

## Czech Republic: Property price growth strong, for now

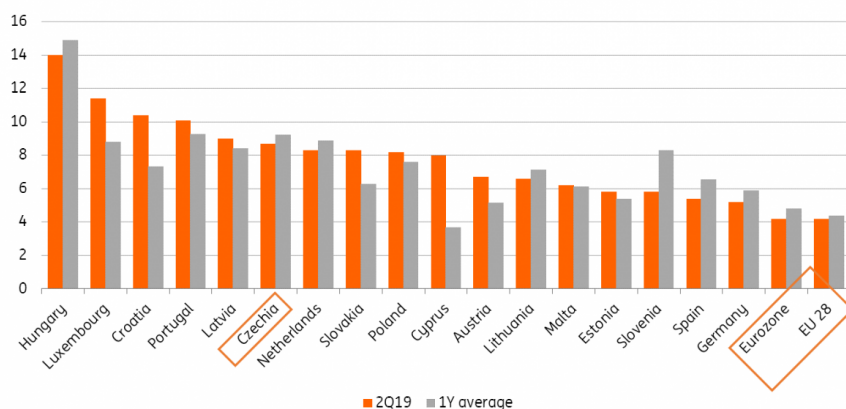
Czech property prices continued to grow at a fast clip in the second quarter, and at 8.7% year-on-year, the rate is among the highest in the EU. Still, asking prices in the third quarter signal a forthcoming slowdown in the Czech property market, where prices have increased over 40% in the last four years



Source: Shutterstock

Czech property prices increased 8.7% YoY in the second quarter, based on the House Price Index (HPI) – a broad measure of residential property prices among EU countries, which includes both prices of existing and new family houses, flats and land. This represents the sixth highest YoY growth rate among EU countries (see the chart below). Some 13 other EU countries also experienced property price growth exceeding 6% in the period. Despite some slowdown from the 13% peak seen in 2017, Czech property price growth has remained solidly above the EU28 average growth of 4.4%.

## House price index % YoY, selected countries



Source: Eurostat, ING

## Asking prices slowed down in 3Q19

At the same time, the Czech Statistical Office announced that asking prices of flats in the Czech Republic (i.e. offered by sellers, not actual transactions) in 3Q19 further slowed down to 5.2% YoY and to 3.3% YoY in Prague. Still, realised apartment prices in the first half of the year maintained their rapid growth rate of close to 10%, according to previously published CZSO figures (and also today's Eurostat data).

## CNB measures could have delay, but slowdown likely

Given the 20% YoY decline in the volume of new housing loans this year, we expected a more pronounced slowdown in property price growth in 1H19. We think that the impact of the Czech National Bank's macroprudential measures introduced in October 2018 was somewhat delayed, with a large number of the newly granted housing loans in 2H18 (partially due to frontloading given the new CNB measures) being drawn during the first half of this year. This ultimately delayed the impact of tightened CNB recommendations and the lower mortgage availability on the property market, and it explains to some extent why prices maintained such a high growth rate in 1H19 - aside from traditional factors such as the poor property supply, given legal obstacles.

That said, asking prices in the third quarter signal that real estate price growth will very likely slow in the months/quarters ahead. This is not only because of the CNB measures but also because of the generally high level of property prices relative to household income following rapid growth in the last four years (40% increase since 2Q 2015).