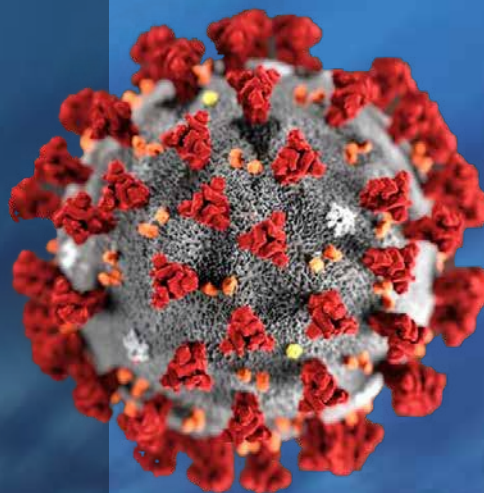


PRAGUE RESIDENTIAL MARKET

EXTRA 4/2020
COVID-19



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DEVELOPMENT OF THE SITUATION ON THE RESIDENTIAL MARKET IN RELATION TO THE NOVEL CORONAVIRUS PANDEMIC

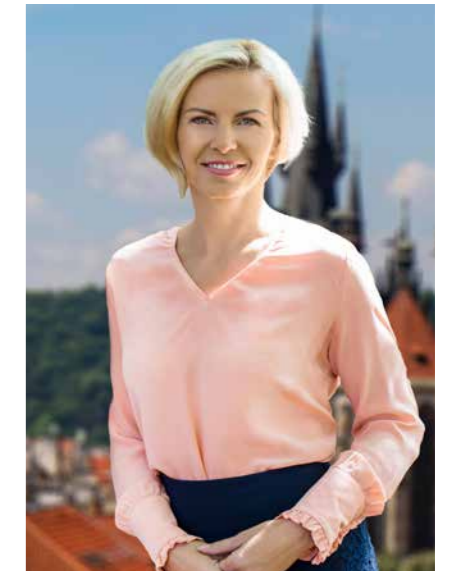
In relation to the COVID-19 virus pandemic, we expect **a short-term freeze on the market for residential real estate.** The reason for this is that, among other things, expectations and emotions play a major role when purchasing property like this. Some clients are deferring their plans to

purchase real estate or completely reassessing the idea and preferring to rent their accommodation because a mood of uncertainty and apprehension regarding loss of work currently reigns. Transactions cannot even be conducted physically at the moment. It is not easy to conduct transactions physically at the

moment, but this limitation currently relates to virtually all activities which were common until recently. **Real estate agents are using modern contactless technologies** to perform viewings more and more

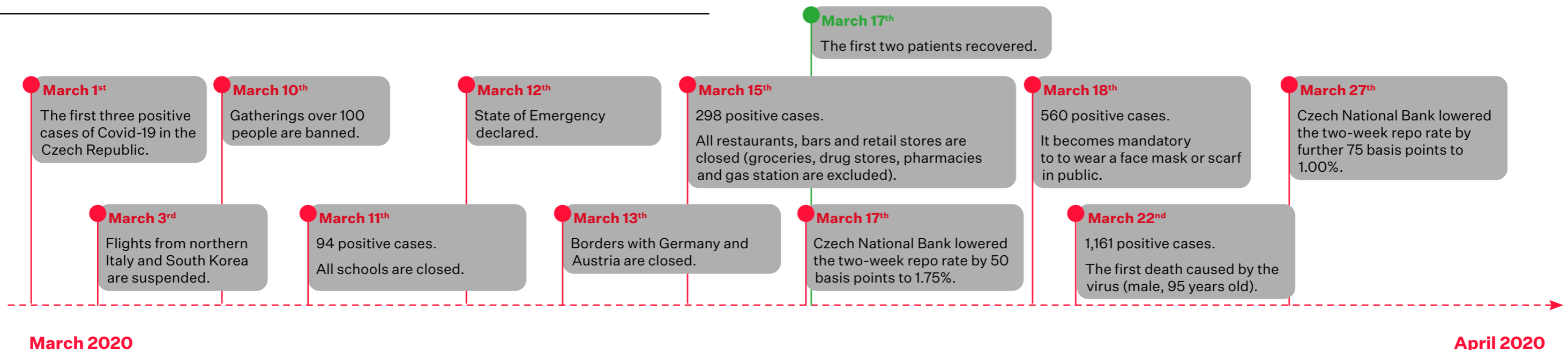
frequently, but this method of communication is of course not very convenient and suitable for all clients. Once quarantine has ended, the share of properties purchased as an investment will increase. Demand on the part of buyers from the lower and middle classes

will fall, but **the upper class will continue to invest their money in real estate** which represents a relatively safe investment.



