

# Residential Market Review

Commentaries and analyses by REAS



>> Asking prices in the residential unit segment exceeded PLN 9,100/sq. m in Q2, 2008. It may be forecasted that the next 24 months will be difficult for developers - writes **Kazimierz Kirejczyk** // [p. 2](#)

>> The current situation in the Polish residential market makes financial liquidity of housing projects under construction deteriorated. Some developers begin to look for alternative methods of financing. Article by **Grzegorz Żochowski**. // [p.3](#)

>> The Romanian residential market is still an emerging sector of the national economy. In recent years it was strongly driven by intensified activities of developers, financial institutions, and foreign funds. **Karol Dzięcioł** describes local residential market's situation and perspectives // [pp. 4-5](#)

>> **REAS NEWS** // [p. 6](#)

**REAS** reviews Bucharest residential market and launches the new edition of "**Residential market in Romania**"

**REAS** launches Romanian version of corporate website [www.reas.ro](http://www.reas.ro)

# Warsaw Residential Market



**Kazimierz Kirejczyk**  
President and co-founder of REAS

One of the the leading Polish experts on residential market. Member of the Global Real Estate Institute and Urban Land Institute; Co-founder of European Property Institute.

Asking prices in the residential unit segment exceeded PLN 9,100/sq. m in Q2, 2008. It may be forecasted that the next 24 months will be difficult for developers.

In the first half of 2008, 7,600 residential units were launched to the Warsaw market, this being ca. two-thirds of the number of units launched for sale in the corresponding 2007 period. At the quarter end, the number of units exposed exceeded 15,000, which marks a clear increase (by 15%) compared to the offering at the end of the first quarter. This figure is close to the total housing output from the record-breaking 2007 year. A year before, in Q2, 2007, there were some 8,800 units on offer.

Asking prices in the residential unit segment exceeded PLN 9,100/sq. m in Q2, 2008. In the course of the last quarter, the change was ca. 2%, proving lower than in the preceding quarter. The said change is small enough for the asking prices to be referred to as getting continually stabilised, especially if the present inflation pace is taken into account. Viewed on a twelve-month basis (Q2, 2007/Q2, 2008), prices exposed have increased by ca. 7%, albeit the mean price of units launched to the market in Q2, 2008 proved lower by ca. 11% than the prices in Q2, 2007.

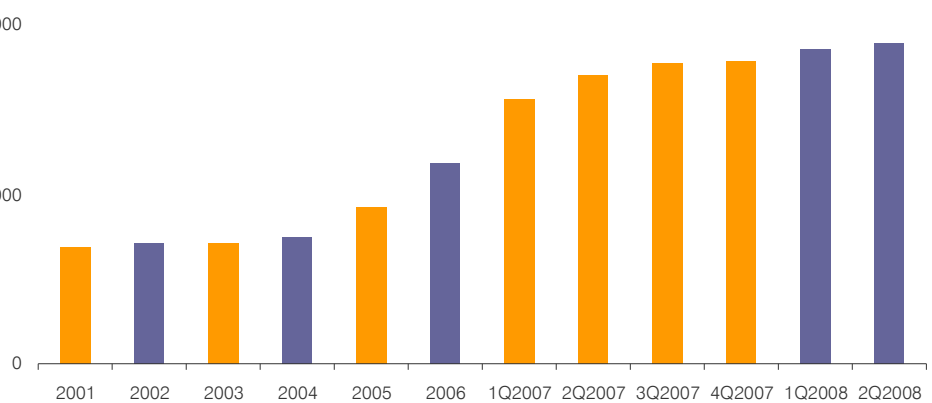
Comparing price indicators, one should however be mindful of a variety of discounts or bonuses being quite commonly applied. It can be indicatively estimated that transaction prices are lower by ca. PLN 400-800/sq.m than the asking prices, which accounts for ca. 4.5%-9% of prices. Taking this phenomenon into account, one should rather be referring to a slight price adjustment.

equalled ca. 3% of units scheduled by developers for delivery in 2008. It is worth noting, however, that this number was gradually increasing in subsequent quarters. With an estimated ca. 2,000 units sold, the sales rate in Q2, 2008 was all-time low.

It may be forecasted that despite speculative buyers flowing out whilst some other prospects wait till a more attractive offer appears, the sales will not slow down in H2, 2008 - and it can even be expected to improve at the year's end. This will be caused by appearance of a new residential offering that is expected to be better meeting the needs of prospective buyers.

