

Prague Residential Market

Q1 2024

Report on the residential market
developments in Q4 2023 to Q1 2024

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Property asking prices have rebounded from the bottom and are rising again. The decline in interest rates has brought an immediate response from buyers.

Supply and sales in the premium segment are driven by the largest exclusive apartments, both in new projects and in secondary resale.

Compared to the previous six months, the volume of mortgages provided increased by a quarter in the period from October 2023 to March 2024.

Built-to-rent projects are an attractive investment product.

Prague Residential Market

- 01 Newly Built
- 02 Secondary Market
- 04 Premium Segment
- 07 Mortgage Market
- 09 Rental Housing
- 10 Institutional Rental Housing

NEWLY BUILT

COMMENTARY

“After a long downturn, the real estate market is experiencing dynamic growth.”



KATEŘINA POLÁKOVÁ
KNIGHT FRANK

After a year and a half period during which buyers were looking for the price bottom and an improvement in the economic situation, the residential market restarted at the turn of this year and property asking prices have increased by 1.4% in the last 6 months.

The decline in interest rates, along with the expectation of price growth, have positively influenced demand development.

The reduction in interest rates immediately attracted new home buyers as well as investors allocating their financial resources into real estate.

Especially sales of new constructions, which had been significantly subdued since 2022, are now experiencing almost a rocket rise and dominate the current market. Developers, who had held ready projects to launch them in a more favorable time, are gradually increasing the number of properties offered.

The question now remains how quickly and in what quantities apartments will be entering the market, how their prices will develop, and the expectations of sellers and buyers.

What positive has the previous period brought? Undoubtedly, it is the greater awareness of buyers and an increased emphasis on the quality of properties in all areas of ESG.

CZK 10,222,676

AVERAGE ASKING PRICE FOR NEW FLATS

CZK 152,425

AVERAGE ASKING PRICE PER SQ M

-0.7%

ANNUAL CHANGE IN ASKING PRICE

5,836

NUMBER OF FLATS ON OFFER

+5.4%

CHANGE IN THE OFFER OVER LAST 6 MONTHS

SECONDARY MARKET

COMMENTARY

“Luxury and large apartments are again dominating the supply on offer.”



KATEŘINA POLÁKOVÁ
KNIGHT FRANK

The asking price in the secondary market increased by almost one-fifth year-on-year. This reflects the fact that owners of luxury or large-scale properties have once again expanded the market offer without fear of price reductions. The accumulated group of buyers, like those of newly built flats, is responding and making decisions more quickly. The time for negotiation and decision-making, the most critical moment of all transactions since spring 2022, is now shortening again due to a healthier and more competitive environment.

In the last six months, the asking price has increased by only 2.8%, and the number of available apartments has slightly decreased. This is the result of the number of transactions carried out simultaneously in a short time. It will be interesting to see how the offer will change over time and how quickly owners will exchange their properties for new ones. If the assumption of further reduction in interest rates and overall stabilization of the economic situation is met, we can look forward to a more favorable and continuous development without significant fluctuations in the second half of the year.

