

Bucharest Residential Market

H2 2009

Quick Stats

	Change from	
	H1 09	H2 08
Demand	↓	↓
Sale Prices	↓	↓

Hot topics

- 1,520 new units were added to Bucharest stock in the first three quarters of 2009, 242 more units than the same period of 2008.
- Only ca. 29% of approved mortgages were for dwellings built after 2008, due to the fact that sale prices and maintenance costs of new units (part of residential compounds), are higher than those of old built units.
- Sales prices for new residential units dropped by 20-50% in H2 2009 compared to H2 2008.

SALES

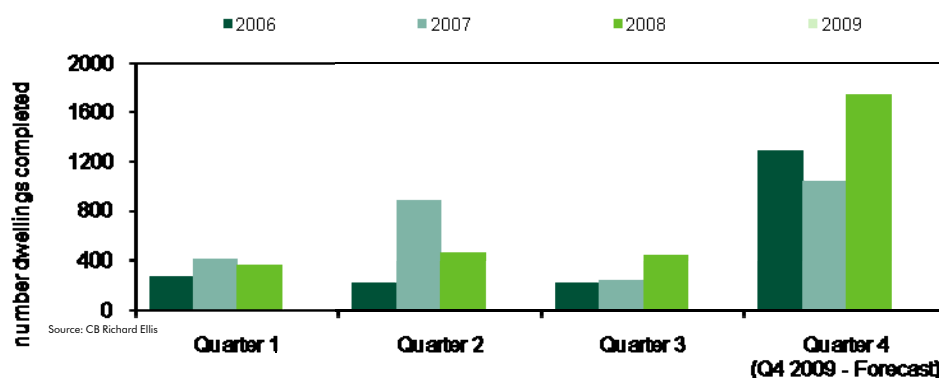
OFFER AND DEMAND

The Bucharest residential market remained slow in the second half of 2009, as effective demand dramatically decreased (due to contraction of the volume of liquidity on the market and restricted access to loans), together with decreases to sales prices and the number of completed transactions for new built dwellings. Potential buyers refused to purchase residential units in the initial phases of construction, instead showing interest in dwellings “at the red stage” (without finishing) or fully finished.

The Government tried to stimulate the residential market through the social program “First Dwelling”, which was recently approved by the Government through the City Hall Decision no 17/ 17 June 2009, with the purpose of facilitating access to purchasing a dwelling through mortgage loans, with a maximum period of 30 years. The beneficiaries of this program could buy a completed dwelling, one under construction or one which is to be built in the eighteen months from the date of receiving the guarantee promise. The state guarantees the purchase of a dwelling within the limit of € 60,000 for those who fulfill the following eligibility conditions: they did not own a property when the program became functional, they made a down payment of 5% of the dwelling’s purchase price, they agree not to sell the dwelling in the first five years after the date of acquisition and they agree with a rank I mortgage in the favor of state for the purchased dwelling. By the end of 2009, over 12,150 applications were approved, worth a total of over €500 million. Out of this total, only ca. 29% of mortgages were for dwellings built after 2008, due to the fact that sale prices and maintenance costs of the new units (part of residential compounds), are higher than those for the old built units. The program influenced only the market of the old dwellings and new compounds addressed to the middle class, located in peripheral areas that were offering studios and two bedroom apartments, with a budget below or slightly over the limit guaranteed by the Government. In these cases, it was advantageous to purchase a unit because the monthly 30 year mortgage payment was equal to or even less than the rent for the same type of unit.

According to the official data published by the Romanian National Statistics Institute, 1,520 new units were added to Bucharest stock of dwellings in the first three quarters of 2009 (included in residential compounds, but also privately built), or 242 more units than in the same period of 2008. Many dwellings finalized in 2009 were part of large-scale compounds, which should have been completed 1-2 years ago and they were already in an advanced state of construction.

Dwellings completed in Bucharest, by quarter, between 2006-2009



Source: CB Richard Ellis

According to official data, the number of completed dwellings, at the national level, was 38,170, or 1,507 units more than the corresponding period of the previous year. 51.5% of these buildings were finalized in urban areas, in contrast to the similar period of 2008 when the majority were completed in the countryside.

The same official source declared that, in Bucharest in the first nine months of 2009, 973 construction authorizations for residential buildings were issued, a decrease of 30% compared to the same period of 2008. At the national level 45,324 construction authorizations were issued, a decrease of 20.8% compared to the period January-September 2008.

