



2021 PRAGUE RESIDENTIAL REAL ESTATE MARKET OVERVIEW





Preface

Investment Solutions Group s.r.o. have been advising on residential real estate purchases in Prague for 10 years. We have great knowledge of the market; its history and what factors influence its change. This report was published with data up to December 15th 2021 and uses this data to assess what lies ahead in 2022. This should not be viewed as investment advice.



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Historical Price Data

Property values have continued to grow during 2021. The pace of growth has slowed over the past 6 months versus the first 6 months. There are 4 major reasons behind this growth



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No acquisition tax: At the beginning of COVID restrictions the Czech Financial Authority removed the 4% tax on second-hand property sales. This was a great initial stimulus to the market. Previously those taking 90% LTV (loan-to-value) loans needed 10% of the property value for the property purchase and an additional 4% for the tax – 14% total. Now they only need 10% (~30% less funds).

Time: COVID brought about lockdowns and with that plenty of time to think about current housing situations. Many people made plans to change their housing situation and buy properties for the first time.

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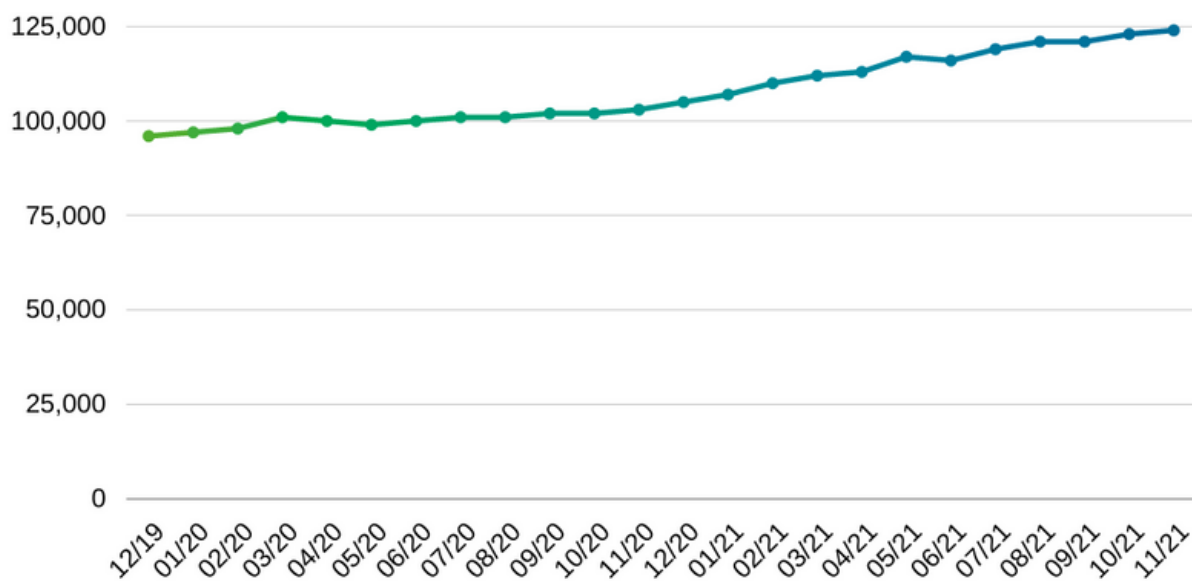
Low borrowing costs. As mentioned in the next section, low interest rates are another driving factor in price growth in 2021

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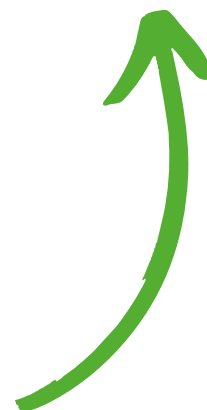
Acceptance of increasing prices. For many years the growth in property prices has been described as a “bubble” or “unsustainable” by commentators. In 2021 it seemed that there was more acceptance of price growth, leading to even further growth



Average Price of 1m2 (czK) - Prague



The chart shows how prices have grown through 2020 and 2021. You can see the initial drop because of COVID before the prices start to increase once the tax is withdrawn. The rate of growth increases at the end of 2020, influenced by lowering interest rates. For the second half of 2021 the rate slowed, influenced by increasing interest rates and the height of the prices themselves.