CZK 11,663,646

AVERAGE ASKING PRICE FOR FLAT

CZK 127,463

AVERAGE ASKING PRICE PER SQ M OF FLAT

+17.9%

ANNUAL CHANGE IN ASKING PRICE

6,496

NUMBER OF FLATS ON OFFER

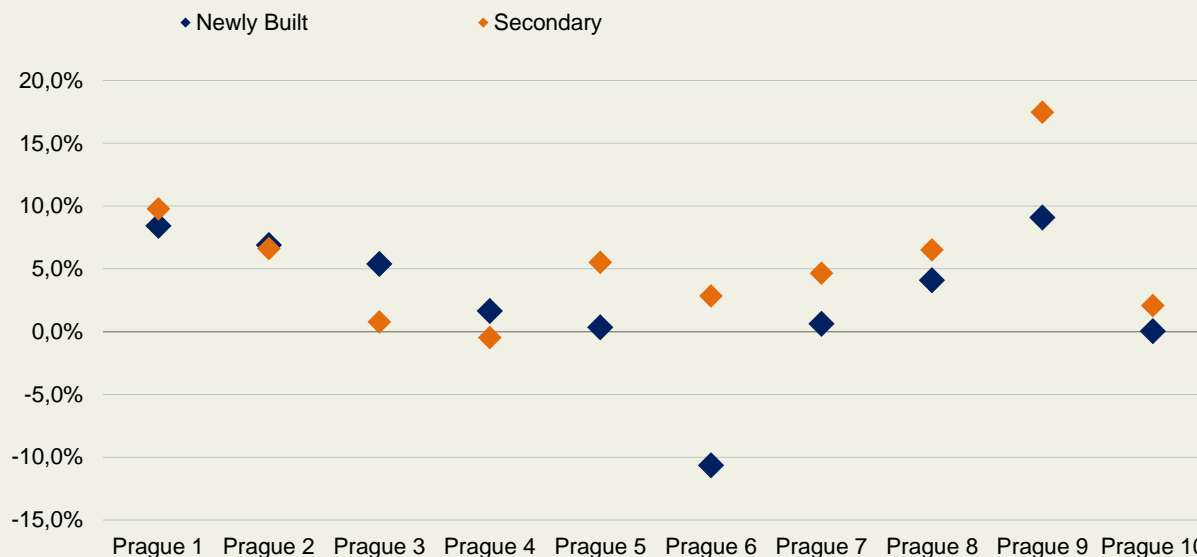
-0.5%

CHANGE IN OFFER OVER LAST 6 MONTHS

SECONDARY MARKET AND NEW BUILDINGS - DEVELOPMENT

Changes in flat prices across different city districts reflect the offer of qualitatively different real estate both on the market of newly built apartments and in secondary resale.

Half-year change in prices of flats on offer

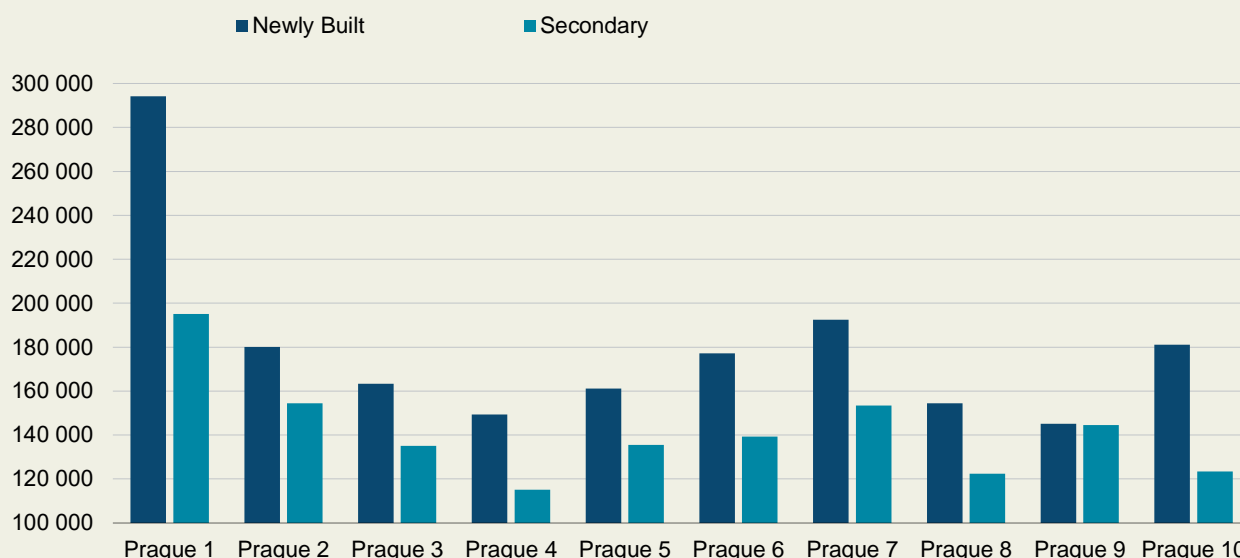


Source: FlatZone, Knight Frank Research

Prague 1 is currently leading the market in terms of new apartment prices, followed by Prague 7 and Prague 10. These districts have thus overtaken Prague 6, which traditionally occupied the second position behind Prague 1. Especially in Prague 1, the situation reflects only exceptionally realized new projects, which also correspond to the price. Prague 1 also holds first place on the secondary market. It is traditionally followed by Prague 2 and Prague 7.

Asking prices of flats

CZK/sq m



Source: Flatzone, Knight Frank Research

PREMIUM SEGMENT

COMMENTARY

“Premium properties are increasingly being built even in peripheral locations thus setting a new standard.”



KATEŘINA POLÁKOVÁ
KNIGHT FRANK

The courage of developers, motivated by the need to expand construction into previously less attractive locations, is setting a new standard in these areas. In this way, they determine new price levels and expand the diversity of the offer.

Small apartments, long considered a stable and advantageous investment, dominate the number of transactions. However, most of them are not premium products from any perspective other than their price.

We therefore newly evaluate the premium market from the threshold of CZK 200 thousand per square metre.

From this perspective, the composition of the offer in terms of apartment sizes is also changing, with exclusive 5+kk and 6+kk apartments clearly leading, followed by 2+kk and 1+kk. In sales, the smallest units are in the second to last position before 4+kk. Large apartments clearly play a primary role. As in recent years, small apartments continue to lead in terms of price. Their absolute selling price is accessible to a wider range of buyers. Although the narrow center of Prague still dominates the locations, the differences are increasingly blurring. The quality of the property is becoming an increasingly important parameter.