MORTGAGE MARKET

According to the latest statistics from the BNR (Romanian National Bank), the level of mortgage loans for the entire country increased to 24.1 billion RON in November 2009, the equivalent of € 5.6 billion. In spite of these statistics, mortgage loan growth in Romania has been slowed by costs of credit and also by financing conditions. In November 2009, Bucharest registered the biggest percentage of the total of approved mortgage loans in Romania with 42.6%. Even if the BNR tries to encourage the population to borrow money in the national currency, most approved mortgage loans are still in foreign currencies: 93% for Romania and 97% for Bucharest.

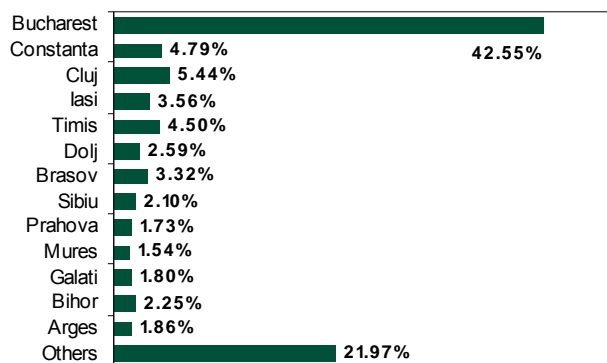
PRICE LEVEL

In the second half of 2009, sale prices for new residential units continued their downward trend, although the declines moderated, with decreases varying between 10%-20% compared with the first half of 2009. If we analyze them in comparison with the similar period of 2008, the price decrease is significant, varying between 25%-50%. Sale prices are now subject to more thorough negotiations than during the boom period (2003-2008), which is an advantage for buyers with cash.

The Romanian residential market is characterised by a high number of real estate owners (over 80% of population), unlike many other countries in the EU or CEE. This situation is unlikely to change meaning that when the crisis of the residential market passes, supply of high quality dwellings will be insufficient for the potential demand.

In the near future, we estimate that sale prices for new residential units will continue to decrease, due to demand with less and less liquidity.

Total mortgages for population, by district, May 2009

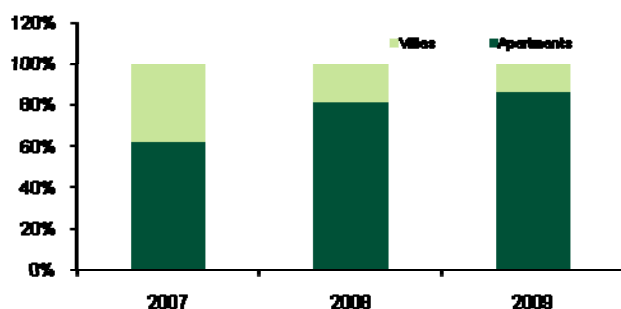


% of mortgage

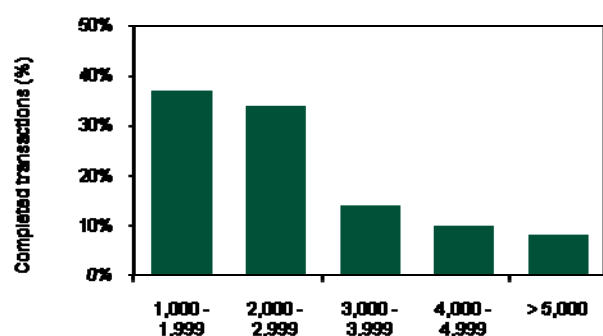
Offers, €/built sq m + VAT 19%

	2008	2009
Aviatorilor – Kiseleff	3,500 – 4,500	3,000 – 4,000
Primaverii	3,500 – 4,500	2,000 – 3,500
Herastrau	2,800 – 4,500	2,000 – 3,000
Dorobanti	3,200 – 4,000	1,500 – 2,500
Center	2,000 – 3,000	1,500 – 2,500
Floreasca	3,000 – 3,500	1,500 – 2,000
Sisesti - Straulesti	1,800 – 2,800	1,000 – 1,300
Baneasa - Pipera	1,600 – 2,800	900 – 1,300
Corbeanca	900 – 1,400	800 – 1,000
Otopeni	1,100 – 1,500	700 – 1,000

Demand, by the type of residential spaces



Rents level for completed transactions, 2009



Rent level for 2 bedroom – apartments (€/ month)

Location	2008	2009
Primaverii	2,200 – 3,000	1,400 – 1,600
Herastrau	2,000 – 2,800	1,300 – 1,700
Aviatorilor	2,300 – 3,000	1,400 – 1,600
Dorobanti	2,300 – 3,000	1,500 – 2,000
Kiseleff	2,200 – 2,700	1,400 – 1,500
Floreasca	2,000 – 2,500	800 – 1,000
Center	1,300 – 1,800	1,000 – 1,200
Domenii	1,600 – 2,000	1,000 – 1,300
Baneasa - Pipera	1,800 – 2,000	1,000 – 1,300

LEASING

OFFER AND DEMAND

In the second half of 2009, the residential to let market continued the trend from the first half of 2009, including lower demand, an increase in supply (due to completion of new residential compounds), a fall in rents and fewer closed transactions.

