

January 17, 2007

In E.U.'s Newest States, a Hotter Market

By MATTHEW BRUNWASSER

Real estate sales in parts of Bulgaria have topped Europe's hottest properties lists for the last two years, fed by a booming tourism sector and investment-hungry British and Irish buyers. In contrast, neighboring Romania continues to see big gains, but without yet appearing on the foreign buyer's radar.

Both countries joined the European Union on Jan. 1, and real estate analysts say the effects include an increase in confidence -- and, eventually more sales -- from foreigners wanting second homes or investment properties.

"It's more of a psychological factor from the viewpoint of foreigners who thought Bulgaria and Romania were risky countries," said Georgi Dutchev, the editor in chief of Properties Xpress, a magazine published in English and Bulgarian here. For them, E.U. membership "means transparency and certainty for investment, even though it's not that way, or at least not immediately."

The countries have the lowest property prices in the 27-member bloc, even though they have experienced years of sharp price increases.

For example, a 70-square-meter, or 350-square-foot, apartment in Sofia would have sold last year for about 48,160 euros, or \$62,608, according to figures from the country's National Statistical Institute. That is twice as much as the apartment would have sold for in 1993, when it would have been the equivalent of 24,364 euros, or \$31,500. (One square meter is about 11 square feet.)

And in Romania, the real estate company DTZ Echinox estimates that residential properties in middle-class parts of Bucharest sell for an average of 1,000 euros, or \$1,292, per square meter.

For comparison, average sale prices in London, where real estate prices are the highest in the European market, are the equivalent of 5,758 euros, or \$7,444, per square meter, while those in Genoa, Italy, considered a mid-sized market, average 3,500 euros, or \$4,524, according to Colliers International, a real estate consulting firm.

Milan Khatri, chief economist at the Royal Institution of Chartered Surveyors in London, said two key factors -- lending and increasing incomes -- indicate that local buyers will continue to fuel price increases, at least for now.

Mortgage lending, which began on a large scale in both countries during the last few years, will expand as banks see there is less risk and interest rates decline, he said. Also, rising incomes will add to residents' buying power, while giving investors added security. "In that sense, the picture is very positive," Mr. Khatri said.

Another major factor in both countries is the growing demand of people who live in shabby communist-era apartments for bigger, more modern and comfortable housing -- and the shortage of supply.

"I don't see a massive price rise, I see a flight to quality," said Mike Lloyd, chief executive of TriNation, the Romanian development company that is building the 1.1 million-square-meter, or 11.8 million-square-foot, Baneasa project in Bucharest. The 1.2 billion euro, or \$1.55 billion, development will create an entire neighborhood, with residential, commercial and office components.

Mr. Lloyd said that, while he has encountered speculators who want to buy now in the expectation of selling at higher prices later, he thinks the main impact of E.U. membership will be to educate Romanian buyers about European property standards. "The junk being built now will struggle to find prices," he said. Romanians "won't accept the low quality that they have in the past."

But Orlin Vladikov, chairman of the Bulgarian national property association, said that the country's E.U. membership and the resulting increase in foreign investment will help sustain Bulgaria's property boom.

For example, he said, last September the European Commission confirmed Bulgaria's membership -- and foreign investment in the fourth quarter of 2006 rose 24 percent over the same period in the previous year.

Mr. Vladikov also noted that, while Bulgaria's sales to foreigners initially were along the Black Sea coast and in the Bankso ski zone, new projects are near historical, cultural and natural sites, especially spa areas like Sandanski and Velingrad.

"We expect this development to continue in full force," he said.

Others agree. "I think it's going to bring in another 10 to 15 percent of people who have been hovering a bit," said David Smith, sales director of Bulgarian Dreams, a London-based real estate agency.

As for future growth, Mr. Smith said, "I contend that the main reasons will be cheap airfares and cheaper money," Two discount airlines -- Wizz Air and Sky Europe -- now serve Bulgaria and Mr. Smith expects more to enter the market.

But some real estate experts are less positive about immediate changes.

Clara Satchi, chief executive of Engel East Europe, an Israel-based developer, noted that there was great excitement about real estate prospects in eastern Europe just before the E.U. expanded in 2004 -- but then there was a period of stagnation.

"For a while there will be paralysis, people will wait and see how it goes," she said. "Then after half a year, it will be a boom again."

Ms. Satchi, whose company is building 1,689 residential units in a total of eight projects in Bulgaria, said that while demand is growing, the development of new housing in both countries is about 15 times slower than that in richer E.U. countries. "There is a lot of room to grow," she said.