CZK 14,417,597

AVERAGE ASKING PRICE FOR FLAT

CZK 204,943

AVERAGE ASKING PRICE PER SQ M OF FLAT

CZK 196,186

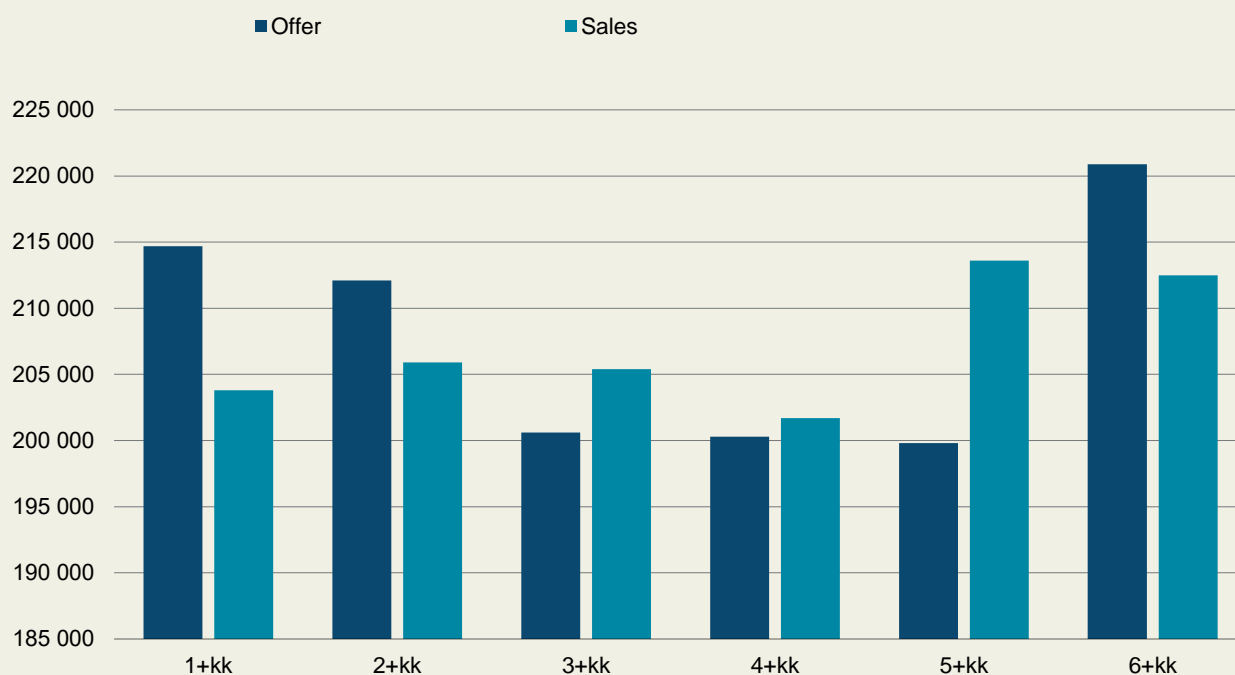
MEDIAN PRICE OF ALL PREMIUM FLATS PER SQ M



PREMIUM SEGMENT

Offer and sales on market

CZK/sq m



Source: FlatZone, Knight Frank Research

Supply and sales are driven by the largest exclusive apartments, both in newly built segment and in secondary resale. Supply and demand met at the same moment.

