

czech point 101

# czech property forecast '10



Since 2003, Czech Point 101 has assisted individuals, companies and investor groups to invest in the Czech Republic property market. We have helped hundreds assess real estate opportunities, safely purchase property, manage lettings, register a local company (S.R.O.), comply with regulations, and establish Czech residency (for EU citizens).

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I have worked with Nathan and CZECH POINT 101 for a number of years managing my Czech investments.

I find him and his team really easy to work with and very proactive. Really good service!



Andy Brook (UK) | Director of Deloitte UK

introduction

an overview

# An Overview

Wow! It appears the worst of the economic firestorm is over.

But, is it really? Or is this economic uptick we are seeing in late 2009 just a sugar-high on stimulus money which is bound to collapse soon? Once again, the factors affecting the property market in Czech Republic are complex.

The factors which we feel will influence the property market the most in 2010 which also affected our predictions for 2009 are the global credit crisis, Czech wages and unemployment vs. housing prices, the overall economic health of the country as well as rents vs. housing prices. We've rehashed these

sections to see how these elements will apply to investment property in 2010.

New factors which we feel will also play a factor in 2010 and are considered in this article are: pent-up demand, currency trends and the government budget.

Factors which we predicted would affect investment property in 2009 but we feel no longer plays a major role going forward are the US housing market and the potential accession into the EURO currency (pushed off into the indefinite future).

Please remember that each of the topics is discussed on the basis of how it will affect residential property bought with the purpose

of investment.

Short of time, tired of our dribble and only want to read the final analysis? Page 6 has our conclusions on how we feel all these factors will affect the Czech investment property market in the short and longer term.

factor 1

global credit  
crisis easing(+)

factor 2

wages &  
unemployment vs  
housing prices (-)

# Global Credit Crisis Easing

Czech banks have been demonstrated to be extremely stable in the face of this firestorm. For example, the Czech National Bank reported that overall in Q3 2009 Czech banks as a whole increased net profits by an average of 10%.

Through the crisis the Czech banks have been net lenders to their foreign mother companies and, combined with the general atmosphere of fear in the world-wide banking sector, severely strangled the credit market.

With the global credit crisis easing, the Czech economy holding up comparatively well and loan defaults on the low side of their predictions we expect banks here to ease their

purse strings and increase mortgage lending. However, we don't expect to see this trend in the banks until late in 2010.

## Wages & Un-employment vs Housing Prices

One indicator whether housing is in for more growth or a correction is the difference in earning power vs price appreciation as it affects affordability.

In 2009 we still saw growth in wages which exceeded inflation. For example, the statics from the Czech Statistical Office for Q3 2009 showed that average wages increased 4.7% over 2008 even when adjusted for inflation. This is very positive for the housing market when over the same

period housing prices dropped by about 5% overall.

However, analysts agree that this increase was mostly due to dismissal of lower paid employees as businesses tried to cut costs.

From unemployment at 5.3% in 11/2008 to the figure of 8.6% in 11/2009 it is a trend which could continue to exceed 10% in 2010. Still, the unemployment levels are about 2% better than the average in the EU.

Overall we feel that any increase in salaries will be offset by employment making this element overall being a negative factor on the property market.

factor 3

overall economic  
health (-)

factor 4

rent vs housing  
prices (--)

# Overall Economic Health

From growth for 2005, 2006 and 2007 being over 6% to 2008 where it came in at 2.5% and 2009 being forecasted as -4.8% we can see the shocking results of the worldwide economic crisis. 2010 is predicted to fall in the range of 0.8%. So there is not much in the way of good news on this front.

Among the CEE countries which joined the EU in 2004, Czech Republic is clearly a top performer. However, until the core members of the EU, who are the main consumers of Czech products, see substantial growth, the Czech economy will continue to lag.

# Rent vs Housing Prices

Rental demand increased strongly in 2009 while prices decreased. This has made the rent to housing price ratio much better. In many cases the gross rental yields (calculated by dividing one year's gross rents by the purchase price of the property) increased up to 2% to the 7 or 8% range in many parts of Czech Republic.

We expect this trend of increasing rents to continue which will improve cash flow for those investors who already purchased property and make further purchases attractive for strong buyers.

The threat of increasing rents has been recognized and anticipated by the government which has passed a bill which guarantees loans for rental housing construction. Long-term this will have a negative impact on existing investment property owners but until the effects of this program are felt, it shows concretely where rents will be headed.



I discovered Czech Point 101 by chance on internet when I was looking for real estate investment opportunities in Czech Republic. And a chance it was indeed!

CZECH POINT 101 is proactive, available, always finds original ideas to promote your good and optimize your pay back.



Stephane Racine (Switzerland) | Financial Services Consultant

factor 5

pent up  
demand (++)

factor 6

currency  
trends (+)

# Pent up Demand

The property resale market has seen pent up demand being satisfied in Q3 and Q4 2009 as buyers who had sat on the sidelines in fear of what would happen to property prices decided to proceed. This has had a positive effect on property prices as there was an increase overall of 2.1% in property prices for Q3 2009. Statistics for Q4 have not been released yet but we expect a similarly positive number.

We expect more and more buyers to come off the sidelines as sentiments about the economy and strength of the property market improve.