Denisa Višňovská
Partner

Timeline of coronavirus outbreak in the Czech Republic





We anticipate that the banks will tighten up evaluation of criteria for meeting conditions for provision of mortgage loans even more. The new situation has a major impact on client credit standing and for this reason, banks will regard loans with a higher LTV (in excess of 80%) as risky. Mortgages will become even less readily available than before. A situation could even occur in which banks will sell the mortgaged real estate of clients who are unable

to repay their loans, although we do not anticipate that this will happen to any significant extent. Demand is not however the only factor influencing the price of real estate. The dramatic growth in the sale prices of apartments has been caused by insufficient construction, in particular in Prague and in Brno, which is in particular due to the drawn-out process of acquiring permits for buildings, increase in the cost of construction work and

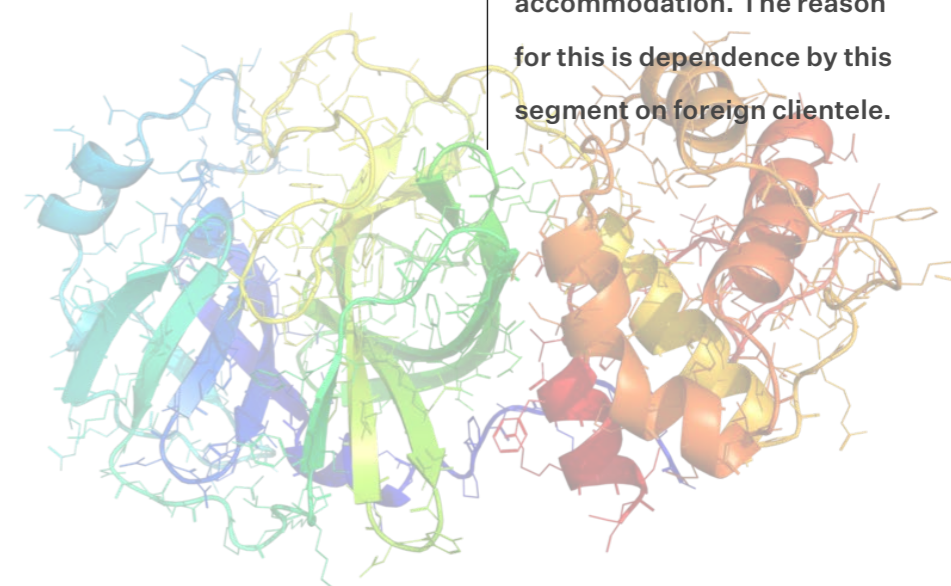
rising acquisition costs. **The lack of real estate for sale may be exacerbated** by departure of foreign manual workers who are now returning home, thus reducing the capacity of construction companies which is already inadequate. Supply may also be negatively affected by decision on the part of certain developers to defer implementation of their projects which are being prepared or under construction or their need to do so. The reduced

supply thus compensates for the slightly falling demand and if the emergency measures do not last for too long, the drop in prices need not be too noticeable.

The rental market is registering a greater slump. Tens of thousands of tourists have left Prague from one day to the next, thus vacating a large number of apartments rented out as short-term rentals (e.g. Airbnb). These apartments are located in attractive localities

and are also fully furnished. This sharp increase in supply has very quickly led to a reduction in prices. If the borders remain closed for a long time, **the reduction in prices of rented properties could be longer-term in nature.** The rental market is on the other hand being fortified by demand from those clients who had originally considered purchasing real estate, but who in view of the difficult situation at the moment, have reassessed their plans and prefer to rent their accommodation.

The real estate market is luckily not too volatile and residential items of real estate are considered to be long-term consumables. For this reason, the market slump will evidently be short-term and will not be too dramatic. Specific figures will however depend on the length of the anti-coronavirus measures. In the case of sales, the lower quality segment and less attractive locations are registering a greater impact. In the case of rentals on the other hand, the exclusive segment will be affected more, this being focused in particular on expats or being used for short-term accommodation. The reason for this is dependence by this segment on foreign clientele.





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