Offer on market in the last 6 months

Asking prices

1+kk – CZK 214,700/sq m

2+kk – CZK 212,100/sq m

3+kk – CZK 200,600/sq m

4+kk – CZK 200,300/sq m

5+kk – CZK 199,800/sq m

6+kk – CZK 220,900/sq m

Sales on market in the last 6 months

Sales prices

1+kk – CZK 203,800/sq m

2+kk – CZK 205,900/sq m

3+kk – CZK 205,400/sq m

4+kk – CZK 201,700/sq m

5+kk – CZK 213,600/sq m

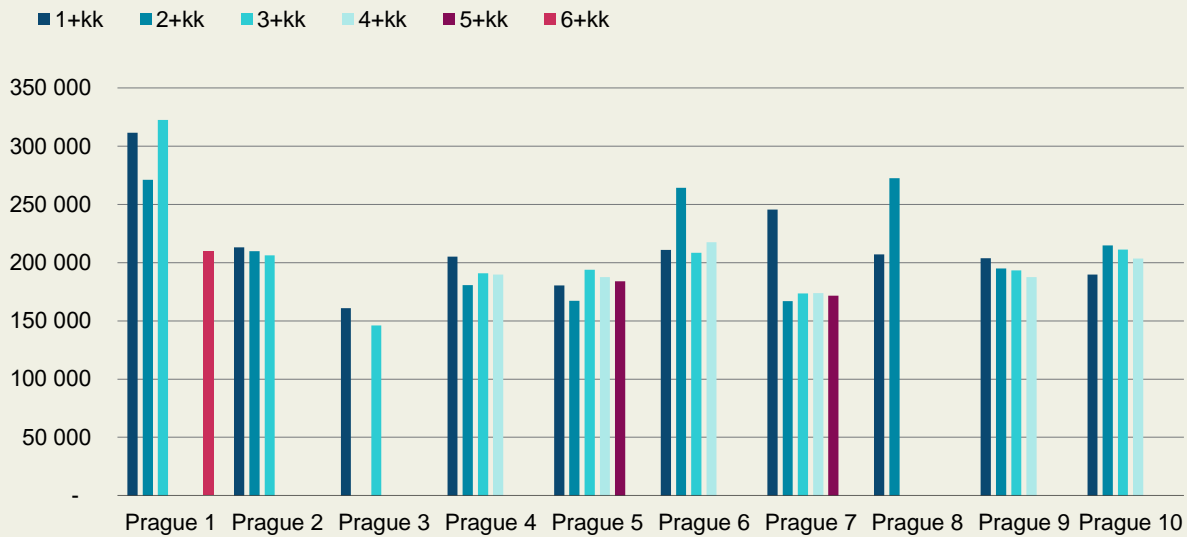
6+kk – CZK 212,500/sq m

PREMIUM SEGMENT

Given their continued popularity, small apartments in all locations remain the most expensive. The offer in different locations then changes the order between 1+kk and 2+kk.

Asking prices of flats in new buildings

CZK/sq m

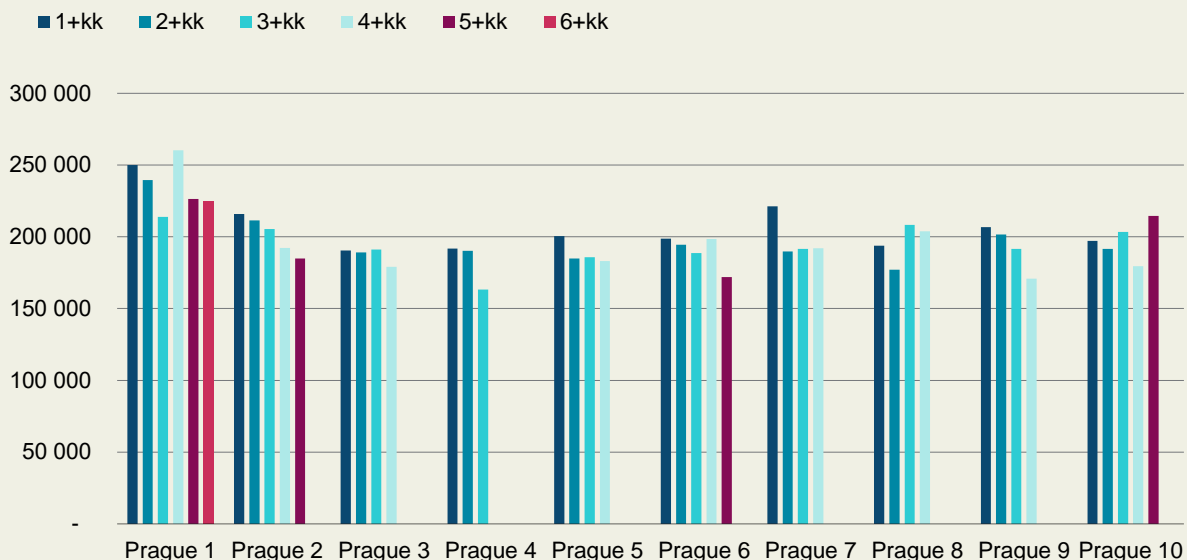


Source: FlatZone, Knight Frank Research

The quality of the property determines the selling price even on the secondary market.

Asking prices on the secondary market

CZK/sq m



Source: FlatZone, Knight Frank Research

MORTGAGE MARKET

COMMENTARY

“The drop in interest rates attracts more clients, interest in residential real estate is growing.”



PAVEL BULTAS
HYPOASISTENT

The growing volumes of mortgages confirm the interest of mortgage clients who are returning to the market. The Czech National Bank (ČNB) began lowering base rates in December, which has also been reflected in a drop in mortgage rates. The pace of decline is slow, but it has had a clearly positive impact on the expectations of clients who have started actively seeking properties out of concern that prices will soon begin to rise.

Additionally, since January, the ČNB has abolished the second requirement for the minimum income levels of mortgage clients – the DTI parameter. This parameter determined the necessary ratio between the annual income and the total amount of all loans of the applicant. Banks can now independently decide on their lending policies, and the differences between the rules of individual banks have increased. The regulation of the LTV ratio (the ratio between the loan amount and the value of the collateral) remains at a limit of 90% for clients up to 36 years old and 80% for older clients. There are exceptions to this rule, but the volume of exceptions is very limited.

