



## CZECH REPUBLIC - October 2017

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### CZECH REPUBLIC'S HOT PROPERTY MARKET IS BECOMING A PROBLEM ..... 1

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#### Czech Republic's hot property market is becoming a problem

The Czech Republic's capital has the hottest residential property market in Europe, and it's becoming a problem.

A 22 percent spike in prices over the past year is freezing out many locals from buying a home and the risk of a boom and bust in the market has forced the Czech Central Bank to step in to try to cool off demand.

While many countries in Europe have seen strong gains in real estate values recently, the Czech capital stands out, thanks to a combination of factors: a lack of new apartments, strong demand amid a growing economy and low borrowing rates, and a boom in investment buying to set up Airbnb businesses.

According to accounting firm Deloitte, the average price for newly built apartments in the capital reached some 92,600 koruna (\$4,240) per square meter this year, up from 75,600 a year ago, a growth rate that the central bank says is higher than anywhere else in Europe.

Jan Blau, a 27-year-old barista, says it is partly pure luck that allowed him to buy a home this year with his girlfriend.

"We spent a year and half to find a suitable apartment," he said, because prices were off the charts. In some cases, 40 people were bidding on a single apartment. He found his only because the owner of a property they were visiting noted that the neighbors were also selling, allowing them to be the first to make contact and close a deal.

With property in Prague and some other parts of the country beyond the reach of many local, the market boom has become an issue in the forthcoming campaign ahead of next week's parliamentary elections.

Petr Hana, an analyst from Deloitte, said the number of apartments available for sale has dropped from about 7,000 at the beginning of 2016 to 4,000 currently.

Developers blame Prague City Hall for not giving them enough permits for new construction projects, as well as red tape and rising taxes.

Tomas Pardubicky, chief executive of Finep Holding, says that while the city would need some 6,000 new flats a year — a number that is not disputed by Prague City Hall — far less than 2,000 permits were issued in last two years.

"It would be enough to change two things," Pardubicky said. "To set up clear rules to build and to set up clear deadlines for approving permits."

Developers complain it takes up to eight years in some cases before their projects are approved.

Prague municipal officials note the developers are benefiting from high prices and are willfully keeping low the number of new projects.

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“That the developers are complaining makes me laugh,” said Deputy Prague mayor Petra Kolinska. “I can understand that they are sad that they are not able to react (to rising demand) as quickly as they would like. But no official or politicians are preventing them from submitting construction requests.”

Unlike many European cities, Prague has a limited number of home for rent, a result of Czechs’ rush to own their own homes after the fall of Communist rule. Kolinska said the city would like to change that and is working on 12 projects that will put at least some 1,000 apartments on the market to rent in five years.

The city is also planning to follow the example of other European cities like Berlin and crack down on unregulated short-term housing rentals like Airbnb. A government report says some 18,000 apartments in Prague are used for the online service and over 50 percent of the business is controlled by firms that have hundreds or more flats.

Worried that new owners might not be able to pay back their mortgages if the economy weakens and they lose a job, or if the interest rates go up, as expected, the Czech Central bank has been taking steps to cool off the market. It is, among other things, not allowing mortgages that cover the full cost of a property.

Libor Holub, deputy director of the central bank’s financial stability department, said the Czech Republic currently “tops the (European) countries with the biggest price increase of residential housing.” Loans are expected to hit another record high this year.

Critics say the bank’s interventions will only force buyers to pick up cheaper properties outside Prague.

Pardubicky, the developer, says it’s the wrong solution.

“We need to renew the liberal market,” he said. “To build, buy and sell at the market price.”

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