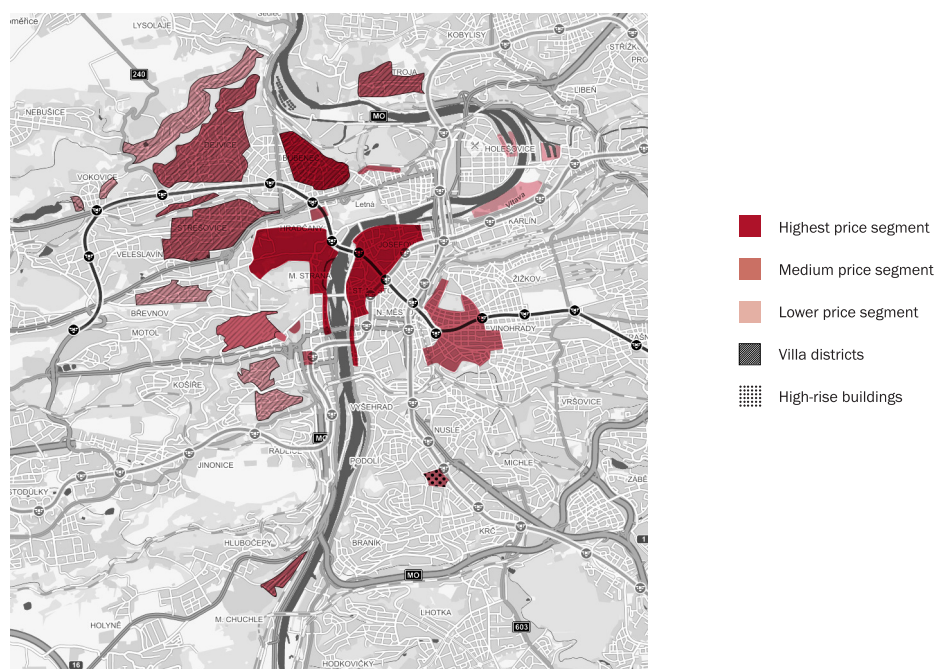
PRICE DEVELOPMENT

The luxury segment is a specific part of the real estate market. It consists of various unique real estate properties that cannot be easily compared. In luxury residential areas there are premium microlocations, therefore the address does not necessarily mean that it belongs to this segment. Each real estate must be considered separately, when averaging the prices can be misleading.

On the contrary, we can see the development of maximum offer prices of luxury real estate, which experienced unprecedented growth in the past year. While the maxi-



GRAPH Areas of the luxury segment in prague and their price level.



Maximum required average prices of apartments in luxury areas of Prague reached 257 thousand CZK/m² at the beginning of 2016, at the end of the year the prices reached 350 to 400 thousand CZK/m² (Pařížská Street). The steep increase in prices charged applies to the entire luxury housing segment, where sellers are testing what prices the market can bear.

Maximum prices, which are high above 200 thousand CZK/m², can be seen in areas such as Josefov, Malá Strana, Staré Město, and the Vltava riverbank. The range between 150 and 200 thousand CZK/m² is common in Nové Město, Kavčí Hory and Rohanský ostrov. Prices at a maximum level of 100–150 thousand CZK/m² can be seen in residential projects in Bubeneč, Smíchov and Vinohrady.

The average price growth in the luxury housing segment is about 10% over the past year. The growth in selling prices is associated with an increase in charged rents, which reach up to 1 000 CZK/m²/month in the most luxurious real estate.

TRENDS

In luxury real estate at a good address, primarily the uniqueness and originality is assessed, but few interiors deviate significantly as a result. Many owners have their apartments designed and arranged by designers who have their own style, and the owner's personality is not significantly reflected in the furnishing.

The effort to present interiors in luxury real estate in a minimalist technical modernism style with design accessories is a visible trend. On the other hand, lavish furnishing is offered, often imitating the castle style. Realistic visualizations often present interiors in the future appearance of reconstructed apartments.