CZK 5.48 million

AVERAGE AMOUNT OF LOAN FOR NEW FLAT IN PRAGUE

65%

AVERAGE LOAN-TO-VALUE RATIO (LTV)

25 years

AVERAGE LENGTH OF MORTGAGE MATURITY

3 years

MOST POPULAR FIXATION (76% OF CLIENTS)

MORTGAGE MARKET

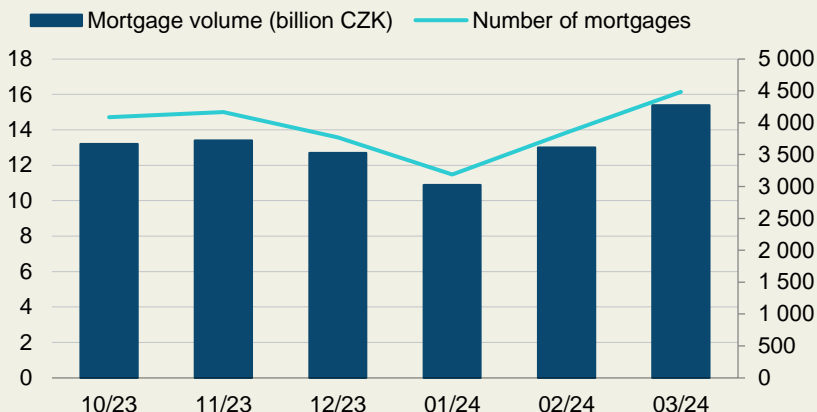
Subsidised Mortgages

In light of high interest rates and unaffordable housing, there have been calls in recent months for government subsidies on mortgage loans. Although such an idea might seem appealing at first glance, government subsidies would simply mean that the interest rate advantage for a small portion of buyers would be paid for by all taxpayers. A large part of the professional public also points out that such a measure would not solve the problem of insufficient construction, but would only favour a certain group of buyers at the expense of others and accelerate the increase in property prices. The Czech government currently does not plan to support housing in this way and has so far refused to introduce interest subsidies. Those who want to buy a new property and do not want to wait until interest rates drop to a bearable level can take advantage of subsidised mortgages offered by some developers. Thanks to such a subsidised mortgage, it is possible to purchase a new flat today at rates below 3%. Fixing the rates for 2 to 3 years should help bridge the period until standard mortgage rates reach this level. The monthly costs of buying a new flat with a subsidised mortgage are almost as good as rental payments. Thanks to the low rate and low monthly repayments, the client can also more easily qualify for a higher mortgage.

New Conditions for Refinancing and Extraordinary Mortgage Repayments

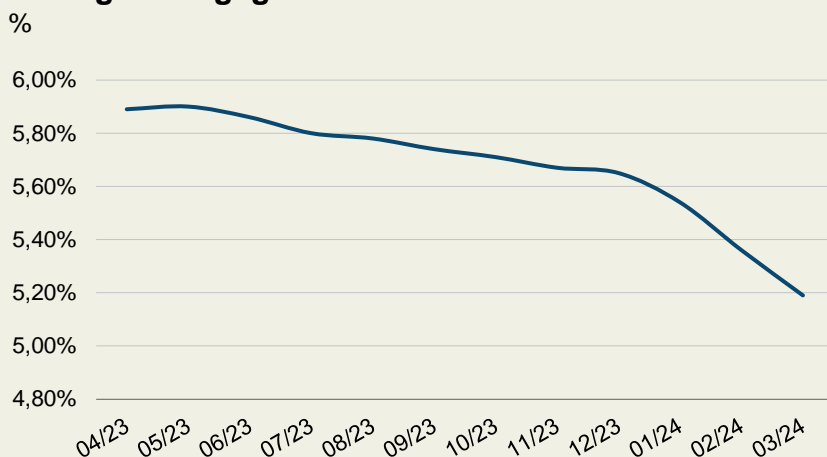
From 1st September, new rules for extraordinary repayments and refinancing will come into effect. The method of calculating the fee that banks can charge clients upon leaving will be precisely determined. This fee will be based on so-called justifiable costs and will be capped at a quarter percent for each year remaining until the end of the fixation period, but no more than 1% of the prematurely repaid loan amount. The law will expand the list of cases where the fee must be zero.

