

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Trade and Finance**



## **Bachelor Thesis**

**Real Estate Analysis of Czech Republic**

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## BACHELOR THESIS TOPIC

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- to find out the economic essence of the real estate market;
- to reveal the features of the formation and development of the housing market in the Czech Republic in the conditions of market transformations;
- to study the processes of development of the housing market infrastructure in the Czech Republic;
- to analyze the current state of the residential real estate market in the Czech Republic;
- to assess pricing processes in regional housing markets; to reveal the factors influencing the rental market of residential real estate in the Czech Republic.

The object of research is the processes of formation and development of the housing market real estate in the Czech Republic.

Methodology: The subject of the research is an economic assessment of the functioning of the Czech housing market in the modern economy. The practical significance of the results obtained is that application of the proposed methodological and scientific-practical provisions in the practice allows you to form a set of effective measures, the implementation of which will contribute to the formation and implementation of an effective state policy of assistance development of the residential real estate market of the Czech Republic. Suggested practical features 7 recommendations for improving the set of organizational and legal issues, information and institutional measures aimed at solving the following problems: priority problems of housing market development at the present stage.

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**Declaration**

I declare that I have worked on my bachelor thesis titled «Real Estate Analysis of Czech Republic» by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on date of submission

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# Real Estate Analysis of Czech Republic

## Abstract

The purpose of the thesis is to identify general trends in the functioning and development of the housing market in the Czech Republic in the context of the pandemic.

To achieve this goal, it was planned to set the following parameters, formulation and gradual solution of such tasks:

- to find out the economic essence of the real estate market;
- to reveal the features of the formation and development of the housing market in the Czech Republic in the conditions of market transformations;
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- to analyze the current state of the residential real estate market in the Czech Republic;
- to assess pricing processes in regional housing markets; to reveal the factors influencing the rental market of residential real estate in the Czech Republic.

The object of research is the processes of formation and development of the housing market real estate in the Czech Republic.

The subject of the research is an economic assessment of the functioning of the Czech housing market in the modern economy.

The practical significance of the results obtained is that application of the proposed methodological and scientific-practical provisions in the practice allows you to form a set of effective measures, the implementation of which will contribute to the formation and implementation of an effective state policy of assistance development of the residential real estate market of the Czech Republic. Suggested practical features 7 recommendations for improving the set of organizational and legal issues, information and institutional measures aimed at solving the following problems: priority problems of housing market development at the present stage.

**Keywords:** real estate, real estate market, value, rental market, infrastructure, development, housing market, COVID-19, prices, housing.

# Analýza nemovitostí ČR

## Abstrakt

Cílem práce je identifikovat obecné trendy ve fungování a rozvoj trhu bydlení v České Republice v kontextu pandemie.

K dosažení tohoto cíle bylo plánováno nastavení následujících parametrů, formulace a postupné řešení těchto úkolů:

- zjistit ekonomickou podstatu trhu s nemovitostmi;
- reveal odhalit rysy vzniku a rozvoje trhu s bydlením v České republice v podmínkách tržních transformací;
- studovat procesy rozvoje infrastruktury trhu s bydlením v České republice;
- analyzovat současný stav trhu rezidenčních nemovitostí v České republice;
- posoudit cenové procesy na regionálních trzích s bydlením; odhalit faktory ovlivňující nájemní trh rezidenčních nemovitostí v České republice.

Předmětem výzkumu jsou procesy tvorby a rozvoje realitního trhu s bydlením v České republice.

Předmětem výzkumu je ekonomické zhodnocení fungování českého trhu s bydlením v moderní ekonomice.

Praktický význam získaných výsledků je, že aplikace navrhované metodické a vědecko-praktické ustanovení v praxi umožňuje vytvořit soubor účinných opatření, jejichž realizace přispěje k vytvoření a zavedení efektivní politiky státu pomoci rozvoji trhu rezidenčních nemovitostí v české Republice. Navrhl praktické funkce 7 doporučení pro zlepšení sada organizační a právní otázky, informace a institucionální opatření zaměřená na řešení následujících problémů: prioritní problémy s bydlením vývoj v současné fázi.

**Klíčová slova:** nemovitosti, trh s nemovitostmi, hodnota, trh s pronájmy, infrastruktura, rozvoj, trh s bydlením, COVID-19, ceny, bydlení.



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## Introduction

**Relevance of the topic.** The formation of the foundations of a market economy in the Czech Republic is accompanied by the elimination of the state monopoly on real estate and the emergence of other countries subjects of purchase and sale, creation of a real estate market. In turn, real estate market as a sphere of formation, circulation and use of objects real estate in the Czech Republic reflects certain problems of the transition economy. His segments are characterized by high unevenness of development and low investment attractiveness, which hinders long-term investment and hinders it development of the economy as a whole.

The modern paradigm of post-industrial society assumes the presence of a high level of providing the population with comfortable and comfortable housing as a whole one of the key components of quality of life. At the same time, the development of processes regionalization of the economy of the Czech Republic, which implies the expansion of powers territories in the choice of directions, forms and methods of management, as well as strengthening their responsibility for the results of the functioning of individual business entities subjects, caused the movement of the center of responsibility for the solution problems of residential real estate market development and accessibility housing at the macroeconomic level. And this, in turn, led to the need for conducting thorough research on the analysis of the current state and forecasting trends in the development of regional residential real estate markets.

The importance of these studies is explained by the fact that they are in demand a wide range of interested parties. Along with this, certain regional aspects of the development of the housing market real estate has not been fully studied, they require further scientific and practical consideration.

Thus, there are significant differences in the current conditions and trends in local housing markets are causing the need for development individual approaches to their analysis and forecasting, which would maximize we took into account the specifics of a particular territory. In addition, monitoring services research of trends related to changes in supply, demand and prices in the market residential real estate, become more complex and often lead to significant excellent results due to insufficient information and scientific support such research, the imperfection of methods and tools that allow effectively assess the current state and outline prospects development of the regional housing market.

**Purpose and objectives of the study.** The purpose of the thesis is to identify general trends in the functioning and development of the housing market in the Czech Republic in the context of the pandemic.

To achieve this goal, it was planned to set the following parameters, formulation and gradual solution of such tasks:

- to find out the economic essence of the real estate market;
- to reveal the features of the formation and development of the housing market in the Czech Republic in the conditions of market transformations;
- to study the processes of development of the housing market infrastructure in the Czech Republic;
- to analyze the current state of the residential real estate market in the Czech Republic;
- to assess pricing processes in regional housing markets; to reveal the factors influencing the rental market of residential real estate in the Czech Republic.

**The object** of research is the processes of formation and development of the housing market real estate in the Czech Republic.

**The subject** of the research is an economic assessment of the functioning of the Czech housing market in the modern economy.

**The theoretical and methodological basis of the research** is fundamental provisions of economic theory and management theory, scientific achievements of domestic and foreign scientists in the field of market functioning residential real estate.

**Research methods.** The paper uses a set of methods: general scientific methods of analysis and synthesis – for evaluating the dynamics, structure and performance of the residential real estate market; comparative analysis analysis – for the study of methodological and methodological approaches, the development of author's concept and proposals for taking into account research results leading domestic and foreign scientists devoted to the peculiarities of development of the real estate market; logical and semantic – for deepening conceptual framework for determining the main components of the market infrastructure housing.

**The practical significance** of the results obtained is that application of the proposed methodological and scientific-practical provisions in the practice allows you to form a set of effective measures, the implementation of which will contribute to the formation and implementation of an effective state policy of assistance development of the residential real estate market of the Czech Republic. Suggested practical features 7 recommendations for improving the set of organizational and legal issues, information and institutional measures aimed at solving the following problems: priority problems of housing market development at the present stage.

# 1 THEORETICAL FUNDAMENTALS OF FUNCTIONING OF THE REAL ESTATE MARKET

## 1.1 The essence of the real estate market

One of the most important indicators of the development of market relations is the development of the real estate market as a whole, and its individual sectors, in particular. Without a real estate market effective development of markets such as the market is impossible labor, capital, goods and services, and the mechanisms of market pricing, investment, and savings in the economy as a whole depend on it.

The importance of the real estate market as a sector of the economy is confirmed by its current significant share in GDP, a high level of budget revenues from the initial sale, rental of real estate owned by the state and territorial communities, a high level of payments to the budget from real estate transactions, as well as an even greater «hidden» potential for filling budgets at all levels. Real estate can be considered as an investment asset, but it can also be attributed to the scientific category of goods. In economic theory, there is a category of «goods» that includes a non-renewable element such as Earth.

The demand for goods, regardless of whether they are industrial or consumer, is secondary to the demand for real estate, since in the future in a modern urbanized society, the process of trade itself, that is, the purchase and transfer of goods, for the purpose of satisfying public consumer needs without the availability of real estate almost becomes impossible.

The demand for real estate is purely economic category, and depends on the economic state society, country, state, region, and even a specific one a city or locality, in particular its economic status the global economy as a whole. That is real estate by virtue of its nature is a complex commodity formed from a number of elements, interconnected with each other, which makes it physically impossible create two identical products, real estate objects. If the property is purchased for profit through renting out, it is considered as an investment asset, if for the purpose of purchasing real estate in the CCA fast property without trying to generate income from it (for example, your own house for housing) — as a commodity.

Real estate becomes the center of economic relations, which means that arise between different entities regarding its purchase and sale, lease, pledge, investment, financing, registration of property rights, taxation, transfer to inheritance the processes of denationalization and privatization of real estate, which began with Czech`s independence and the formation of a market economy, were accompanied by the determination of the market value of real estate, which cannot be established only on the basis of costs [7, p. 68].

In the process of privatization, real estate becomes an economic and legal object of market relations, and turns into a commodity with specific characteristics. The real estate market is important in ensuring the effective functioning of all elements of the economic system, as well as in creating optimal conditions for development of investment processes and ensuring economic growth.

According to N. Petrenko, the leading role of the real estate market in the market-type economic system has made it necessary to create a system of state regulation of the real estate market, which includes two elements: state and other regulatory acts, as well as state and municipal bodies and organizations. At the same time, in organizational terms, state regulation of the real estate market it is carried out in two forms: by direct intervention, that is, in an administrative way, and indirectly, or by the influence of economic management methods [11, P. 51].

S. Mocherny defines the real estate market as a special type of market in which the object of purchase and sale or collateral for obtaining a loan is real estate... one of the main types of market, which in interaction with the market of goods and services the capital market determines the features of the economic mechanism of a modern regulated economy [9]. Reflecting the interaction of the real estate market with other markets, this definition, however, does not give a complete answer to the question of which entities participate in the system of functional" real estate market and how ownership rights to Real Estate objects are transferred.

According to M. Kovalenko and L. Radvanskaya, «the real estate market is a system of economic, civil" law relations arising in relation to Real Estate objects and rights to them, within which demand and supply are formed, price and cost for these objects» [8].