The next 24 months will therefore be rather difficult for Warsaw developers: supply will remain at an extremely high level; interest rates are more likely to rise than to fall; prices will stabilise or drop and profitability of the development activity will decrease. The most secure projects are those easy to be flexibly phased, targeted at a wide range of clients, in particular to a growing group of middle-class households with stable income and equity tied up in their smaller dwelling. Another type of secure investments are high-quality, cosy premium-apartment-type projects in good locations which are still in short supply in the market. The most risky projects will be residential towers with high development costs and accordingly high prices, targeted mainly at investment buyers.

Sales rates for the Warsaw market are still rather satisfactory. The end of Q1, 2008 only saw some 500 ready-to-use units (in completed projects), which



Average asking prices of apartments introduced to Warsaw market between 2001 – Q2 2008 (in PLN/sq.m.)

# Alternative methods of development venture funding



**Grzegorz Żochowski**  
Co-founder  
and Partner in REAS,  
Head of Capital  
Markets Team.  
He is one of the few  
experienced specialists  
in Poland who focus  
on the financial  
analysis of investments  
and the entities  
applying for housing  
construction loans.

The present-day situation in the Polish residential market makes financial liquidity of housing projects under construction much deteriorated against what was the case twelve months ago.

Problems related to project funding are due to several overlapping reasons. These include, inter alia: scarce current cash inflows which until recently had been coming from buyers' payments; developers being more inclined to accept payment schedules whereby the buyer contributes a vast part of the amount at the final stage of construction; and, increasing interest rates upon mortgage loans, which, combined with more prudent analysis of creditworthiness of individual borrowers as applied nowadays by banks, contributes to decelerated pace of housing unit selling.

However, the original reason for present-day situation can be identified as abruptly decreased interest of speculative and investment capital in purchasing dwellings, these sources having in the past years triggered market prosperity which was fostered by banks offering a flood of mortgage-backed lending facilities. Dynamically growing increase in demand for dwellings entailed fast growth of prices in the marketplace. However, consumers tended to be increasingly reluctant to prices growing month by month, a trend which was reflected in weakening demand. As a result, capital investors ceased to invest in new residential projects, a factor that deepened the deteriorating situation in the market.

A group of developers that counted on prosperity in the longer run did not attach sufficient attention to establishing relationships with banks which, owing to good track

records in cooperation with their customers, could have become more willing to fund their projects given the market realities. On the other hand, banks keen on crediting residential projects enhanced their requirements with respect to e.g. the buyer's capital input or presale rates, which has made it much more difficult to obtain a loan.

For the reasons summarised above, some developers are now seeking other fund raising opportunities as they cannot get a banker funding.

Increasing number of companies are considering being publicly listed (albeit the present stock-exchange situation requires deliberation before the investor actually makes any such decision), in order to seek funding from the market. Bond/debenture issues also form a certain option to provide funding to investors for project delivery purposes. Apart from the said methods of raising funds for projects, investment funds offer increasing opportunities: funds such as equity partner improve the developer's liquidity, which directly affects the chance to successfully apply to a bank for lending.

Another rescue can be mezzanine finance, the option based on temporary funding with use of private capital to be paid off subsequently to repayment of the loan. Such funding enables the developer to stay financially liquid under extended sale of completed units, or offer an opportunity to employ more proactive marketing strategies or techniques. Such measures are obviously somewhat more expensive than a standard facility but can offer the developer a chance to survive.

## Interview with Grzegorz Żochowski, Head of Capital Markets Team in REAS

**What is the role of REAS Capital Markets Team in obtaining financing for residential projects?**

We can help a client with investment project secure financing in several ways. Firstly, we devise professional feasibility studies which the developer can present to the bank. They are comprehensive documents including financial and competition analyses as well as marketing opinions on a given project. Moreover, due to our renown, REAS logo on a document is a signal to the bank that the investment is worth interest. Finally, REAS represents the client in the negotiations phase with the bank or a fund – we estimate how various financing scenarios will influence investment profitability for the client.

**Why do developers turn to REAS when looking for support in obtaining their financing?**

Our strength comes first of all from our experience. We have completed over 200 feasibility studies in Poland and Romania, we operate on the market for 11 years. REAS provides valuable help in finding a common language between the debtor and the creditor, which sometimes requires many days of work and detailed analyses. Our role is to convince each party that the plans and actions of the other are rational, so that the project can be a success.

# Residential Market in Romania: Overview and perspectives



**Karol Dzięcioł**  
Consultant

A graduate of the Finance and Banking specialization at the Warsaw University Faculty of Economic Sciences and the Interdisciplinary Department of Regional Planning and Management at the Warsaw Agricultural University.

The Romanian residential market is still an emerging sector of the national economy. In recent years it was strongly driven by intensified activities of developers, financial institutions, and foreign funds.

