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Real estate taxes to increase in most of Prague after long being stagnant

Most Prague districts agreed to an increase the real estate tax coefficient. Some 53 out of a total of 57 districts were in favor of changing the method of determining the amount of tax, according to Deputy Mayor Pavel Vyhnánek (Praha sobě). The four districts not planning an increase were not identified

The city is now preparing a decree allowing the amount of the coefficient for calculating the tax to be decided by individual town halls. Real estate tax is the only tax the city can influence.

"Real estate tax has not changed in Prague for many years. The approval of the increase was carried across the political spectrum," Vyhnánek said. "The city districts have been calling for the real estate tax to increase. We decided to meet with them."

Of the 53 districts planning an increase, 33 intend to set the coefficient higher than the city's draft decree, and 20 town halls will be satisfied with the proposed height.

In Prague, the local coefficient is now set at the national lowest possible level of one.

Prague is proposing an increase to level two on a five-point scale. According to the draft decree, the districts would set the size of their coefficient.

The coefficient is one of the factors used to set the final rate of residential property tax. Real estate tax consists of a land tax and a tax on buildings and units.

According to the draft decree, the commercial coefficient, which affects the amount of tax on commercial real estate, will remain at 1.5. The proposed introduction of a local coefficient means this tax will effectively rise as well.

Housing prices in Prague have been rising sharply, even without property tax increases. They are the most expensive in the Czech Republic, and, relative to the average net wage, among the most expensive in Europe.

Since mid-2015, new apartment prices have risen by about 90 percent, creating an unsustainable situation where housing is inaccessible to most Prague citizens. A new 70-square-meter Prague apartment would cost the buyer their entire annual gross wage for 14.6 years, according to the Housing Availability Index published by developer Central Group in June. Currently, the price of a new flat in Prague is more than CZK 106,000 per sqm.

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 it 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 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.

“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.”