At the same time, these authors do not justify the difference between the concept of «cost» and «price» for real estate objects, as well as mechanisms that will actually ensure such a distinction between their content and essence.

A. Boyko shares the opinion of foreign scientists D. Friedman and N. Ordway, who propose to interpret the essence of the concept of «real estate market» as a certain set of mechanisms, according to through which property rights and related interests are transferred, prices are set and space is distributed between various competing land use options [4].

As you can see, the definition of this concept in it does not fully provide a clear answer to the question: What are the mechanisms for transferring property rights and how to use them prices are set.

In our opinion, the author's position is more meaningful I. Balabanova, who notes that the real estate market represents this is the sphere of investment of capital in real estate objects and

the system of economic relations that arise when performing real estate transactions. I. Balabanov suggests including the following features of the real estate market:

- the amount of demand for real estate objects is most often determined by geographical and historical factors;
- demand for real estate is not interchangeable;
- transactions in the real estate market require state registration registrations;
- investing capital in real estate requires the cost of maintenance of the object in its proper functional purpose, payment of property ownership taxes, payment of taxes and fees related to the real estate transaction [2].

Numerous features of the real estate market give grounds to characterize it as a specific sector of the national economy, characterized by a cyclical nature, a high degree of regulatory state influence, unbalanced supply and demand, rising value of the property, low liquidity, high the level of transaction costs, a limited number of sellers and buyers, and an insufficient level of research.

As A. Berezhnaya notes, the real estate market as an integral part of the market space has its own patterns, consisting in cyclical fluctuations in activity and prices along with economic, investment and other cycles and in close connection with other markets (currency, stock), which contributes to the movement of capital to the real estate market and the dynamics of prices on it. Meanwhile, the driving force of the real estate market is the combination of investment risks in comparison with alternative forms of investment.

In this regard, special attention should be paid to the study of the relationship between trends in the development of the real estate market and the profitability of securities, the inflation rate of the national currency, as well as the increase in its exchange rate relative to others formation of prices for the main supply and demand equilibria or dependence of price trends on the ratio of supply and demand [3].

The financial market includes the real estate market, and the residential real estate market in particular, such authors as Yu. V.Pashkus, I. T. Balabanov. The latter considered the market real estate as a sphere of capital investment in its objects and the system of economic relations that arise during real estate transactions [2, p. 9].

Other researchers, namely: A. M. Asaul and A.V. Karasev, they pointed out that this market is characterized by market characteristics however, it is not entirely correct to say that the real estate market is an integral element of the single market services [1].

Thus, the real estate market in interaction with the market goods and services and the capital market determines the specifics economic mechanism of the modern transformational economy. In countries with a developed market structure real estate market, serving the purchase

and sale of objects real estate and investment processes of the economy, forms the basis on which other types of economic activity develop activities. Real estate market entities include individuals and legal entities that actively contribute to improving the efficiency of its development. Essential for identifying the nature of processes, what is happening in the real estate market has an understanding of the classical and inversion types of market transformation. Thus, the classic type of transformation is characterized by progressive development of the economic system, when the transition to the highest stage of development occurs on the basis of resolution of contradictions of the previous degree. Formation market relations of the classical type determines the transition from small to large property, deepening the role of state appropriation. In contrast, the inversion type is a transition to a «modern» market system with a changed Historical Order of the stages of its formation. The opposite happens in the transition from total nationalization of property to diversity forms of assignment [6, p. 6].

As for the real estate market, scientists distinguish classic (market for newly built real estate and that is under construction) and inversion (privatized market real estate) markets operating in an industrial-type transition economic system. It is precisely because of the inversion type of market transformation that is inherent in the market real estate in Czech Republic, in our opinion, building institutions according to classical templates, it leads to their incapacity.

## **1.2 Classification features of real estate**

Depending on the purpose, immovable objects can be classified according to various criteria. So, in European countries, real estate is divided into three groups.

1. Category A-real estate used by the owner for business:

- a) specialized objects for conducting a certain type of business;
- b) universal real estate - ordinary buildings for sale or rent.

2. Category B - real estate for investing capital in order to generate income.

3. Category B - excess real estate (in reserve). There are five types of real estate in the United States:

- Residential - for personal use (consumption);
- Commercial - for business, including sales; - production;
- Investment-for investing capital; - Special purpose.

For the purposes of regulating public relations and solving socio-economic problems, real estate can also be classified into three levels, taking into account the degree of readiness for Operation.

The most common general classification of real estate in terms of its taxation, regardless of the physical nature of the objects. The tax classification provides for the allocation of the following four categories of real estate:

- commercial, used for business and generating rental income;
- personal residential property; o is intended for sale as a commodity for profit by developers and dealers engaged in real estate transactions;
- investment objects that provide net income, return on invested capital, or increase in its value in a future period of time.

There is also recreational real estate in the recreation sector, institutional buildings of government and municipal authorities, educational institutions and other special purposes. By the nature of use, there are:

- residential properties: houses, cottages, apartments.

Residential real estate includes: low-rise buildings (up to 3 floors), multi-storey buildings (4-9), high-rise buildings (10-20 floors), high-rise buildings (more than 20 floors).

The object of residential real estate can also be a

- condominium, section, entrance, apartment, room, Country House;
- real estate for commercial and industrial activities: hotels, offices, restaurants, shops, factories, factories, warehouses;
- real estate objects for agricultural needs: farms, gardens;
- real estate for public needs: - health and wellness facilities (hospitals, polyclinics, sanatoriums);
- educational institutions (kindergartens, nurseries, schools, institutes);
- cultural and educational institutions (museums, parks of culture and Recreation, theaters, circuses, planetariums, zoos, botanical gardens);
- special buildings and structures – administrative (police, Court, prosecutor's Office, authorities), monuments, memorial structures, railway stations, ports, etc.;
- engineering structures (reclamation structures and drainage, mines, tunnels, dams, stockades) and transfer devices.

For the purpose of use:

- real estate for doing business; for the owner's residence;
- for investment;
- as a commodity stock.

By form of ownership: private, state, and municipal funds.

By degree of specialization:



- specialized real estate-real estate that, due to its specialized nature, is rarely or never rented out, is not sold on the open market, except in cases when this property is sold as part of the business that uses it (for example, oil refineries and chemical plants; power plants; museums; libraries);
- non – specialized-other real estate that is in demand in the market for investment, use for an existing or other similar purpose.

Depending on the readiness for operation, there are real estate objects that have been put into operation; those that require reconstruction or major repairs; as well as unfinished objects.

Unfinished objects are objects for which documents on their acceptance into operation have not been issued in accordance with the established procedure. They can be divided into two groups: objects where work is being carried out, and those where work is suspended for certain reasons (conservation or complete termination of work).

Depending on the possibility of reproduction in kind, there are: reproducible real estate objects – houses, structures, perennial plantings and non – reproducible-land plots. Various typological constructions are possible for residential properties.

So, depending on the duration and nature of Housing use, there are:

- primary housing - place of permanent residence,
- secondary housing – suburban housing that is used for a limited time,
- tertiary housing – intended for short term accommodation (hotels, etc.).

### **1.3 Methods of real estate valuation**

A special type of real estate is an enterprise. The accelerated pace and dynamically developing market of real estate and purchase and sale of enterprises, as well as constantly increasing investment volumes, make it necessary to conduct a qualitative assessment of enterprises. This provides both owners and investors with the most complete information about the object of the transaction, even at the decision-making stage.

In order to understand how an enterprise is evaluated, we will consider the goals of enterprise evaluation, what approaches and methods are used, and which of them give a more accurate and reliable result for making decisions. To date, there are many definitions of the concept of enterprise.

The company includes such types of property as land plots, buildings, structures, equipment, inventory, raw materials, materials, products, as well as rights that the Company distinguishes from others, such as trademarks, service marks, intellectual property rights [2].

Enterprise valuation is the determination of the market value of assets and liabilities (which are understood as real estate objects, vehicles and equipment, inventory in warehouses, brand, goodwill, intellectual property and accumulated customer base, qualified personnel, equity and invested capital). The assessment of an enterprise, among other things, also evaluates the effectiveness of its activities.

The main purpose of evaluating an enterprise is the purchase and sale of an enterprise, it can also be for investment purposes, reorganization and liquidation of the enterprise, revaluation of fixed assets, insurance for obtaining a secured loan, transfer of the object for rent. The value of an enterprise as a business can be influenced by various factors. Economic factors that characterize the general state of the economy, the level of supply and demand, and taxation. Political factors include tax policy, monetary policy, financial policy, the level of business control by the state, and natural and climatic conditions, location, and social factors.

Evaluation is carried out in several stages: determining the purpose of evaluation; preliminary evaluation (based on balance sheet data); collecting and analyzing information about the object of evaluation; applying approaches to evaluation; coordinating the results; preparing an evaluation report. When carrying out valuation activities, depending on the intended use of the valuation result, a specific type of value is determined: market value; investment value; liquidation value; cadastral value [2].

Determination of the market value is carried out by appraisers, the «market value» of the object of evaluation is understood as the most likely price at which this object of evaluation can be alienated on the open market in a competitive environment, when the parties to the transaction act reasonably, having all the necessary information, and the value of the transaction price is not affected by any extraordinary circumstances [3].

The final value of the market or other value of the object of assessment, indicated in the report compiled on the grounds and in accordance with the procedure provided for by this law, is recognized as reliable and recommended for the purposes of performing a transaction with the object of assessment. An evaluation approach is a set of evaluation methods united by a common methodology. The main approaches used in the assessment are comparative, revenue-based, and cost-based. When choosing the approaches used in the evaluation, it is necessary to take into account not only the possibility of applying each of the approaches, but also the goals and objectives of the evaluation, the intended use of the evaluation results, assumptions, completeness and reliability of the initial information. Each approach provides different perspectives on the overall cost determination process. It should be noted that these approaches and methods are not only not mutually exclusive, but also complement each other. Usually, when evaluating a business, depending on the purpose of the assessment, the desired value, the

conditions set, the state of the object itself and the state of the economic environment, a combination of two or three methods that are most suitable in this situation is used. The decision on which method or methods to use in each specific case is made by the appraiser based on the nature and specifics of the company, the completeness and reliability of the data used for analysis [3].

According to the revenue approach, the value of an enterprise is determined by current or expected income from its activities. The profitable approach includes:

1. direct capitalization method.
2. method of discounting cash flows.

The cash flow discounting method is based on predicting flows from a given business, which are then discounted at a discount rate that corresponds to the income rate required by the investor. The profitable approach is carried out using the following stages: choosing a model of the profitable approach. Determining the duration of the forecast period. Retrospective analysis and forecast of gross sales revenue. Cost analysis and forecast. Analysis and forecast of investments. Determining the amount of cash flow. Determining the discount rate. Calculation of the cost value in the Post-forecast period. Calculation of the cost value in the forecast period.