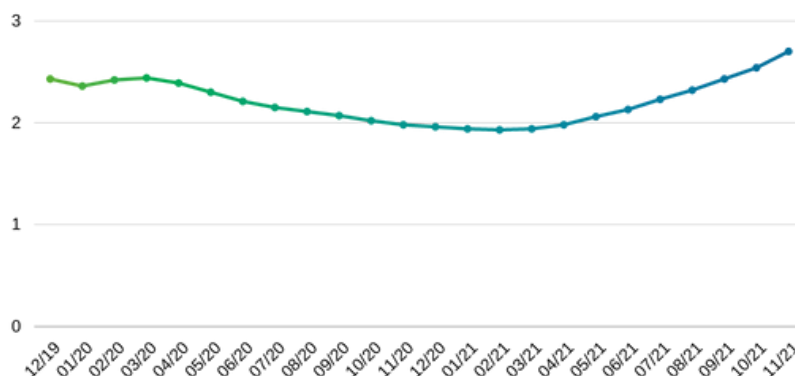
124,100 czk per m2

In this table we can see the effect the interest rate has had on the rate of price growth.

Period	May 20 – Nov 20	Nov 20 – May 21	May 21 – Nov 21
Growth in Prices	700kc/m2/month	2000Kc/m2/month	1200Kc/m2/month
Average Interest Rate	2.15%	1.95%	2.25%

Interest Rates

Interest rates hit their lowest on record in April 2021 but have risen consistently since. At an average of 2.7% for the year, it is easy to see why many people have borrowed money to make property purchases.



From December 2021, the average interest rate will be nearer 3% due to the large increase of the inter-bank borrowing rate. This 1% increase from April will make around a 12% reduction in how much can be borrowed on the same salary then and now. This is equal to a 12% increase in mortgage repayment.

Consumer price index growth

It's not only property prices that have been growing. It is well documented that inflation is increasing, especially due to the cost of electricity and gas. Overall consumer prices have risen 6% year on year and the trend is upward.

Although all households have to deal with these increased costs, it is something that makes buyers worry when mortgage repayments are already higher than the rent they are paying.

Affordability

The average wage in Prague dropped as lockdowns began, recovering in early 2021. The most recent data available (Q2) shows the average wage was 46.163CZK, an 8% increase YoY.



Whilst this data is positive, it must be mentioned that Prague was already the most expensive place to buy property in the EU in terms of local average salaries required. At the beginning of 2021 it required 12 salaries to buy the average 70m2 apartment. Double the amount in Italy and Germany as an example.

12 salaries to buy the average 70m2 apartment

During 2021 there has been a 13% increase in property values and it seems unlikely that wage increases have kept pace with that.

13%↑

There is also a question about if the increase is valid for like-for-like jobs, or whether the figure is a reflection of lower wage jobs (eg hospitality) reducing. Certainly in previous years there has been a shift in employment sectors in Prague, with less low paid jobs in manufacturing and more high paid jobs in corporate offices.

Supply and Demand

Data from the Czech Statistical office shows that approximately 630.000 dwellings house the 1.3m people in Prague.

Data from 30.6.2021 shows that the population has increased year on year by 0.5% to 1.341.370 people. That's about 15.000 people, which has been the average for the last few years.

Around 5.500 dwellings are completed each year, which are enough for those 15.000 people. This increased the average number of people per household.

Short-term rentals are often seen as reducing supply and pushing prices, up.

According to Airdna short-term rental accounts for less than 0.8% of all dwelling usage in Prague, making it only a very minor potential cause.

It is clear to see that statistically there is a large enough supply of apartments. The question is more likely to be if those apartments are of the quality that buyers demand. The average number of properties for sale has also been declining, creating a perceived scarcity. This could be because of prices increasing so quickly. The process of selling one apartment and buying another is not straightforward in Czech Republic. There can be significant time between the two events and that could mean that prices have increased in between. This could be concerning potential sellers.

Prague is an extremely expensive place to buy a property for a local resident, but prices continued to grow regardless. This has been fuelled by low interest rates, strong demand, and a perceived short supply of suitable properties.

Conclusions and Speculation about 2022

The outlook does not look favourable for continued price growth in 2022.

Prices are very high whilst interest rates have increased significantly and may continue to do so. Wages will need to increase significantly to make prices more affordable, especially considering the general growth of consumer prices. This seems unlikely in the current economic climate with GDP still recovering from COVID.

Prague is regularly voted as one of the best places to live, but at nearly 14 average salaries to buy an average apartment, it comes at a very high price. One that surely people will start to question more.

The horizon for new property developments is already set 2-3 years in advance by the granting of building permits. The rate of building seems to be at the same pace as previous years, which is a factor that could fuel price growth. This factor may be more significant if the population increases, which would be most likely due to immigration. Conversely, as we enter the post COVID period, we may see continued changes in how we work. This will also have an effect on how and where we live. This could see people moving out from Prague itself into commuter hubs, reducing the demand for housing in Prague itself.

At some point the property acquisition tax will be reinstated, which would severely affect the affordability of properties. This hasn't been scheduled for 2022. Price stabilisation could lead to improved confidence for sellers who want to buy another property immediately after.

This could have an effect of kick-starting the property market again and pushing prices up once again.

If you are planning a purchase in 2022 and would like to discuss it with us, feel free to get in touch at nick@isginvest.cz