

# Property developers planning to increase prices due to higher VAT

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Increasing the lower rate of value added tax (VAT) will result in more expensive new housing in the order of tens to hundreds of thousands crowns in 2012. "We need to reflect not only higher VAT rate but also higher energy and building material costs in the final price, otherwise we would end up in the red," said Štěpán Havlas, Financial Director of FINEP. Companies Central Group, Ekospol and Skanska explain the planned price increase similarly.

The domestic residential development is expecting the coming years not to be a cakewalk. "The following two to three years will continue to be very challenging due to the current economic development and increasing lower VAT rate. We expect the position of stronger players with long-term tradition, history and corresponding financial background to strengthen," said Naděžda Ptáčková, Director of Sales and Marketing Department division at Skanska reality.

Evžen Korec, CEO of Ekospol, estimates to sell around 3,000 new flats (yoy decrease of 10%) in Prague next year. "We expect recovery in demand following the planned further increase of VAT. We expect more long-term recovery in autumn 2013 when people get used to higher VAT rate," stated Jiří Vajmer, Sales Director at Central Group.

Many developers are trying to launch maximum number of projects by the end of this year to be able to offer clients a full or partial financing of a flat even at a reduced rate of VAT. "To some extent, this can also be a 'frontloading' on supply side and the total number of started flats will decline yoy in the next year," said Mr Korec, head of Ekospol. According to him, the volume of contracts for new flat construction in Prague this year is likely to increase slightly to CZK 2.5 billion from 2.2 billion in 2010. A question mark is raised above development of flat construction in 2012, according to CEO of Ekospol Evžen Korec. "I think that the volume of developers' construction activities in Prague will fall slightly next year and will stagnate at best. Economic development at this moment is incalculable, it will depend on the development of whole economy," Mr Korec said.

The lower rate of value added tax next year will rise to 14% from the current 10%. As of 2013 the rates will be united at 17.5%. Flats with an area of 120 sqm and houses of up to 350 sqm are now subject to reduced VAT rate of 10%. Most new buildings in the market belong to this category. Real estate transfer tax, not VAT, is applicable in transactions with older flats.

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