Making final amendments. In the cost approach, when estimating the value of enterprises, the main method of estimating market value is the adjusted book value method or the net asset method. The method involves analyzing and adjusting items on the company's balance sheet, summing up the value of assets and subtracting the amount of adjusted items of liabilities from the received value of assets. The net asset value is understood as the value obtained as a result of implementing the following algorithm: items of the balance sheet asset are summed up. Liabilities from the balance sheet liability are summed up. The amount of liabilities is deducted from the amount of assets. The market value of the land is added to the resulting difference.

A comparative approach to business valuation assumes that its value is determined by how much it can be sold for if there is a sufficiently established market. The price of such businesses or their shares is used as a reference point. The price reflects the production and financial capabilities of the enterprise, market position, Development Prospects and competitiveness. The method of industry coefficients allows you to calculate the estimated cost of a business using formulas derived from industry statistics.

The industry coefficient is the ratio between the price of an enterprise's equity capital and its most important production and financial indicators. This method uses 6 multipliers: price/profit; Price / cash flow; price / dividend payments; Price / Sales Revenue; Price / Book Value; Price / Net Asset Value. Almost no serious attention is paid to the problems of evaluating

collateral. This leads to a violation of the most important valuation principles, as a result of which additional risks arise in the banking sector.

To solve the identified problems, it is necessary to bring into line the legislation in the field of valuation activities and in the field of mortgage lending, as well as conduct scientific research to create recommendations for evaluating real estate for collateral purposes. Valuation activities are aimed at establishing the market, Cadastral, liquidation, and investment value of an object. At the same time, the market price is understood as the most likely price that can be paid on the open market in conditions of free competition. It is also assumed that the parties have all the necessary information about the subject of the transaction, the object is presented through a public offer, and the parties do not force the transaction [1].

The cadastral value is determined in accordance with the legislation regulating Cadastral valuation. When determining the liquidation value, the influence of circumstances that force the seller to sell the object not at market value is taken into account. When determining the investment value, in contrast to the market value, taking into account the possibility of selling on the open market is not mandatory [2]. If several approaches are used simultaneously, the final result can be obtained by weighted average score or other mathematical and logical methods.

## **CONCLUSIONS TO SECTION 1**

Thus, the real estate market in cooperation with the market of goods and services and the capital market determines the special economic mechanism of the modern transformation economy. In countries with a developed market environment structure of the real estate market, serving the purchase and sale of real estate objects and investment processes it forms the basis on which the NES and types of economic activity develop. Real estate market entities include physical entities and legal entities that actively contribute to the improvement of efficiency of its development.

There are also different approaches to classifying objects real estate. In general, the analysis of works devoted to the study of the real estate market allows us to formulate the following characteristic features inherent in the real estate market: localization; incomplete information; housing ownership and housing-related transactions there are usually 4 types of expenses: large investments, repairs, operating costs, property tax, and duty and other fees; demand is determined not only by consumer qualities, but also by location; housing is not only a means satisfaction of personal needs, but also the object of investment; relatively small number of participants and transactions.

## **2 ANALYSIS OF THE FUNCTIONING OF THE REAL ESTATE MARKET IN THE CZECH REPUBLIC**

### **2.1 Stages of formation and analysis of key problems of the real estate market in the Czech Republic**

The main danger when choosing an object are hidden defects (pollution, dampness, odors and noises, geological problems of the site, disturbed static of the house, increased radon levels, plans for construction in the immediate vicinity, which can reduce the value and liquidity of the selected property, etc.). Therefore, it is recommended to collect as much information as possible about the location of the object you like and about the object itself. Recently, there is also a special service on the market - an inspection of the property chosen for purchase (apartment or house) with an authorized construction engineer and drawing up a «passport» of the object indicating possible problems in various areas (static, acoustics, hygiene, insulation, etc.) and an approximate calculation of the costs of their elimination. It costs about 20-40 thousand crowns, depending on the size of the object and the completeness of the coverage of the problem, but in a number of cases it is recommended to incur these costs, they will pay off, for example, as an argument in negotiations with the seller about price reduction. By the way, the new Civil Code provides for the responsibility of the seller of real estate for hidden defects, so that the complaint can be presented retroactively within 5 years after the purchase.

Among the legal dangers, the main ones are the problems of the fullness of property rights. These include possible restorative disputes, collective ownership (for example, the object has several owners - spouses or family members), various restrictions on the manipulation of real estate (pledge of real estate, execution of the seller's property, the existence of a preferential right to purchase, etc.). Most of these problems can be seen immediately when analyzing an extract from the real estate cadastre (property sheet). However, there are many rights that represent a restriction in the disposal of real estate, but are not recorded in the cadastre. So, for example, lease relations are not recorded in the cadastre, which may constitute an encumbrance (you will buy the object together with the tenant). In the cadastre you will not find the preferential right of the state to purchase land plots located on the territory of national parks and nature reserves. If you buy such land, which was originally supposed to be offered for redemption to the state, especially to build something on it, and after a few years to find out that your initial transaction may be declared invalid, it will be unpleasant, agree.

Since 1.1.2018, you need to pay attention to the purchase of apartments with Parking spaces. The clumsy introduction of amendments to the new Civil Code has led to the fact that

parking spaces in shared garages, which are usually issued as «a proportional share of co-ownership of a garage with the right of exclusive use of place no. ...», as well as any shared ownership, by law fall under the right of pre-emptive purchase of all other co-owners. That is, buying or selling such an apartment with parking, you need to somehow take care that the parking space does not have to be forcibly sold to a neighbour later.

A curious (and untidy collision) may be related to real estate that was transferred to the ownership of a foreign individual from the company's property after foreigners were able to purchase real estate in their own name, and the firms were no longer needed. Few people knew that in accordance with paragraph 196 of the Commercial Code, the price of a transaction between close persons (and a foreigner and his company are undoubtedly such) is determined by an official appraiser appointed by the court. And if this minor formality is not observed, the transaction will be considered invalid from the very beginning. This was once used by scammers who offered such foreigners (whose names they found in the cadastre and in the register of firms) to buy out a now unnecessary company from them. And then, on behalf of this company, they filed a complaint with the court about the invalidity of the transfer of real estate from «their» company to an individual and demanded the return of the property (or compensation). Fortunately, if no one has filed claims for such a transfer of real estate from the company to its owner for 3-4 years, it is considered that everything is in order, the statute of limitations for filing claims has expired.

In some cases, problems are relatively easily eliminated (for example, the fact that the property has several owners will not be a problem if they all intend to sell it together). In other cases, it is better to refrain from buying, or at least consult a lawyer about it first. In any case, it does not hurt to insist that there is a clause in the contract of sale stating that the seller is liable for damage resulting from the provision of false information.

A special case concerning only foreigners is the transfer of a mortgage. Since a mortgage loan is a product designed mainly for private individuals-citizens of the Czech Republic, it is somewhat more difficult for a foreigner (or a company created by him) to get a mortgage. Therefore, after consulting with a mortgage specialist (and you need him not to walk restlessly from one bank to another), it is better not to count on you when buying such an object for the transfer of an existing mortgage, no matter what the broker or seller promised you on this topic. However, banks have already appeared that are ready to provide. When concluding a real estate purchase transaction in private ownership, the most «fresh» extract from the cadastre should be offered. There are cases (though extremely rare) when an object is «sold» several times, when an object is sold that the «seller» does not actually own, or an object that cannot be disposed of (for example, mortgaged). As soon as an application for changes is submitted to the cadastre (for

example, a change of ownership, the establishment of a pledge, temporary arrest or execution), a «seal» is placed on the object, and this can be seen on the statement. This has already been mentioned above. But the problem may be that at the moment when you study the proposed documents, everything is still fine, and by the time the transaction was completed, changes had occurred. That's why we need the most recent statement. An extract can be provided by a seller or an intermediary, but it will be more reliable if the buyer does not regret 100 crowns and personally receives an extract from the cadastre (and today such an extract can be obtained by mail) immediately before the transaction. In general, in case of any ambiguities contained in the extract from the cadastre, it is recommended to refrain from any payments until they are clarified or eliminated. If the seller of real estate is a legal entity (firm), an extract from the cadastre becomes insufficient, an extract from the commercial register for this company will also be required. First, you need to make sure that the representative of this company is really the person who can perform actions on behalf of the company (the «sole proprietor») or is officially authorized by him to perform this action by a power of attorney. Unlike the cadastre, an extract from the commercial register does not display changes that have already been submitted to the register, but have not yet been recorded there, «seals» are not put. Therefore, theoretically, a situation may arise when the director of the company is authorized to make a deal according to all documents, but on the eve of the founders' meeting he was recalled from the function, and he no longer has the right to speak on behalf of the company. Such an «ex-director», of course, commits a criminal offense, but this does not make it easier for the buyer: the transaction will be declared invalid. Due to the length of the registration procedure in the cadastre (officially - up to 30 days + 20 days of the «security period», during which the cadastre informs the owner of the property that an application has been submitted to the cadastre about his property, so that, from the moment of signing the bill of sale to the official change of ownership, at least almost 2 months pass, but sometimes the process can take longer), the transaction is de facto considered to have taken place when the documents are submitted to the cadastre. Confirmation of this is the stamp of the cadastre on the copy of the application. Sometimes the contract of sale explicitly provides that at least part of the money deposited with the notary is paid to the seller after submitting an application to the cadastre. For example, this concerns the payment of the seller's loan balance to his bank. This creates some risk of being left without real estate and without money. However, the seller also risks the same: after signing the sale agreement and submitting an application to the cadastre, he remains for some time without money and without real estate. Generally speaking, apart from a long recording time, there should be no problems with the cadastre, especially if all documents were carefully analyzed before the transaction was concluded. Many real estate agencies consider the transaction completed at the time of

submitting the application to the cadastre: at this moment they cash the commission, settle with the broker, etc. If the cadastral office does not like something, it will cause the parties to supplement the application with missing documents. However, if the seller has already received money by this time, it may be difficult to achieve cooperation from him. Therefore, it is recommended, if possible, to link the payment of the deposited money to a third party until the actual recording of the new owner in the cadastre.

The new Civil Code, which has been in force since January 1, 2014, provides (among other things) that the debts of the seller of real estate for contributions to the reconstruction fund and utility bills for the common premises of the house to the owners' association or management company (garbage collection, water, heating, elevator, staircase lighting, management company services, etc.) automatically transfer to the new owner.