Glass walls without sills, sliding balcony doors, hidden heating and air conditioning are all in demand. Designers took a liking to freestanding bathtubs placed in bedrooms, as well as bathrooms without bathtubs with spacious showers. When designing apartments, one must remember the hot tubs on terraces and roof gardens, which are both highly in demand. Another recent trend is the demand for greenery in apartments, especially on terraces and roof gardens.

The sale of unfinished apartments (shell&core, white walls) is a permanent trend; the owner can then finish the apartment according to his requirements and budget. The number of clients who buy luxury "paper" real estate immediately after it is placed on the market is increasing, where there is speculation on the price growth during the sale of the project.

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TRENDS IN THE LUXURY REAL ESTATE RENTAL MARKET

The luxury real estate rental market in the Czech Republic has undergone a number of significant changes in recent years. The most important change is probably the fact that while it was clearly a tenants' market in the period of the lingering economic crisis, the current situation displays clear features of a landlords' market.

DEFINITION

Although the luxury category has an indispensable subjective dimension and it is therefore difficult to precisely define it, we can say that the one key feature of luxury real estate is a premium location. In Prague, this includes the Old Town, Lesser Town, the Janáčkovo and Rašínovo waterfront, as well as some parts of Vinohrady, Podolí, Dejvice, Střešovice, Troja and Letná, and for luxury family houses primarily villa districts in Prague 6 and other areas near international schools. In Brno, these areas include locations such as Staré Brno, Masarykova čtvrť or Královo Pole.

Other attributes defining luxury real estate include attractive views, a high standard of design and furniture, the use of smart home technologies, and a balcony or terrace. In luxury apartments for rent, these features include lavish common areas, onsite parking, reception and a surveillance system (often connected to ARCs).

ership is binding" and therefore choose a more flexible option of high standard leases.

CURRENT SITUATION

Primarily the rise in the popularity of rental housing among affluent Czechs contributes to the strong demand in the segment of luxury real estate rentals. This trend is reflected in the persistent lack of luxury real estate rentals, especially apartments. Nowadays, landlords can choose between several tenants, and they usually prefer the one that is more creditworthy.

The excess demand over supply pushes rents up in virtually all segments of the rental market. Since 2016, vacant attractive apartments for rent therefore generally enter the market with a rent that is 5–10% higher than what the previous tenant was paying.

=== **TABLE** The ratio of Czechs to expats in the segment of luxury real estate rentals in Prague.

Source: Svoboda & Williams

RENT	CZECHS	EXPATS
35 000–50 000 CZK	45 %	55 %
50 000–80 000 CZK	35 %	65 %
80 000–120 000 CZK	20 %	80 %
< 120 000 CZK	15 %	85 %

Luxury houses for rent often also offer a private garden and stylish exterior. Current trends include architecture combining original features with contemporary design in completely refurbished palatial houses. Apartments that offer urban living close to nature or energy-saving "green" properties are also sought after. On the contrary, the size of the property is not as crucial.

Of course, this is all reflected in the rent, which is often around 500 CZK/m²/month for apartments with these parameters, and from 80,000 CZK/real estate/month for luxury family houses.

CLIENTELE

Luxury real estate tenants are generally people who are looking for temporary housing (the lease contracts are usually concluded for 2 to 3 years). These are mainly expats from senior management ranks of multinational corporations, but we also see an increasing demand from Czech clients. These are usually very busy people or individuals in a transitional phase of their life (e.g. a change in family circumstances), who realize that "own-

PROSPECTS

In the coming years, the development of the luxury real estate rental market may be affected by the stricter rules for granting mortgage loans by the ČNB. The economic upturn of the new generation known as "millennials" will also be important; they are less oriented towards ownership and prefer "sharing economy", and often refuse to commit to the repayment of a mortgage loan.

Both of these factors may push rents up further, even in the luxury segment. In the long term horizon, however, we can expect Prague to follow the usual trend in western cities, where a significant percentage (approx. 30%) of the population live in a rented home and own their own recreational property in the country. The growth of rents will reflect the growth of real estate prices.

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