Volume and number of provided new mortgages



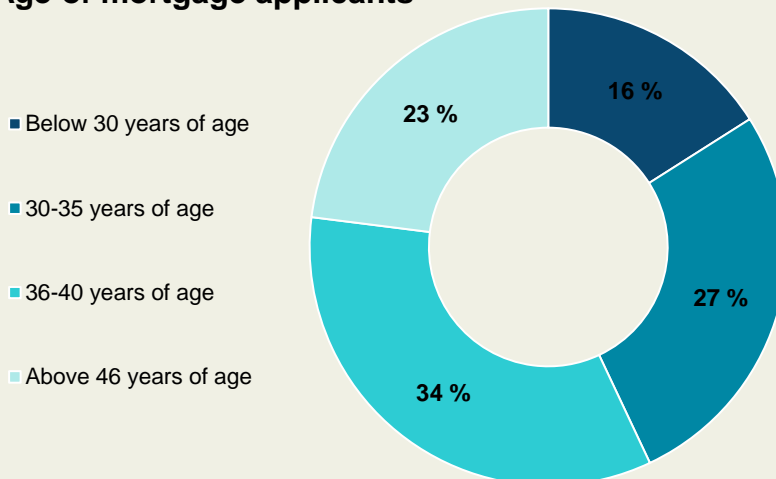
Source: Hypoasistent

Average mortgage interest rate



Source: Hypoasistent

Age of mortgage applicants



Source: Hypoasistent

RENTAL HOUSING

Rents continue to rise

The average rental prices per sq m of available flats in individual rentals according to advertising in most Prague districts continued to rise in the last 12 months by an average of six percent.

We observed the most significant increases in Prague 6, Prague 4, but also Prague 7.

Rents have dropped most significantly in Prague 1, primarily for larger flats in the 5+kk category. Conversely, in Prague 6, rents for small 1+kk flats, as well as large 5+kk flats, have increased the most. We expect that rents will continue to grow at a similar rate of approximately 5-10% per year, given the anticipated further increase in property prices. Therefore, renting will become an alternative for an increasingly broader clientele.

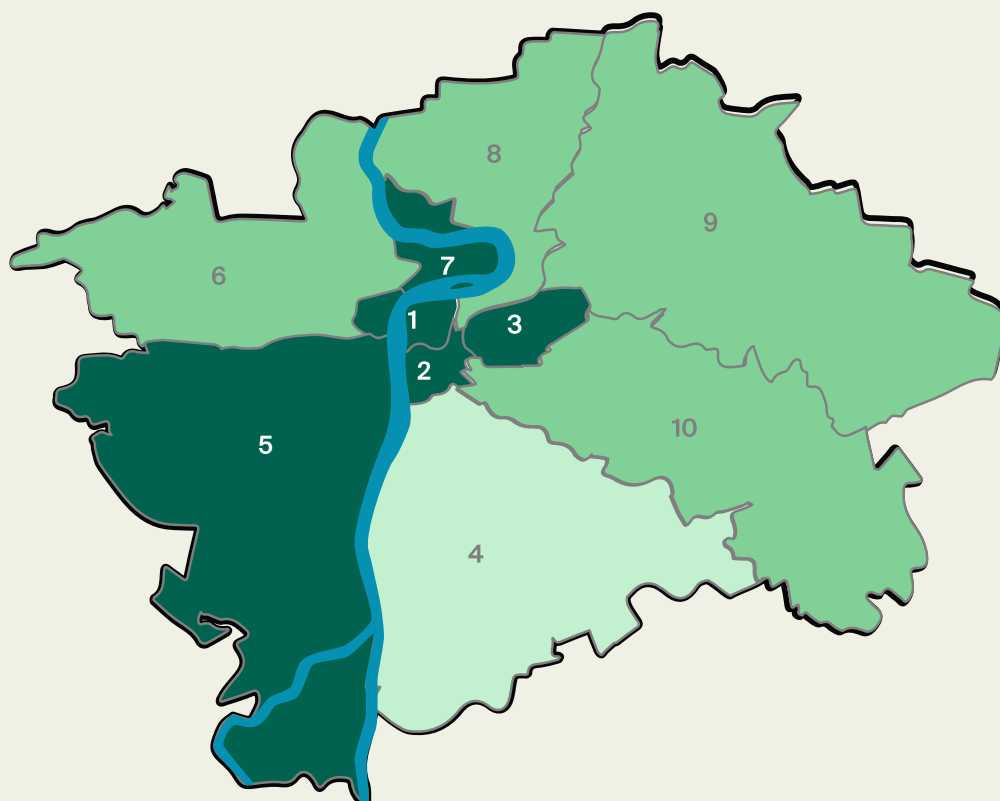
CZK 435/sq m

AVERAGE RENT ACCORDING TO ADVERTISEMENT (+6% in the last 12 months / +2% in 6 months)

Half year development of rents in Prague according to advertisement Q4 2023 – Q1 2024

Average monthly rent ● CZK 500 +/sq m ● CZK 450 - 500/sq m ● CZK 400 - 450/sq m ● CZK 350 - 400/sq m