This danger concerns, first of all, apartment buyers. Therefore, when buying an apartment or non-residential premises in an apartment building, it is recommended to get a confirmation from the seller (or even better – directly from the management company or from the HOA) about the absence of such debts. We can talk about quite serious amounts! The law also provides that the seller must present the so-called «certificate of energy consumption of real estate» to the seller before signing the contract of sale. In fact, this is an official conclusion on the degree of thermal insulation of the object. Except for the authors of the law, no one needs it - neither the buyer nor the seller. Nevertheless, there is such a duty, and its non-fulfilment threatens with a fine. Apartment owners don't have to worry - this document is usually kept by the management company, which will send you a copy by email. But the owners of independent objects (private houses, apartment buildings) will have to pay for the production of such a certificate. mortgage loan to a foreigner (or a Czech company belonging to him). The very purchase of an object burdened with a mortgage is a matter of technique. Most of the objects offered in the Czech Republic today are burdened with mortgages. Since such a situation does not frighten a bank that is ready to provide you with a loan for the purchase of such an object, especially since it should not frighten you. The technique is worked out - the seller's bank must agree to the sale and early repayment of the loan and issue an accurate calculation of the surcharge by a certain date. The buyer deposits his (or credit from his bank) money for safekeeping, from which part of the amount corresponding to the surcharge to the seller's bank is sent directly to the bank, and the rest - after recording the new owner in the cadastre - to the seller. At the same time, it should be understood that in the cadastre, together with the new owner, a collateral encumbrance in favor of the seller's bank is still recorded, and a collateral encumbrance in favor of the buyer's bank is added to it, if necessary. The seller's bank, having received its money, issues a so-called "receipt" - a document stating that the bank's collateral right has disappeared in connection with the



repayment of the loan. This piece of paper is sent to the cadastre, which will remove the first collateral encumbrance. all this usually takes up to 2 months.

When choosing a new building that has not yet been completed and put into operation, it makes sense to inquire about the availability of permits (at a minimum, the so-called "permission to place the object" should be issued and come into force). At the same time - especially during development booms - there are cases when developers offer apartments for sale in projects that have not yet received the appropriate permits. In the best case, it may threaten that the apartment will have to wait «a few» longer than promised (and the horizon of 1-2 years is not an exaggeration at all), in the worst case, there is a risk that the project will never be implemented at all. True, such an unsuccessful buyer will most likely not lose any money, however, time will be lost and other options will be missed.

If the object has been reconstructed (especially if it is a partial reconstruction), then you should ask about the documentation on the basis of which certain repair and construction changes were carried out. The fact is that the previous owner could have made repairs without an official construction permit (i.e. actually illegally). If this fact comes up (for example, when applying for a bank loan secured by real estate), the new owner may have big problems, which at best will be solved by a fine. But, most likely, it will be necessary to additionally legalize the construction changes made, and this, in particular, means obtaining the consent of all neighbours. Imagine how much trouble it will be to arrange, for example, the transformation of the original outdoor terrace into a «winter garden» or (even worse) into a living room. Fortunately, the mode of obtaining a construction permit is not needed for all changes. for example, the transfer of the kitchen or bathroom from one part of the apartment to another, the demolition of curtain walls, etc. does not fall under this regime.

When the object is selected, the reservation advance must be made only simultaneously with the signing of a carefully elaborated reservation agreement. Sometimes there are cases when the seller takes an advance, and then makes a deal with another buyer on more favorable terms for himself or simply refuses the deal for some reason. In this case, you need to do everything possible to insure yourself, guaranteed to return the advance and still receive compensation. Since, as a rule, the reservation contract is signed and the advance is taken by the seller's real broker, you should make sure that he is really his representative (he has a corresponding power of attorney from the seller).

Since 1.11.2016, the payer of the real estate transfer tax (4%) is the buyer. Therefore, in addition to the paid purchase price, he must file a tax return and pay tax within 3 months after recording the transaction in the cadastre. The annex to the declaration is usually the official assessment of an expert appraiser (there is, however, also the possibility to determine the price of

real estate by a «comparative» method, but, firstly, it does not apply to all objects, secondly, it is in reality so difficult that it is easier to pay the appraiser. The tax is paid from the price (actual or estimated), which will be higher. At the same time, a deviation of 25% is allowed. Therefore, before offering the other party to specify a lower than the real price in the contract, you should think hard about whether it makes sense.

From the moment of submission of documents on the purchase and sale of an object to the cadastre, the real estate insurance concluded by the previous owner (if any) automatically ceases to operate. The buyer will need to conclude a new insurance contract without undue delay (this is not an obligation, but we strongly recommend not saving on insurance). The subtlety is that, according to the law, Czech insurance companies do not insure an object at its actual cost (selling, estimated or otherwise). They insure for the amount that would be needed so that in the event of an insured event, it would be possible to build a new object of the same kind in the same place. In other words, real estate is insured for the cost of a new building, which naturally increases its size. If the amount of insurance has been reduced, and an insured event occurs, the insurance company will fine the owner of the property and pay a significantly (disproportionately) smaller amount, or even refuse to pay at all.

## **2.2 Assessment of the organizational and economic system of the real estate market**

The crisis associated with the COVID-19 epidemic has not yet brought the expected decline in real estate prices. During 2020, despite epidemiological restrictions, prices for apartments in Prague grew, excluding, perhaps, only Prague 1, which is due to a large outflow of apartments to the market in this area after the stop of tourism and government restrictions on the provision of hotel services. Thus, the assumptions that the market would behave the same way as during the 2008 crisis were not justified.

### **Change in the cost of 1 sq. m. housing in Prague (source Reality Mix)**

*Table 1*

Changes	for December 2020	For 2020
Prague 1	-0,30 %	0,40 %
Prague 2	2,50 %	5,20 %

Prague 3	1,20 %	10,20 %
Prague 4	1,10 %	6,20%
Prague 5	0,70 %	11 %
Prague 6	-1 %	8,80 %
Prague 7	2,20 %	9,50 %
Prague 8	4,70 %	16,30 %
Prague 9	3,90 %	14,30 %

The Czech Republic is in a completely different condition than in 2008. The reaction to the crisis of the government and the Czech People's Bank is also radically different.

There has been a serious shortage of living space in Prague for a long time. Demand is significantly outstripping supply, even during this crisis. The crisis of 2008 also played a role in this, after which the construction business took a very long time to recover. Most development projects were stopped, the market stopped replenishing with new housing. This lack of living space is still very much felt in the market, especially in large cities. In Prague, the shortage of housing stock is estimated at 50 thousand apartments. According to forecasts, it is expected that 200,000 more people will move to Prague by 2030.

Also, the replenishment of the household fund is significantly hampered by very long, in comparison with the average European, licensing procedures for changing building plans and issuing construction permits.

During this crisis, inflation increased significantly (more than 3%), which led to an increase in the cost of both construction materials and labor. Also, the industry faced a significant shortage of labor, the main component of which were migrant workers from Eastern Europe, whose entry into the EU was practically stopped by anti-crisis restrictions.

In order to maintain the market, the Government of the Czech Republic abolished the tax on the transfer of real estate (previously it was 4%, paid by the buyer of real estate)

As anti-crisis measures, the Central Bank significantly reduced the key rate (from 2.25% to 0.25%), and also lifted restrictions on issuing mortgages that were in effect before the crisis (now you can get a mortgage in the amount of 90% of the real estate price at a rate of up to 2%, instead of 5.5% in 2009). As a result, a record volume of mortgages was issued in 2020.

The economy of the Czech Republic has been on the rise in the last few years, the population has accumulated significant funds.

The absence of a real estate transfer tax, a low mortgage rate coupled with the ease of obtaining a mortgage (available, unfortunately, only to Czech citizens and persons with permanent residence), high inflation, significant savings from the population, uncertainty about

the future caused by the crisis, contributed to massive investments in real estate – the safest place in the face of uncertainty and expectations of inflation growth.

### **2.3 Analysis of real estate value in Prague**

As follows from the analysis of the CNB published in November 2020, real estate in Prague is overvalued by 17%, and in selected areas with a high number of investment apartments (such as Prague 1) - by 25% (source penize.cz ). However, this analysis emphasizes that this situation is typical for almost all European countries. According to the statement of the press secretary of the CNB, this respected organization believes that the consequences of the coronavirus crisis will gradually begin to manifest themselves on the market, the dynamics of mortgage loans will weaken, which will necessarily negatively affect the growth of real estate prices. Such a statement of the obvious consequence without unnecessary detail.

If we summarize the assessments of numerous experts, the main idea boils down to the fact that one should not expect a serious drop in prices for Prague real estate, which is interesting to the upper middle class and investors. These are, first of all, high-quality new buildings in good areas, apartments in the historical center, houses and land plots. The chronic shortage of such housing on the market, the expectation of an increase in inflationary processes and the availability of free cash from these groups will not allow this class of real estate to remain without demand.

On the other hand, analysts expect the largest drop in apartments from panel houses, old housing stock, apartments on the outskirts and in unattractive areas of Prague. It is believed that the economic crisis will hit the users of such real estate most of all. It is advised to get rid of it without too much delay, while state aid programs are still slowing down the arrival of the main consequences of the shutdown of the economy in the country.

CNB experts believe that the high price of real estate is a source of systemic risks for the country's economy and urge commercial banks to be more responsible and careful when issuing new mortgage loans.

After this warning, banks singled out a number of professions (from such areas as hotels, gastro service, tourism, air lines, culture, sports, automobile production, etc.) into a group with increased risk, limiting their access to profitable mortgages. The real estate valuation system has also changed – the basis for calculating the size of the mortgage issued. They began to significantly underestimate it – by 30% relative to the current market value of the estimated housing, while increasing the amount of the initial payment for real estate, which the buyer must pay out of his own funds.

Real estate prices in the Czech Republic vary significantly depending on the area of location. The highest real estate prices in the Czech Republic in the capital - Prague.

The difference in prices for similar real estate between Prague and another Czech city of 200,000 inhabitants is 2-4 times. There are many reasons why you should buy a property in Prague.

Prague is the capital and largest city of the Czech Republic, with a higher level of accommodation for investors and their families and more business opportunities. The main financial flows of the Czech Republic are concentrated here, and the largest inflow of foreign investment is also directed here.

For residents of the Czech capital, there are more opportunities to find a high-paying job, because the salary level in Prague is much higher than in other cities of the Czech Republic. Intensive construction of new office buildings, shopping centers and housing provides much higher liquidity for investing in real estate in the Czech Republic. Search for real estate objects

Prague is a very beautiful and pleasant city, famous for its friendly residents and architectural monuments. According to statistics, Prague is visited annually by 5 million people. Tourists and leave about 2 billion here. Euro. These factors are the demand for Real Estate in the Czech Republic and related services. Real estate in Prague is always growing in price and over the past 4 years, real estate prices here have increased by an average of 45%.

Quite high prices for real estate in Plzna, Brno and resorts near the German border (Mariánské Lázně and Karlovy Vary).

Since 1989, real estate prices in the Czech Republic have been constantly rising, but the growth rate has been very different recently. The most pronounced price growth is in Prague and Karlovy Vary, where real estate prices have increased to 50% over the past 5 years. In other parts of the Czech Republic, prices have increased by an average of 20%.