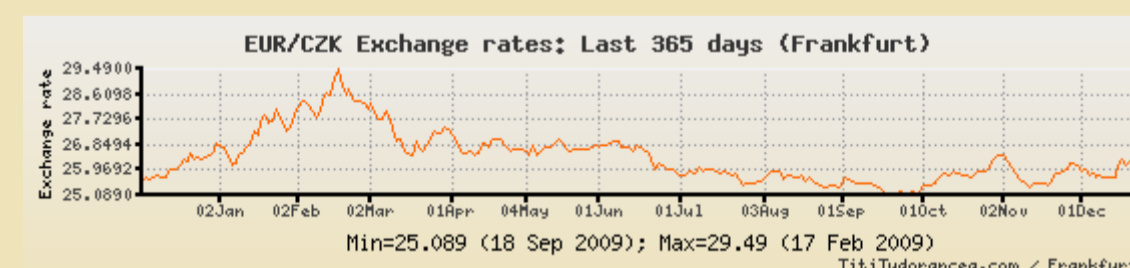
A substantial number of the properties which we resold in late 2009 were bought or had interest

from Czech 'buy-to-let' investors. We expect these buyers also to play more strongly on the market as overall signs continue positive and apparent risk is decreased.

## Currency Trends

With the interest rate being dropped one quarter of percent on December 16<sup>th</sup>, the Czech crown has softened to around 26.5 CZK to the EUR as of this report being written.

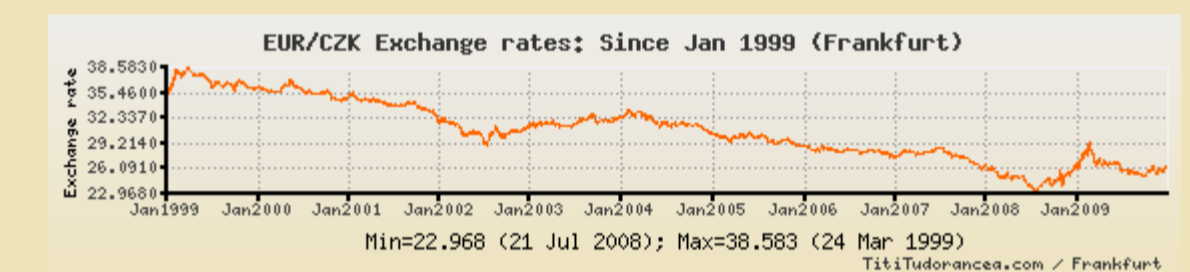
As the graph below shows, for 2009 we have the EUR in a little stronger position against the CZK than the same time last year.



Over the year of 2010 we expect this

will strengthen slightly but will not be a major factor as the Czech National Bank wants to keep a weak currency to encourage the export driven economy.

Below is a graph containing the overall currency trend since 1999 which shows a pattern of increasing strength with the last year or so being basically flat.



factor 7

government  
budget deficit (-)

factors 8 - ?

other possible  
factors (-)

# Government Budget Deficit

With the Czech government running a significant deficit, projected to be 5.3% in 2010, we expect taxes to increase in 2010 or at least be in the process of being increased by the end of the year.

With an election scheduled for spring of 2010 and the balance of power not strongly in favour of one party, we could see a change in the government. Whether or not the current government will change there is already talk from all sides of increasing taxes which had been in the process of being lowered over successive years.

Possible detrimental changes in

taxes for investors is that we could possibly see a capital gains tax being imposed and/or current time limits for the tax free period for individual buyers either being increased or abolished in the case of investment property. Nothing has been discussed about something like this to date but it is a possibility.

Increasing of corporate taxes could mean less foreign investment resulting in less jobs being created, smaller wage increases and Czech business owners moving their tax base abroad. Those who purchased property through a Czech company (SRO) would see this affect their profit at the sale of their property and immediately if they have positive cash flow.

We can expect municipalities to also increase property taxes as a way to improve balance sheets. Currently they are a negligible part of a property owner's calculation but could play a larger and larger role.

# Other Possible Factors

We expect some distressed sales in 2010 which will have a negative effect for other property holders. However, because of the limited number of investment properties on the market the effects will not make a major impact.

Any further news into 2010 which indicates the economy might not recover as soon as expected or that there might be the double-dip which many economists are forecasting will have a negative effect on the market. It will cause pent up demand on the part of sellers to be unleashed as they stop waiting for property prices to get back to their peak and decide to sell at a reduced price.

end conclusion

short term  
(2010)

end conclusion

longer term  
(2011/12)

# End Conclusion

## Short Term (2010)

Weighing all of these factors we believe that the positive aspects for the Czech property market outweigh the negative and we will see property prices grow in 2010. The biggest bump we expect to see in the spring. Overall we would expect prices overall to go up 5 to 7% through the year. By the end of the year prices should equal peak prices which we saw at the end of 2007 and beginning of 2008.

Rents should continue to strengthen as most seeking residences will chose to rent instead of buying because of the difficulty in getting approved for a mortgage as well as the difference between mortgage and rent payments increasingly being in favour of renting.

# End Conclusion

## Longer Term (2011/12)

Most of the factors which will play a role in the property market in 2010 will continue to affect things for the following years. Based on this we feel that property prices should move up each year. Not at the torrid pace which we saw in 2005 to 2007 but at rates between 5 to 10%.



With the CZECH POINT 101 team you can sail any seas in any weather conditions! They will become your good, loyal and honest friends with time which is very hard to find in this world!

Aydin Agazade (Australia) | Shell



MMX

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