● Prague 1 : CZK 494/sq m -1.6% ↓
● Prague 2 : CZK 500/sq m +5.2% ↓
● Prague 3 : CZK 474/sq m +4.0% ↑
● Prague 4 : CZK 393/sq m +2.8% ↑
● Prague 5 : CZK 461/sq m -0.1% ↓
● Prague 6 : CZK 423/sq m +12.0% ↑
● Prague 7 : CZK 467/sq m +9.9% ↑
● Prague 8 : CZK 424/sq m +12.3% ↑
● Prague 9 : CZK 416/sq m -0.7% ↑
● Prague 10 : CZK 403/sq m +8.2% ↑



INSTITUTIONAL RENTAL HOUSING

In the institutional rental housing market, a slight increase in rents by 3.5% per year was recorded. The smallest flats, 1+kk, achieve an average rent of over 600 CZK/sq m.

In the first quarter of 2024, the rental project Mint Living Praha Vysočanský Mlýn in Prague 9 was put into operation with a total of 241 fully equipped flats. The investor of the project is the Mint Residential Fund, and the developer is Metrostav Development.

In the spring of 2024, the first phase of the Lihovar project in Prague 5 was completed, offering 245 flats, which will be operated by Xplace.

Rental housing is an attractive segment for investors, which is also visible by the increasing share of residential on the total investment volume. In the first quarter of 2024, investments in Build-to-Rent (BTR) represented 7%, while last year it was up to 17%.

Among the most significant transactions realised in the fourth quarter of 2023 to the first quarter of 2024, we include the acquisition of 220 flats in the Harfa project by the company Dostupné bydlení České Spořitelny, as well as the project on Poděbradská Street in Prague 9 by the Mint Residential Fund. The company Xplace entered projects at Waltrovka and U Šárky.

OVERVIEW OF MOST IMPORTANT INSTITUTIONAL LESSORS ON THE PRAGUE RENTAL HOUSING MARKET

- AFI EUROPE
- CREDITAS Real Estate
- CTR
- Dostupné bydlení České spořitelny
- Heimstaden
- Kooperativa pojišťovna
- Luka Residential
- Mint Living
- Trigema
- Zeitgeist Asset Management
- XPlace