### **Czech real estate market trends**

According to Western analysts, Real Estate in the Czech Republic is breaking all records in terms of the number of investments, mainly due to Austrian and German investors. But representatives of the United Kingdom, The Netherlands, the United States, some Asian countries and the CIS countries also show a fairly high interest in Czech real estate.

High demand always leads to a constant increase in prices, and if in the 90s real estate in Prague grew by an average of 15% per year, then since 2001 this figure has increased to 25% per year. With a small number of houses under construction and high demand, this trend will be observed for the next 10-15 years.

### **Types of Real Estate in the Czech Republic**

In the Czech Republic, there are several types of real estate, which are divided into different categories

1.luxury real estate in the Czech Republic: apartments in both historic buildings and new luxury buildings. In this segment, there is the most noticeable and stable price increase in recent times, as such real estate in the Czech Republic is almost unique.

2.commercial real estate in the Czech Republic: restaurant and hotel business - the most profitable investments investing in such real estate is not much less promising than in Ukraine. However, prices for hotels and restaurants are quite high.

3.land plots: this category stands somewhat apart, because the acquisition of land in the Czech Republic is very delicate. In the Czech Republic, there is a diverse system of land use, that is, you can not use land not for its direct legal purpose (you can build a residential building on agricultural land)

4.houses and cottages in the Czech Republic: houses older than 10 years and new houses are divided. Among the new buildings, houses in the style of functionalism and classic houses stand out.

5.secondary real estate market of the Czech Republic: the most diverse category, because it can include both housing in historical houses and panels from the time of socialism. Here there is a division into 3 subgroups:

- apartments in historical buildings of the late 18th and early 19th centuries-such houses can be found in the Centers of historical cities (Prague, Karlovy Vary, Marianske Lazne, Czech Krumlov, etc.). Some of them are in excellent condition, after major repairs, while others have been waiting for this repair for decades. Prices for such real estate are quite high
- apartments in brick houses of the 1930s and 50s-this includes both overall 5-6 - storey brick houses, and houses that look like family houses with about 4-6 apartments. The cost of such apartments varies depending on the location and condition of the apartment and House.
- panel houses, the construction of which lasted until the mid-1990s - the layout and arrangement of rooms meets the Ukrainian standards of average standard housing.

6. new buildings in the Czech Republic: brick or monolithic houses have been built or are being built, the construction of which began in the late 1990s.houses with a modern layout, underground parking, security and reception. Such houses are most often located in prestigious ecologically clean areas of the city. Buying such real estate is the most successful investment, because the price is growing at the fastest pace, and it is not difficult to rent out such an apartment.

## **Types of property in the Czech Republic**

There are several types of property ownership in the Czech Republic. Each form of ownership has its own characteristics that are important for future investors

### **State (municipal) property**

State ownership most often includes non-privatized apartments in apartment buildings, where residents are tenants, not owners. In the Czech Republic, it is impossible to privatize a separate apartment, but only the entire apartment building, and the privatization procedure is quite complex. Accordingly, when buying such an apartment, the investor acquires the right to rent and numerous difficulties.

### **Private property in the Czech Republic**

If we consider the types of ownership of real estate in the Czech Republic, then private property is the most reliable option. In this case, the apartments of an individual or private organization are purchased by an investor or a legal entity of the investor.

### **Shared ownership**

Joint ownership in every sense in the Czech Republic is the most confusing, because residents are not the full owners of their housing, and at the same time, neither the Magistrate nor the society are full owners either. Together, both of them are co-owners of the house and the apartments located in it, but none of them separately has the right to make drastic decisions. Buy apartments, or rather a share of ownership in such a situation, a foreigner should not.

### **Cooperative property**

Friendships (cooperatives) differ from owner societies that emerged during privatization. In such a situation, you will be offered to buy a share, and not the apartment itself, no one has a pre-emptive right to buy (unlike in the case of a tenant society), but further privatization of cooperative housing is likely. In a cooperative, everything is decided at a general meeting, and if your neighbors do not want to privatize housing, then you will only have to wait for them to change their decision/

Moreover, an obstacle to privatization may be the need for all members to pay their share, and this may be delayed for a very indefinite period. A foreigner can purchase a cooperative apartment if the Cooperative Charter contains the wording «legal entities can be members of the cooperative». And one more point: in such friends, the monthly fee is quite high, and may not correspond to the quality of household services

### **Real Estate Rental in the Czech Republic**

The main determinants of the cost of renting commercial real estate are the location and condition of the object. The average price of 1 square meter of office space in the central part of

Prague is USD 15-25, and in a prestigious, brick house in the historical center - USD 30-40 per month.

The price of renting a two - room apartment in a residential area, in a panel House - USD 400-500 per month (without utility bills), in a new building or a prestigious brick house-about USD 600-800 per month.

Rents for private houses and cottages are much higher, but they are much more difficult to rent out. And in this case, it all depends on the location of the object.

### **Utilities and property taxes**

When buying a property, the buyer does not pay any taxes. The seller is obliged to pay 3% sales tax (it is calculated from the value of the property specified in the purchase and sale agreement or determined by the appraiser, depending on which of these amounts is higher).

The annual property tax depends on both the area of the property and the region where the property is located. As you move away from Prague and Karlovy Vary, the cost of maintaining real estate is significantly reduced. In Prague, the owner of his own house pays about 2 200. Every month, for utilities and real estate tax, which is calculated using complex tables (it is very small: for a cottage with an area of 300 square meters. m with a plot of 1000 square meters. m, you need to pay 5 50. Per year) . Property tax is calculated once a year in January (until January 31).

### **Hide the specifics of buying real estate in the Czech Republic**

Purchasing and further using real estate in the Czech Republic and in any country abroad is not an easy task, and requires a good knowledge of local legal and other features of the country. Accordingly, when buying a property in the Czech Republic, you need to find a reliable person whom you really trust. We will try to highlight at least some negative situations that you may find yourself in without having all the necessary information.

### **Nuances when choosing a property**

Legislative nuances. Of the legislative nuances, the most important is the legality of title documents and property rights as such. These are various restrictions - a pledge, a pre-emptive right to purchase an object by another seller, the seizure of the seller's property, the object may be collectively owned by several owners, one or more of whom do not agree with the sale, etc..

After receiving an extract from the real estate cadastre, the main part of any problems will be obvious, and sometimes the difficulties that seem difficult are eliminated quite easily and simply. In any case, you must first get the advice of a qualified lawyer and check whether the bill of sale contains a clause on the seller's liability for providing false data and possible losses from such information.



Legalized reconstruction .. If the property has undergone a complete or partial reconstruction, you should request a Bugaga, which is the basis for carrying out repair and construction changes. The previous owner of the property could have carried out repairs illegally, without official permits, and if this turns out when you become the official owner, you will not be able to avoid trouble, at best you face a large fine.

When buying a property in the Czech Republic, another possible nuisance is odors and noises, pollution, broken static of the House, geological problems of the land plot, a new building is planned next door to the object, which reduces its liquidity, and other hidden defects in the property. Accordingly, we recommend that you pay your closest attention to these points, learn as much as possible about the house, neighbors, district, and directly about the object.

Transfer of mortgages in the Czech Republic for foreigners. Since the mortgage is designed for citizens of the Czech Republic, a non-resident or his company in the Czech Republic is prohibited by law from obtaining a real estate loan. Therefore, this option will have to be abandoned, because if there is a possibility of early repayment of the loan, you will still pay the bank% on the loan that you did not use at all. We can only hope that in the near future this problem will no longer be so unsolvable

When the choice of real estate in the Czech Republic is made, the advance payment must be made only together with the signing of a carefully read reservation (preliminary) contract. It happens that an unscrupulous seller takes an advance from the buyer, and then sells the property more expensive to another buyer. To avoid such a situation, it is necessary to make sure that the seller's realtor has an appropriate power of attorney from him, that is, he is his authorized representative.

When entering into a purchase and sale transaction, it is necessary to provide the most «fresh» extract from the cadastre, because it happens that the object is allegedly sold several times in a row, and the «owner» is not such, or cannot dispose of his real estate, for example, because of collateral. If the date of issue of the extract from the cadastre is fresh, and is taken immediately before the operation, then when setting any restrictions, or changing the owner, imposing an arrest or ban due to collateral in the extract, this is obvious. We advise you to spare no money and get this document yourself and refrain from making a transaction if there are any controversial issues in the statement until they are resolved

The registration procedure in the cadastre takes up to several months, so the transaction is considered completed after submitting documents to the cadastre, as evidenced by the stamp on a copy of the application. Very often, the bill of sale indicates that all or part of the amount left in the notary's office is paid to the seller after submitting documents to the cadastre, which creates the risk of being left without money and without a real estate object. Although, the seller has the

same risk - at this point, he remains without real estate and without money for a certain period of time. Most agencies also consider submitting an application to the cadastre when paying their commission.

There is nothing to worry about, only if the documents were carefully checked by really qualified lawyers before that. Usually, there are no problems with the cadastre, but if the Cadastre Department has any questions, both parties will be called to supplement documents that are not available. And if the seller has already made a full payment, it may be difficult to get cooperation from them. Conclusion: we advise you to postpone the full calculation until the new owner is registered in the cadastre

**After the transaction is completed.** When buying and selling real estate in the Czech Republic, the sales tax is paid by the seller, but the buyer of the property is the guarantor of tax payment. Accordingly, if the seller does not pay the tax, the buyer will have to do so at the request of the tax inspectorate.

**We pay taxes.** The tax authorities can invite an expert appraiser if they decide that the cost of the object has been significantly reduced. Based on the appraiser's data, the tax inspectorate will determine a different amount of tax. Hence the conclusion: make an independent assessment or at least do not agree to registration at an undervalued cost.

**Real estate insurance in the Czech Republic.** If the previous owner entered into real estate insurance, it ceases to be valid from the moment of submitting purchase and sale documents to the cadastre. You do not need to delay time, but sign a new insurance contract. In the Czech Republic, insurers insure real estate for the amount required in the event of an insured event for the construction of a similar object in the same place. If the insurance was underestimated, in the event of an insured event, the insurance company will either refuse to pay at all, or fine the owner and, at best, pay a disproportionately lower insurance payment.

## **CONCLUSIONS TO SECTION 2**

Construction is actively developing on the outskirts of Prague. This process is supported by mortgage lending, and this property is intended for a «buy to let» market scheme. There may be some problems here. The reason lies in the lack of planning - despite the existence of a huge number of laws related to planning, they will not be able to prevent a situation when one fine morning you wake up and see that someone has already built another one right in front of your house.»

