

# Dwelling: prices and sales in Central Europe drop

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A survey led by consulting company King Sturge shows that Warsaw where new dwellings cost on average EUR 1,870 per m<sup>2</sup> has fallen from the last year's first place behind Prague and Bratislava in the top prices of new dwellings in the countries of Central Europe. The bottom of the list is occupied (just like last year) by Budapest where the price for a square meter of a new apartment averages EUR 1,400. All the monitored markets have a similar development which varies locally based on the intensity of different trends. All the cities witnessed a drop in prices (5 %-15 %) and a drop in sales of residential properties (10 %-50 %), increase in interest rates of mortgages (5 %-13 %) and a considerable decline in new offers of residential properties.

## **Prague: change in development this year**

Prague, which secured the second place in the last year's top average prices of new dwelling in capitals of V4 countries, has won the first place this year. A square meter of new dwelling costs on average EUR 2,222 in the Czech capital. While in 2008 prices of new dwelling rose on average by 10.5% in Prague, in the first quarter of 2009 they fell by 5.2 %.

The situation on Prague residential market is significantly influenced by changes in bank financing. Mortgage credits went up notably last year. The interest rate which in December 2007 reached the level of 5.28 % climbed really close to six percent in December 2008 (it was precisely 5.9 %). Currently, mortgages' interests amount to 5.5 % on average. At the same time banks have tightened conditions for provision of credits for buyers as well as for developers. "Sales of residential properties in Prague have dropped on average by 50 %, due to which the offer significantly exceeds the demand. Execution of new residential projects was brought to a halt with some exceptions because developers are in most cases unable to meet key conditions determined by the banks: 40 - 60 % of pre-sales and 50 % of own financial sources," says Iva Nováková from the residential department of consulting company King Sturge.

## **Bratislava: interest in completed flats**

With the current average price of EUR 2,139 per square meter Bratislava secured the second place. Although offer prices in the Slovak capital stagnate, sales prices fall by 10 % due to discounts. Despite advantageous interest rates of mortgage credits which start already on 4.5 %, sales of flats have started to drop significantly since last summer. "Buyers are interested notably in completed or almost completed flats and they tend to negotiate the price, they require discounts and various stimuli. No one is interested in a flat that currently exists only on a paper. Unfortunately, as a result of it developers don't qualify for bank credits. Financial institutions require a considerable percentage of presales. If a developer is not able to prove them, they don't get the credit. They are thus forced to stop marketing the project or don't start it at all," says Michal Padych, head of department of residential properties in Bratislava branch office of King Sturge.

## **Warsaw: discounts of no help**

A long-standing leader of the Central European residential market was Warsaw, which, however, fell to the third place this year in the Central European comparison of prices. Currently, you'll pay around EUR 1,870 for a square meter of a new flat in Warsaw while last year it was EUR 2,641 (the drop reaches 30 %). The difference is due partly to a 10% - 15% drop in prices of properties, partly to a change in the exchange rate of the Polish currency. In contrast to the Czech Crown, the Polish Złoty significantly weakened. The

current rates of mortgage credits are around 8.4% in Poland. In the first quarter of 2009 the sales of residential properties dropped by roughly 50 % year-on-year.

Although Polish developers try to boost the feeble demand by a wide range of discounts (bonuses, exceptional reductions in price or bargains) which account for a 10 % reduction in prices on average (in exceptional cases even 15%), they did not manage to get the demand started. Diminishing interest in purchase of residential properties and limited access to bank financing brought practically to a halt new apartment constructions in Warsaw and its surroundings, which represents 30 % of residential construction in Poland. “Buyers not only on the Warsaw market are awaiting further cuts in prices. Currently offered discounts or bonuses like garages for free or annual insurance of apartments for free don’t help. The market has de facto frozen. On one side, there are buyers who don’t want to buy for the price the developers offer, on the other side, there are developers not willing to cut the prices because they hope the situation will improve soon. The past six months have also more often witnessed buyers withdrawing from already concluded contracts. The reasons vary according to particular situations - some of them want to save money for the rainy day, some haven’t obtained mortgage,” says Ewa Rasińska from Polish King Sturge.

### **Budapest: European record breaker in mortgage rates**

It is Hungarian Budapest which achieves the lowest average prices of new dwelling in Central Europe, i.e. within the Visegrad Four. Currently you can buy a new flat there for an average price of EUR 1,400 per square meter. Also Budapest has seen a year-on-year drop in property prices of roughly 10 %. What is remarkable is the fact that although the interest rate of mortgage credits is around 12 - 13 % and is thus on the highest level in Europe, sales of residential properties dropped only by 10 %. A number of projects were halted or postponed due to the considerably limited access of developers to bank credits in Hungarian capital. In addition, the residential market will probably be soon burdened by increase in VAT and property tax.

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