

Romania: real estate market in crisis

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Just like in other post-Communist European countries, investors, property developers and persons interested in purchase focused on the capital city, especially its southern and northern parts, at the beginning of the decade. The centre of Bucharest is virtually exploited and the prices were more than high. Key attention was paid to districts in the north because of the better traffic accessibility of most large Romanian cities and the two airports in Bucharest (Otopeni and Baneasa).

As regards the real estate market, the Romanian capital is currently divided into its northern section with numerous residential complexes and its southern section, which hosts primarily industrial plants. The prices of land were determined by this landscape character to a large extent. Before 2009, a square metre of land close to the Baneasa Airport cost about EUR 200, and sometimes reached as much as EUR 500, while in the south the prices were lower, ranging between EUR 20 - 250 per square metre. Of course, locations without any utility networks were cheaper - a square metre cost EUR 20 - 30, while land with utility connection was sold at more than EUR 100 per square metre.

Plunge of the residential market

However, the financial crisis mixed up the prices on the Bucharest real estate market, especially in the residential segment and made the simple north-south division a bit more complicated. The prices of second-hand flats in the capital went down 25 - 30% in the first three months of this year, so today it is possible to buy a three-room apartment for EUR 100,000, while last year you needed twice that amount for this type of purchase. The decline of the prices of new-built houses was less marked in central parts of the city and more visible on the edges. In January 2008, for example, a one-room flat in the centre was sold at EUR 120,000 - 150,000, while today the prices of such small flats range between EUR 80,000 and 100,000. The same could / can be purchased in other city parts for EUR 75,000 - 100,000 and 50,000 - 70,000, respectively. The level of rents follows the same development, with certain exceptions. At the beginning of last year, a family house in Bucharest was rented for EUR 2,000 to 6,000 a month. The situation is not much different today - but virtually in all city parts, even non-residential districts, there are many houses offered for rent today because their owners are not willing to reduce the price. However, the rents for flats declined 15 to 20% this year.

Owners under pressure

The commercial property sector, which (just like in other countries of Central and Eastern Europe) saw an unusual price growth before the country's accession to the EU, faces similar problems as the residential sector. Last year, office rents in the city centre reached EUR 30 per square metre and month, excl. overhead fees. Today, it is EUR 15 - 20 on average, incl. fees. Landlords are under a huge pressure from tenants, who need to reduce their costs and, if the house owner fails to show a friendly face, do not hesitate to move. This development is unacceptable for many investors and many administrative projects are therefore slowed down or even halted to wait and re-enter the market after the crisis and price recovery.

The logistics and retail segments in the regions show a similar picture. While in the past, the investors mostly concentrated on attractive locations, such as the large cities of Arad, Cluj, Oradea, Brasov, Constanta etc., where they were very active a short time ago, today their attention has turned to locations less promising, but cheaper, and each project is considered very carefully. In general, the "rest" of the country and its real estate markets more or less copy the development in the capital city.

The same scenario

Just like anywhere else, banks are one of the key players of the current crisis. Today, the banking sector is not even willing to finance purchases or new projects and the market can obviously feel that, at least in the form of weaker demand. And just like anywhere else, many expect a change in the credit policy of the banking sector to lead to the revival of the whole economy.

The investment activity is also largely affected by the fact that years ago, the current owners - sellers bought the properties at prices 20 - 30% higher than what the market offers today and, quite logically, the sale is not attractive for them under such conditions. But investors do not hurry with investments, either, which brought many projects in trouble since their final construction stage counted on a financial injection from the future owner.

For all these reasons, the immediate outlooks of the Romanian real estate market are not too great. Another 20% decline of the prices of land and residential properties is expected and a revival of these market segments is projected to occur within 2 - 3 years. As regards commercial properties, the outlooks are also unclear, to say the least, but the price decline that started in 2008 and continues today is likely to attract investors with their own capital - they are expected to show interest in the properties with the best quality and location. However, nobody expects that 2009 would be a year of stabilization. On the other hand, nobody also fears a price decline of the magnitude seen on the Romanian real estate market last year and at the beginning of this year.

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