Nevertheless, there is a lack of residential assortment in the center of Prague – it is a historical city, and, accordingly, everything here is steeped in history. Many foreign buyers purchase housing in the central part of Prague for the purpose of renting it out. However, rental

prices are falling, especially in the segment of luxury housing. The main reason for the high rental prices in Prague, which have been established in recent years, was the demand coming from emigrants arriving in the country. But at the moment, foreign specialists, senior and middle managers who arrived in the country ten years ago are mostly being replaced by no less qualified Czech specialists who are more efficient and economically profitable employees for international companies. Their professional skills were honed due to the fact that for 10 years they lived in a «market economy» and, plus, they actively adopted Western experience. As a result, there was an oversupply in the luxury housing rental segment. Since 2000, the rental prices of luxury apartments and houses have fallen by 20-70%, and the most expensive real estate objects have suffered the most.

Despite such deplorable prospects for renting luxury housing, small, inexpensive apartments, the rental cost of which does not exceed 500 euros per month, provide a very good chance for a profitable investment. This is explained by the fact that in accordance with Law No. 107/2006, starting from 2011, the restrictions governing rental issues will be completely lifted.

Currently, about 750,000 apartments in the Czech Republic, which is about 1/5 of the entire real estate market of the country, are subject to rent regulation. The positive side of this Law is that the removal of restrictions will bring more benefits in those regions where there is the greatest variation in rental prices, and by 2010 it is expected that the size of all rental rates will not exceed 5% of their initial (maximum) deregulated level.

### 3 CZECH REAL ESTATE MARKET DURING THE COVID PANDEMIC AND THE FURTHER DEVELOPMENT

#### 3.1 Czech real estate market trends in the era of COVID-19

The spring lockdown of 2020 put all processes in the Czech real estate market on pause and only in summer the market began to revive. It is important to note that the demand for residential real estate has not fallen, on the contrary, it continues to grow.

«Of course, we observed a short-term decline in demand for apartments, and this was due to uncertainty at the beginning of the pandemic. Now the panic in the real estate market has subsided» says Artem Melnikov, head of Home Real Estate.

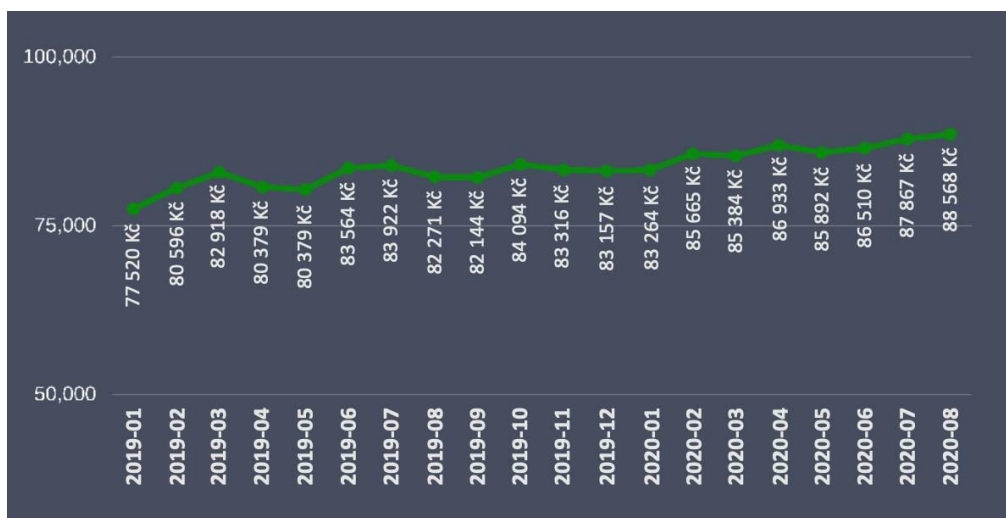
After the lifting of restrictions on preparation and construction, development companies continue to develop new interesting projects. They offer high-quality residential real estate, as well as new investment opportunities.

«We started selling the Smíchov City project in March, and after six months of expectations, we have a high percentage of sales. We assume that people are currently considering buying an apartment in a good location as a definite investment» said Leos Anderle, CEO of Sekyra Group.

##### The cost of real estate

The average selling price per square meter of an apartment in Prague is growing throughout 2020. For example, in August, the average price per m<sup>2</sup> for all apartments sold in the capital amounted to CZK 88,568, which is 0.8% more than in the previous month and 7.7% more than in August last year. Everything suggests that real estate remains a stable investment.

Despite the fact that COVID-19 undeniably affects the market, the value of your property is currently growing and its sale is now very profitable.



**Figure 1.** Average price per m<sup>2</sup> for all apartments sold in Prague in some months (apartments in new buildings, old brick and panel houses). Source: reas.cz

Quarantine measures and remote work aroused interest in country houses and housing with private plots.

«Country houses, townhouses and similar buildings located near the city center will become a little more expensive. The new apartments are still selling very well. Where the infrastructure is more decent, prices can rise even more» confirms Miroslav Duda, Doctor of Law, President of the Association of Real Estate Agents of the Czech Republic.

The demand for such real estate is high in the long term: work experience from home and travel restrictions have increased interest in buying houses to spend more time outdoors. In total, in the first half of the year, more than 11,700 housing units were sold on the Czech real estate market with a total value of about 49 billion CZK.

In the coming years, Prague will face the implementation of several major transport projects. The most significant project is the construction of the D metro line, which should be completed by the end of 2027, which will definitely affect the growth in the value of real estate in certain areas of Prague.

### **Brownfield Revival**

At the moment, there are about 250 hectares of abandoned areas on the territory of the Czech capital, which were previously involved in industrial production. Now these territories are not used and represent a great potential for the development of development projects.

«Construction on the Brownfield site is a good alternative to an abandoned site in the city. Such a development has a positive impact on the economy of the capital and the country as a whole» adds Artem Melnikov, head of Home Real Estate.

Construction on the Brownfield site will complement the structure of the city, revitalize the area, provide it with a population, and create new jobs. This attracts, in turn, investments in public improvement and trade.

### **Mortgage market**

The economic downturn associated with the pandemic caused a wave of cheaper mortgage loans and lower interest rates. The Czech National Bank has relaxed the rules for obtaining a mortgage and made this process more accessible to applicants.

«Of course, you can still wait for good discounts, but, in my opinion, it will be useless. Very tough mortgage conditions are starting to weaken, and it is clear that interest rates are unlikely to ever be lower» said Peter Fanta, CEO of the development company CODECO.

Seven Czech banks currently maintain interest rates below 2%, which is equal to the values that were last recorded in early 2018. In any case, for everyone who is interested in buying their own home, such an interest rate is favorable.



**Figure 2.** Dynamics of interest rates from 2003 to mid-2020 Source: Fincentrum Hypoindex

«Considering the six-month period, we can say that the initial panic in the rental market has already passed. After a short-term decline, we expect that rents will start to rise again, although due to circumstances, probably at a slower pace» - Peter Vishnovsky, director of real estate company LEXXUS.

«Apartment prices are still holding up, but the cost of non-standard real estate is falling very much. On the contrary, we can expect price stability for smaller apartments», Miroslav Duda, Doctor of Law, President of the Association of Real Estate Agents of the Czech Republic.

«If prices are falling somewhere now, it is very little for less successful projects that cannot be called high-quality. There is not a single developer on the market who is planning any significant price reduction», - Peter Fanta, CEO of CODECO development company.

«The times of low-cost mortgages are not over yet», Lukasz Kovanda, National Economic Council of the Government. It is clear that measures to combat the coronavirus will bring an economic downturn. In the 2nd quarter of 2020, GDP fell by 10.9% from the beginning of the year, compared to the 1st quarter, the decrease was 8.7%. Before the pandemic in 2019, the unemployment rate was about 2.6%, in June 2020 it was already 3.7%. In the spring, due to the global pandemic, the market practically froze for several weeks, but fears about a long-term significant decline in demand for apartments did not materialize.

The demand for residential real estate has not fallen, on the contrary, it continues to grow. After the lifting of restrictions on the preparation and construction of projects, development companies continue to develop new interesting projects.

For example, the development company JRD in the first half of 2020 sold real estate worth more than 1 billion Czech crowns. This amount exceeded the company's turnover for the whole of 2019.

The situation may be improved by the adoption in the middle of next year of a new version of the law on construction, which should speed up the issuance of permits. The construction permit will be issued within 60 days, with consideration - within 1 year.

In September, the Chamber of Deputies approved the abolition of the tax paid by the buyer on the purchase of real estate in the amount of 4% of the purchase price. Thus, the difference in price between the purchase of a new apartment from a tax-exempt developer and an apartment on the secondary market will be compensated. In 2019, 63% of people worked from the office every day. Today, many companies plan to use less office space in the future and make it habitual to work from home.

Such changes entail consequences not only for the office building market. Increased requirements will be imposed on residential facilities in terms of adaptation to work from home, for example, the layout of an apartment with a separate office, acoustic comfort of the interior. The situation around the coronavirus pandemic has aroused interest in country houses and housing with private plots. The demand for suburban real estate in the long term is high: the current situation, long quarantine, remote work experience and travel restrictions have increased interest in buying houses to spend more time outdoors.

On the territory of Prague, there is more interest in cottages, apartments with a front garden or a terrace.

The COVID-19 virus pandemic and related restrictions have undoubtedly affected the global economy and, consequently, the economy of the Czech Republic. How has this situation affected the residential real estate market in Prague?

2019 was a successful year in terms of the Czech economy and the real estate market in particular. An analysis conducted by ARTN in early 2020 before the introduction of the state of emergency predicted a further increase in prices and rental rates in the residential sector, as well as good conditions for real estate investment and financing conditions.

However, the development of the Czech economy has been affected by measures taken to mitigate the effects of the global pandemic.

Demand for apartments has declined due to the uncertainty caused by the coronavirus epidemic. Potential buyers often preferred to postpone the purchase of real estate. Transactions

were also postponed due to restrictions on personal viewing of apartments, and in some European countries the number of real estate transactions fell by as much as 80% compared to the same period last year.

During the construction of facilities that were already under implementation, there were delays in the supply of materials and a shortage of foreign workers. Delays in the construction and preparation of new projects that have arisen due to the current situation may cause insufficient supply of apartments on the market.

However, real estate remains a stable investment, because the demand for rental housing is not falling, and, judging by the current development, the cost will not decrease.

Although the rental market in Prague during the pandemic was diluted with apartments that were rented to tourists as short-term housing before the crisis, it can be expected that these apartments will return to their original purpose at the time of the resumption of tourism. On the territory of the capital and in the immediate vicinity of it there are about 250 hectares of abandoned areas - territories originally intended mainly for industrial use. Now these areas are not used at all and represent a great potential for the development of construction projects. In addition, many brownfields are located near the center of Prague.

Their development will complement the structure of the city and solve the problem of suburbanization - the development of the capital's suburbs. Of course, this process can have negative consequences in the form of increased traffic and insufficient improvement of areas, since in small towns insufficient population density and the creation of developed infrastructure is impractical. Entire neighborhoods are often created on the territory of brownfields, which enliven the area, provide it with population, and create jobs. This attracts, in turn, investments in public improvement and trade.