In the past few years, apartments were the driver of the rental market, a tendency even more obvious in 2009, when apartments represented 86% of the total rented units compared to villas' 14%. Demand for villas is still very high, but the number of offers is limited; besides, in recent years, mostly apartment compounds have been built, a fact that has led potential tenants to turn their attention to those available units.

The most requested properties for rent in the first half of 2009 were two bedroom apartments, which represented approximately 40% of the total number of rented properties, compared to last year when 3 bedroom apartments were the most rented type. The most likely explanation for this change is lower budgets offered to expats by multinationals and embassies to rent a work dwelling.

The residential areas Herastrau, Dorobanti, Aviatorilor –Kiseleff and Primaverii are still at the top of the most wanted locations for the luxury class, and are also supported by the high quality of the available offers on the market in these areas.

New areas of interest like Stefan cel Mare, Tei, Straulesti have been developed because many apartment compounds and single developments of apartment buildings for middle and middle-high segment were completed. Lower budgets provided to expats for rentals of work dwellings also supported demand for space in these areas, with some expats being forced to renegotiate rents or to move to a smaller dwelling or to semi-central areas.

We continue to record a shortage in supply for classic villas in the city for which there remains potential demand (Downtown and Cotroceni area). In the absence of offers for city villas, some tenants have turned their attention to the Baneasa-Pipera area, where there is a diverse offer of new villas, with much more generous net areas, but as the distance to the centre of the city is too great and because of poor accessibility and consistent traffic jams, demand for this location significantly decreased.

Over the years, residential to let market has maintained the same characteristics, in particular the same areas of primary interest (center and north), the same categories of clients (multinationals and embassies), the same requests concerning high quality finishing, extra facilities and 1-2 number of parking places.

Demand from corporations has continued its downward trend from last year, which is a consequence of cost cutting measures in regards to corporate activities in Romania, caused by the international economic and financial crisis.

Offers that benefit from a very good location and high quality finishing have been quickly rented, as their number was limited. An offer can typically be on the market for a minimum of two weeks but up to six months, in situations where the quoted rent does not correspond to market levels.

When a leasing contract is closed, the renter has to pay a guarantee deposit, meaning rent for three months in advance and one month as guarantee, an amount which will be returned at the expiry date of the contract. In 2009, leasing contracts were closed for 2-3 years. In the near future, we believe that this period will decrease, due to the global economical slowdown.

RENT LEVEL

In 2009, rents decreased by a percentage of between 15–25% for the exclusive offer segment (penthouse, classic villas in the city), supported by the fact that these offers are limited in number and location. Meanwhile, rents for apartments with 1-3 bedrooms have registered a more significant reduction of 20-40%, because of the abundance of this kind of offer. Rents differ depending on location, number of bedrooms, finishing and offered facilities, whether the apartment is furnished or not, the number of parking places, the renting period, the down payment amount, as well as the proximity to parks, green spaces, kindergartens, schools, commercial and leisure spaces.

Approximately 75% of existing properties on the luxury renting markets in 2009 have been rented for values of up to 3,000 €/ month, compared to the similar period of last year when the most of the offers were rented for values between 2,000 – 5,000 €/ month.

Compared to previous years, we noticed an increase of the negotiation range between the requested and the actual rent transacted for certain type of properties, for which there was an exaggerated level of rents. Going forward, we expect further downward movement to rents, until supply and demand are better balanced.

For more information regarding the MarketView, please contact:

Radu Lucianu

Managing Director Romania,
CB Richard Ellis | Eurisko
Europe House
Bd. Lascar Catargiu nr. 51-53
Sector 1, Bucuresti
t: +40 21 313.10.20
e: radu.lucianu@cbre.com

Adrian Nicolescu

Manager Valuation & Advisory Department
CB Richard Ellis | Eurisko
Europe House
Bd. Lascar Catargiu nr. 51-53
Sector 1, Bucuresti
t: +40 21 313.10.20
e: adrian.nicolescu@cbre.com

Disclaimer 2010 CB Richard Ellis

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis clients, and cannot be reproduced without prior written permission of CB Richard Ellis.

© Copyright 2010 CB Richard Ellis