CZK 555

AVERAGE RENT PER SQ M
FOR BTR PROJECTS IN PRAGUE

3.5%

ANNUAL CHANGE IN AVERAGE RENT
IN BTR PROJECTS IN PRAGUE

4.75%

EXPECTED YIELD OF BTR PROJECTS

1,100 +

BTR FLATS UNDER CONSTRUCTION
ON THE PRAGUE MARKET

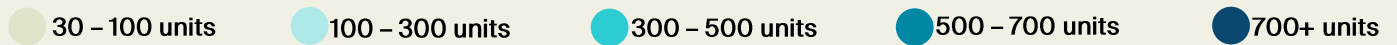
CZK 33,140

AVERAGE RENT FOR 60 SQ M FLAT

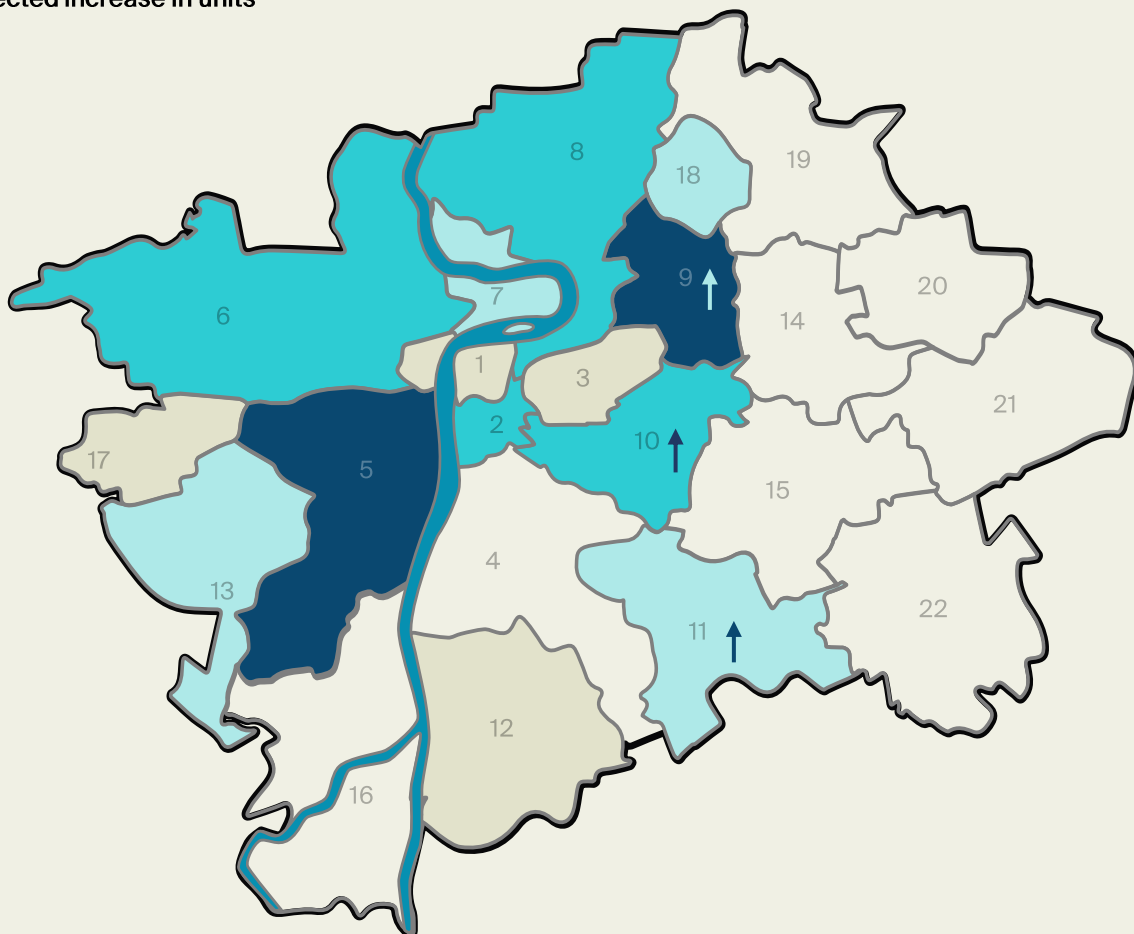
INSTITUTIONAL RENTAL HOUSING

COMPLETED BTR PROJECTS AND BTR PROJECTS UNDER CONSTRUCTION WITH MORE THAN 30 UNITS

Number of units in individual city districts



↑ Expected increase in units



The most BTR apartments under construction are in Prague 9, with over 422.

In Prague 11, the commencement of construction of the Nový Opatov project has led to an increase of 300 units.

In Prague 10, developer Crestyl is constructing 168 rental flats in the Hagibor project for investor Invesco.

In the first quarter, the Mozaika Holešovice projects of investor Heimstaden in Prague 7 and XPlace Lihovar Smíchov in Prague 5 were completed.

INSTITUTIONAL BTR TRANSACTIONS

Major deals

Rental housing is a sought-after investment asset.

We primarily record transactions in the form of "forward purchase," where the investor enters the project at an early stage, finances its construction by the developer, and subsequently takes over and manages the project upon completion.

The most attractive location remains Prague; however, we have also recorded transactions in regions, such as the sale of Residence Unity in Hradec Králové, where the developer, 100Towers Holding, sold the project with 37 rental flats to a private investor.

The prime yield rate for top projects in the Built-to-Rent segment reaches 4.75%, remaining stable compared to six months ago. Recently, however, we have recorded transactions by investors with a long-term investment horizon who may be willing to accept higher prices with the expectation of rising rents.

Investors are particularly interested in the expected increase in rents, which is estimated to grow by 5-10% year-on-year in the coming years.



Hloubětín – Lofty 61

Seller/Developer: Finep
Investor: Mint Living
Number of units: 168
Transaction date: 4Q 2023



Harfa

Seller/Developer: Finep
Investor: Dostupné Bydlení ČS
Number of units: 220
Transaction date: Q4 2023



Hranička

Seller/Developer: Penta
Investor: XPlace
Number of units: 54
Transaction date: Q1 2024



U Šárky

Seller/Developer: FINEP
Investor: XPlace
Number of units: 57
Transaction date: Q1 2024

METHODOLOGY

New Buildings – development projects including both newly-constructed flats, as well as the comprehensive reconstruction of existing properties for the purpose of selling or renting flats.

Secondary Market – all types of flats that are advertised on real estate servers as resales, including flats in new buildings.

Premium Market – flats with a unit price (adjusted according to the methodology given below) above CZK 200,000/sq m for newly built flats and CZK 180,000/sq m for the secondary market.

Price per square metre – the price for the floor area of the flat, without exterior spaces and parking. For the conversion of the price per sq m in the case where a balcony, loggia, terrace or garden was given in the overall price of the flat, a price conversion coefficient was used of 50% for balconies, loggias and terraces up to 10 sq m, 35% from an area up to 50 sq m and 25% for areas above 50 sq m. For gardens it is 25% from the area of gardens up to 50 sq m and 15% from areas above 50 sq m.

Institutional Rental Housing (BTR) – a newly-constructed group of flats directly for the purpose of renting, which are fully furnished (including a bed, couch, all kitchen utensils, etc.) and often offers other shared facilities and common spaces that increase the attractiveness of the project.

All prices are given including VAT.



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