The Prague Center for Architecture and Urban Planning (CAMP) hosts the Prague Priority exhibition from 23.9 to 20.12, which presents the most important planned projects of citywide significance.

### **3.2 Analysis of real estate prices in the Czech Republic under quarantine**

The purpose of the index is to track changes in the availability of apartments not only in general in the Czech Republic, but also in the regions. Mortgage interest rates and average real estate prices in certain regions are used for the analysis.

For the calculation, a contribution of 80% of the mortgage amount with a maturity of 30 years is used for an average apartment of 65 m<sup>2</sup> in personal ownership. The crucial period is the monthly moving average.



The resulting value will be compared with the benchmark 1, set in early March 2020. An index value above level 1 means less housing affordability than before the pandemic. Conversely, a value below level 1 means that apartments are more affordable.

### **Apartments across the Czech Republic have become less affordable since the start of the pandemic**

According to the index, the availability of apartments is decreasing both throughout the Czech Republic and in certain regions. The reason is the increase in interest rates and the amount of mortgage needed to buy an apartment due to rising prices.

The most favorable situation is in the Karlovy Vary region, where the index is at the level of 1.010. This means that the availability of apartments decreased by 1.05%. In the capital, the index value at the time of calculation was 1.095, but since then it has been steadily growing.

### **Prices for apartments in the Kralovegradec and Liberec regions have increased significantly**

Since the beginning of the study, housing affordability has declined the most in the Kralovegradec Region (1,474) and in the Liberec Region (1,463). The opportunity to work at a home office and the unfavorable situation in the housing market in Prague, forced people to move to regions with developed intercity communication, which are at an adequate distance from the capital. Both regions meet this condition, so there was a sharp increase in real estate prices.

### **The lowest mortgage payments in the Ustets region**

The amount of mortgage payments in relation to wages also affects the availability of apartments. The average monthly mortgage payment for an apartment in Prague is 22 thousand crowns. In the South Moravian Region — 14,137 crowns, and in the Middle Czech Region - 12,580 crowns. Smaller contributions are paid by residents of Kralovegradec (CZK 11,309), Liberec (CZK 10,781) and Pardubice (CZK 10,055). The lowest contributions in Ustetsky are 5,575 CZK per month. According to the portal Sreality.cz, interest in renting is constantly growing throughout the Czech Republic, with the exception of Prague. The highest demand for 2 + kk apartments, as well as apartments with a terrace, balcony or loggia.

In the Vysochina region, interest increased by 81% compared to the same period last year. Also, in the Srednechesk and Liberec regions, the demand for apartments with access to fresh air increased by more than 70%. In general, in the Czech Republic, the demand for apartments with a balcony in April increased by 55% year-on-year.

### **Home office is the new norm**

Many people are now looking for a bigger apartment, because they are counting on an additional room that can be used as a home office. In real estate agencies, there is a growing

interest in apartments with a terrace. It can be not only a balcony, but also a winter garden. Such a detail as equipping the kitchen with electrical appliances can also decide how quickly you rent an apartment.

### **The tenant pays extra for an apartment with a balcony**

According to the director of the Century 21 real estate agency Tomasz Jelinek, the interest in apartments with a balcony or terrace is so great that the rental price can increase up to 15%. The agency also recorded an increase in offers on the apartment rental market, which, in particular, is due to the departure of foreign workers from Czech companies during the pandemic. In Prague 6, the offer has increased significantly due to a reduction in flights and the number of employees at the airport

### **The capital has the greatest competition in the housing market**

Currently, the most difficult thing is to rent an apartment in Prague, where most of the apartments originally intended for short-term rental to foreign guests have entered the rental market. Interest in renting apartments here fell by 7% year-on-year due to an oversupply of offers.

### **Rental prices are falling**

The increase in the number of offers affects the cost of rent, which, depending on the type of housing, decreased by 12% compared to the same period last year. Although the price has not changed much in attractive areas, renting an apartment takes longer than usual. Previously, it was possible to rent apartments almost immediately after the publication of the announcement. Now the time required to find a tenant may increase to seven weeks. Deloitte's research is based on portal data cenovamapa.org, which processes information about sale prices from purchase and sale agreements registered in the real estate cadastre. In the second quarter of this year, the most expensive apartments were in Prague (105,700 crowns per square meter), and the cheapest apartments were in Ust-nad-Labem (27,700 crowns).

In Prague, apartment prices increased by 19.2% year-on-year. The most expensive apartments were sold in Prague 1 (163,800 kronor per square meter), in second place — Prague 2 (137,900 kronor). The cheapest apartments were in the urban areas of Prague 4 (98,400 kronor) and Prague 9 (101,200 kronor).

As for the regions, the most expensive apartments have risen in Ostrava (by 37.6%), in Zlina and Karlovy Vary (in both cases about 32%). Prices rose the least in the cities of Liberec (by 7.7%), Pilsen (by 11.5%) and Ceske Budejovice (by 14.5%).

In the second quarter, 7,718 apartments worth 37.8 billion kronor were sold in development projects, brick and prefabricated houses. Their number has increased by less than a quarter year-on-year, and the cost has increased by 45%. Development projects accounted for

about 40% of the total number of apartments sold, apartments in panel houses - less than a third, brick houses - about a quarter.

Housing prices in brick houses have increased the most — by a quarter year-on-year to 80,700 kronor per square meter. Prices for apartments in panel houses increased by 22.3% to 65,300 kronor per square meter. In development projects, apartments have risen in price by 21.8% - up to 91,500 kronor per square meter.

In the second quarter, Prague accounted for more than 60% of total sales. This is followed by the cities of Brno (8.4%), Pilsen (4.4%), Olomouc and Pardubice.

### **3.3 Real Estate market development scenarios in the Czech Republic and real estate market development measures**

Over the past two years, real estate prices in Prague have increased by 35%. The average cost per square meter without VAT was €3,420. The reasons for this increase are well – known – low mortgage rates and a shortage of new buildings. The Czech National Bank (ČNB) has tightened mortgage rules: most loans must be issued for an amount not exceeding 80% of the value of real estate. But limited issuance of permits is not only associated with a complex and lengthy process of preparing documents. Factors such as the lack of Labor and the limited amount of land suitable for residential properties also affect.

Demand and real estate prices began to rise in early 2016, due to low mortgage rates. At the same time, in 2017, growth was not as rapid as a year earlier, and by autumn it began to slow down. In 2018, prices stopped rising altogether, no matter what developers and sellers say. However, in two years, the value of real estate has increased by 20-30%, depending on its type. And this is despite the fact that since November 2016, the payment of property sales tax has passed to the buyer, and ČNB has increased interest on deposits twice during 2017.

The efforts made by the government to revive the economy after the crisis have borne fruit. Economic growth in the Czech Republic is the highest in the euro area. This led to a decrease in unemployment to a record low (2.3% in May 2018) and a sharp increase in household incomes. Add to this the record low mortgage rates. All this caused an increase in housing prices (by 16%).

It is clear that Prague is the leader in price growth. But all real estate in the capital is now rapidly becoming more expensive, are there any backward types of objects, perhaps an old fund built in Soviet times? And how do prices change in the province?

The increase in prices in the capital affected all types of real estate objects. The shortage of offers in new buildings forces buyers to look for alternatives in the secondary housing market.

And this encourages an increase in prices for the old fund. A province with some lag, but still repeats the situation in Prague.

In one way or another, everything has risen in price. Following Prague, the province is also catching up. If, for example, in Kladno, located near Prague, a year and a half ago it was possible to buy an apartment worth €980-€1,170 per square meter, now it is already €1,370 – €1,760 per meter of secondary housing. New buildings-around €1,950 sq.m.

The largest increase in prices was recorded for so-called investment real estate, that is, small-sized apartments in the center of Prague, and for panel housing stock. Despite the growth, this category of real estate remains the most affordable.

What are the cheapest properties currently available in the databases of real estate agencies? And how much does real estate cost on average in the secondary and primary markets? Interesting statistics on Prague and some other cities popular with foreigners (Karlovy Vary, Teplice, most).

Firaz Muinov (CEO of the Lekvi group of companies): the cheapest object in our database is a studio apartment in the Bleriot project under construction in the Letnyany district. This is a small apartment with an area of 30 «squares» with a 7-meter terrace, located on the 3rd floor. Without a parking space, it costs €109,290.

To compare the secondary and primary markets, you need detailed clarifications. But if we consider two apartments in equivalent areas of Prague – one in a new building, and the second in the housing stock of five or more years, then we can talk about 15-20% of the price difference in favor of a new building.

Judging by the offers available on the real estate service srealty.cz the average sale price of a 1-room apartment of 40 sq. m in a secondary fund after Reconstruction in small towns of the Czech Republic is: greenhouses – €18,930 and cities – €11,320.

Anna Rozinskaya (senior broker at M & M reality holding a.s): the cheapest object in our database is a cooperative apartment with an area of 63 sq. m and a cost of just over €117 thousand. this apartment is located in a panel House in Prague 8, Bognice district.

I do not consider the question of the average price of real estate in the secondary and primary markets correct – it all depends on the square footage of the apartment itself, location, condition, transport accessibility, etc. in general, the price range in Prague is from €1,950 to €5,860 sq. m. in addition, Karlovy Vary, Teplitsa and most are not the most popular cities among foreigners. For example, in Karlovy Vary, many people now sell real estate and few people buy it.

Yevgenia Novoselova (consultant at Chirs real estate agency): in my opinion, it doesn't make sense to compare prices in the primary and secondary markets. Since each development

project has its own characteristics and quality of construction, and an apartment on the secondary market has a different level of reconstruction and «its own stuffing».

According to statistics, in the first half of 2018, 46% of potential buyers from the CIS countries tried to find an object cheaper than €50 thousand in the Czech Republic, and another 25% considered options worth from €50 thousand to €100 thousand. What types of real estate and regions do you recommend paying attention to for buyers with such a budget?

In Prague, it is almost impossible to find a liquid facility within this budget. Therefore, I advise you to pay attention to the rapidly developing regions. For example, in the city of Plzeň, which is an hour and a half drive from Prague, you can buy a good one-room apartment up to €62,450, which brings at least 4.5% per annum when renting it out.

Really. But it will be a «secondary» housing located on the outskirts of Prague, in not very good condition and with a small area. With such a budget, it is better to consider the suburbs of Prague and the Middle Czech region – Kladno, Beroun, Kralupy, Kralupy.

A liquid residential property worth less than €100 thousand is almost impossible. Why? Judge for yourself-the minimum cost per square meter in Prague is €2,340, and the minimum area of a small apartment is 40 sq. m. but you can buy housing in small towns near Prague (Karlovy Vary, most, Beroun, etc.) without compromising the standard of living. Fortunately, the infrastructure in the Czech Republic is well developed. Measures such as limiting the mortgage-to-equity ratio, tightening the minimum wage-to-monthly contribution ratio, and raising the interest rate adopted by the CNB have somewhat smoothed out the situation. Prices have stabilized so far. We definitely should not expect a decline, but there will not be such growth as in previous years. In my opinion, only rising unemployment and lower wages can affect prices. According to economists ' forecasts, this should definitely not be expected until at least the end of 2019.

Due to new trends from ČNB, prices will not increase. But no one can talk about reducing the cost of residential real estate – how much and how quickly – now. Everyone is waiting for October 1, 2018 and the introduction of new restrictions. But in general, the trends now are such that almost every transaction takes place with a reduction in the price that was originally announced. It all depends on the seller – he wants to sell or not. Those who like the process itself are not inferior in price, they can wait a year or two for their buyer....and not the fact that they will find it.

Concerns about market overheating are indeed justified. That is why the National Bank of the country is taking adequate measures to stabilize the situation. And they give results. Our company's statistics already indicate that the price increase has stopped. And this effect will be recorded from October 1, when the CNB will introduce new restrictions on issuing mortgage

loans. Therefore, anyone who plans to buy a home with mortgage lending in the near future should do it now, and not postpone the purchase until the fall.

Although the Czech Republic, like other European countries, has been affected by the economic crisis, its real estate market has not suffered, although it has undergone a number of changes. The first of them can be attributed to 2004, when the Czech Republic became a member of the EU, and 2008, when it joined the Schengen countries. In addition, since 2009, Czech real estate (with the exception of agricultural and forest lands) can be bought by anyone. This means that real estate in the Czech Republic has become cheaper, since it is no longer necessary to create a legal entity to purchase it. Recently, owners of Czech real estate have been granted the right to receive a semi-annual visa twice a year in a simplified manner with the right to stay in the Schengen countries for up to 90 days. Detailed information about this is available in the section "Visas and consular information" on the website of the Moscow Embassy of the Czech Republic.

At the beginning of 2011, construction of new facilities resumed in the Czech Republic. According to official data provided by the National Statistics Office, in 2011 the construction of new apartments increased by 7.1%. At the same time, the bulk of the buildings are projects of local developers who do not use loans and build real estate with their own money.

Recently, another change has occurred in the foreign real estate market – the gradual abolition of state regulation of rents has begun in the Czech Republic. The law has already entered into force since the beginning of 2011 and has affected more than half of the rented housing. The gradual nature lies in the fact that in the cities of Brno, Pilsen and Prague, regulation will last until 2013. It is known that state regulation kept rental prices for Czech real estate relatively low, however, now a gradual increase in prices is expected by two to three times. The Czech authorities do not want to «corner» their citizens who have not yet recovered from the consequences of the crisis, and are gradually canceling regulation. In addition to the abolition of state regulation, it is supposed to help poor citizens by paying them compensation that would cover the difference in rent.

Mortgage lending has also become a factor that has influenced the development of the real estate market. Interest in all types of lending increased due to a decrease in the economic indicator – the refinancing rate, so in May 2010, the National Bank of the Czech Republic announced a record low of 0.75%. You can read more about obtaining mortgage loans provided to foreigners in the section «Mortgage».

Today, analysts of Western companies record an annual increase in the volume of investments in foreign real estate. Thus, Austrian and German investors had a significant impact

on the Czech real estate market. To date, interest in Czech real estate is observed among buyers from the Netherlands, the UK, the USA and some Asian and CIS countries.

The most popular among Russian buyers of real estate are the Czech cities of Karlovy Vary and Prague. It's no secret that they attract many tourists all year round. And, despite the fact that real estate prices are higher in the Czech Republic, investments are justified, due to the high liquidity of apartments, as well as the ability to rent housing. For example, the cost of one-room apartments can start from 80 thousand euros for apartments in Karlovy Vary and from 100 thousand euros in Prague, two-room apartments - from 100 thousand euros in Karlovy Vary and from 130 thousand euros for apartments in Prague. Apartments in the popular resort towns of Františkovy Lazne and Mariánske Lazne are somewhat cheaper.

Real estate prices in small Czech cities such as Kladno, Tabor, Liberec, and even in Brno (the second largest city in the Czech Republic) are relatively low. However, in such cities, the liquidity of residential real estate is significantly lower, and the price of housing changes much more slowly, in comparison with Prague. The cost of a plot of land for construction starts from 20 euros per sq. m. in provincial cities, from 70 euros per sq.m. in the suburbs of the Czech capital and from 200 euros per sq.m. in Prague.

Naturally, the growing demand leads to a gradual increase in prices. It is worth noting that after the Czech Republic joined the European Union (2004), for two years, real estate prices in Prague increased by 20-25% annually. After 2006, this figure reached the level of 8-12%. Analysts suggest that this level of growth may continue for another 10-15 years. Such optimistic forecasts follow from a number of factors: the availability of mortgages with fairly low interest rates, the increase in VAT on new buildings since 2012, the ease of acquisition and high loyalty of legislation. In addition, it is worth recalling the relative simplicity of immigration to the country, especially if the applicant has his own business in the Czech Republic. The Czech Republic remains the leader of the European Union in the growth of residential real estate prices this year. Demand exceeds supply. In Prague, the shortage of apartments is especially noticeable. Too complicated and lengthy procedure for obtaining permits for construction hinders the commissioning of new residential buildings and complexes.

Czech and foreign investors continue to show interest in profitable Prague real estate. It is growing in price much faster than in the rest of Europe. According to forecasts, in 2019 the average increase in the cost per square meter will reach 5%, and in the next period - 4% per year. This is lower than it was in the past years of increased demand for apartments in the Czech Republic, but more than in the entire European Union and even than in rich Germany.

The intention to buy real estate in the Czech Republic is Western Europeans, citizens of post-Soviet countries, Asian investors. Commercial use of the purchased space in the format of

short-term or long-term lease brings today a tangible profit of up to 10% per year and will remain as profitable in the near future.

In a developed, cozy, calm, beautiful Czech Republic, it is pleasant to be a tourist, as well as to live permanently or study at the university. Therefore, wealthy citizens of other countries come here to buy real estate in the Czech Republic for personal or commercial use.

The increase in housing prices is due to loyal purchase rules for foreigners. They have equal rights with the Czechs regarding purchase and sale transactions, which increases competition in the struggle for attractive real estate. The Czechs themselves have unique credit conditions in this market. The bank can cover up to 80% of the cost of housing with a mortgage loan for decades of using borrowed funds at a completely low 2-3%, and for foreigners with different status and solvency of staying in the country - up to 6% per year.

Price growth is likely to slow down in the coming years, since demand from local residents will be moderate due to the lag in income growth of ordinary citizens from housing cost trends. Over the years of economic development of cities, many people have already improved their living conditions, and the influx of young people is limited by the low birth rate in the country. Tens of thousands of new apartments are planned to be built in Prague, which will bring down the hype demand and slow down the price growth in the market.

An important argument in favor of Czech real estate is the increased liquidity of new apartments. Ads for sale receive feedback from potential buyers within a few days. And a long hesitation over the offer may end with the sale of the object, but in other hands.



## CONCLUSIONS TO SECTION 3

Due to the coronavirus pandemic, almost all retail trade was closed in the Czech Republic for several weeks, about 70% of services were stopped, entertainment, sports and cultural institutions, catering were closed. Schoolchildren and students studied remotely, and many working people switched to a remote format, which has both pros and cons. Most of the foreign workers chose to go home before the borders were completely closed.

Officially, real estate activity was not prohibited:

- People could still buy and sell, rent or rent, but due to the reduction of contacts to a minimum, the number of meetings-views sharply declined. Almost instantly, due to the state of emergency in the country, the real estate market has changed significantly: Due to the lack of tourists and travelers, all short-term housing facilities in the center, hotels and dormitories - were left without income.
- The price of rental housing in the center of Prague has significantly decreased. A two-room well-furnished apartment can be rented at a very reasonable price. However, this option does not help much, since there are more than 11 thousand housing units left without tenants.
- The slowdown in economic growth will affect absolutely all areas - from construction and mortgage lending to the rental of warehouses. Ex-President of the Czech Republic V. Klaus predicts that the overall decline will be 15-20% and at the same time calls this an optimistic forecast.
- Banks have made «mortgage holidays» for 3 months, but with additional interest accrual for the granted deferral. But if there is no payment during this period, the borrower will not be entered in the register of debtors. However, for those who bought apartments as investments by the dozens, such a delay will only slightly transfer problems in time, since during the quarantine period most of these apartments probably do not bring income and it is not fully clear when exactly their «work» for the investor will resume.
- It is expected that in the coming months there will be a mini-boom associated with the sale of apartments that were once bought as investment, since their owners did not expect such a development and will not be able to afford to bear losses for a long time. This will lead to lower prices throughout the market. This is an opportunity for investment by those people who have good financial reserves and can afford to wait for the situation to normalize.

- It is likely that some commercial real estate will change owners due to the lack of a sufficient margin of safety: a decrease in income due to downtime and the availability of credit obligations will require the sale of objects. It will also cause a slight decrease in prices in this area.

## Conclusion

«The residential real estate market in the Czech Republic has been gradually developing since the 90s after it was freed from various regulatory restrictions. It was a period of intense, and at first even rapid, inflation, the same was true for residential real estate prices, » said Jiri Mrazek, director of the Price Statistics Department of ČSÚ. The agency has data only since 1998, when the growth of housing prices stopped due to the economic downturn.

There have been three significant price hikes since 1998. The first one ended in mid-2003 due to the Czech Republic's accession to the European Union in May 2004. «This was due to the expectations of foreign buyers of Czech real estate. In the third quarter of 2003, average apartment prices more than doubled compared to 1998, » Mrazek added.

The next jump occurred in 2005, when prices increased against the backdrop of global economic growth. Compared to 2003, the value of real estate has increased by about 60%, but compared to 1998, it has more than tripled.

«At the end of 2008, the global financial crisis broke out, which also affected the mortgage market. The Czech Republic did not escape the crisis either, where by the end of 2009 the cost of apartments fell by 18.1%, after which prices stagnated for about three years, » Mrazek added.

Subsequently, prices began to rise again, at first by an average of 3.5% per year. From 2016 to the end of 2019, price growth accelerated to an average of 10.7% per year. «Data for comparable statistics for 2020 are not yet available, but it is clear from available sources that the growth in housing prices continues, » Mrazek said.

Prices for apartments over the past 20 years have grown by an average of 7% annually, for land plots - by about 5.2%, for cottages - about 4.6% per year.

Of the individual regions, housing prices have increased the most in the Moravian-Silesian, Pilsen and Vysochinsky territories - by about 4.7 times since 1998. The cost of apartments in Liberec, Pardubice, South Moravian and Karlovy Vary regions increased by 3.8 times.

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