Romania is the second largest nation in the EU's new accession countries after Poland, and it aspires to become one of the largest residential markets in the CEE region. It is now populated by approximately 21.5 million inhabitants, with an urbanization rate of 55%. However, given the large number of unregistered residents, the population of Romania's urban centres may be estimated at a much higher level than officially reported. Dynamic changes in Romania's economy following its EU accession have contributed to a sudden growth of foreign investments, consumption, and incomes on the labour market. This growth chiefly resulted from a massive outburst of investors' interest and rapid development of local urban markets. These factors have been the main drivers of a rising inflation since mid-2007. The current CPI level of 8 % (August 2008) is one of the highest since January 2006.

The Romanian economy's performance in recent years indicates a fast and stable growth. The GDP growth rate has never fallen below 4% in the past six years and amounted to 6% at the end of 2007. Forecasts of the National Commission for Prognosis indicate that in the nearest years, stable growth may be expected at a level

comparable to that of 2007, while at the same time inflation rates are forecast to fall. Nevertheless Romania is to be pointed out as one of the EU countries facing the most a risk of a world financial crisis by the International Monetary Fund and this major cause may have important side effects for its promising growth prospects.

### Housing stock

Mainly because of its age, standard, and low maintenance level, the quality of the housing stock is very low throughout Romania. According to statistics its volume is estimated at more than 8,270,000 flats and houses, which translates into 384 units per 1,000 inhabitants. Nearly 55% of Romania's housing stock is located in urban areas, and most of it represents blocks of flats made of prefabricated concrete slabs built in the socialist era.

The historically very high ownership level (97.7% of the stock is owned by individual persons), a consequence of vesting property rights in flat tenants under Communist rule, manifests the predominant preference of Romanians to hold an ownership title.



*Inflation and GDP growth rate trend 2002-2007 and prognosis 2008-2011; Source: Romania's National Institute of Statistics, National Prognosis Commission*

**Mortgage market**

The mortgage market in Romania has recently gone through a period of high-rate growth, thus becoming one of the most important development factors of the residential market. Despite currently rising interest rates and a visible slowdown of the growth of the outstanding loan volume (52% in the second half of 2007, 16% in the first half of 2008), the housing debt to GDP ratio published by the European Mortgage Federation still indicates a high growth potential. As of the end of 2006 the housing debt to GDP ratio amounted to a mere 2.3% in Romania, while the average of all 27 EU countries was at the level of 49%.

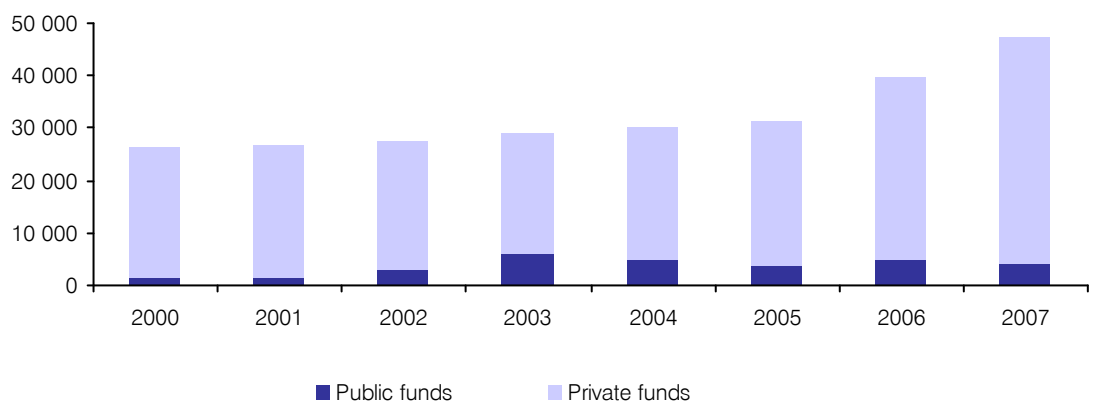
Therefore, experts expect a mortgage boom in the next few years based on the forecast decreasing inflation and interest rates as well as the encouraging economic situation. Although the dynamics of the mortgage market are currently slowing down, its fundamentals based on demography and potential of local demand allow for a positive prediction of its further growth. In this context, it seems worth stating that the current deceleration is rather due to presently growing inflation rates and reference rates of the National Bank as well as due to a direct reaction to the worldwide sub-prime crisis. The tighten monetary policy of the central bank, which in fact has lead to the limited mortgage availability for the potential buyers.

The volume of outstanding mortgage loans nearly doubled from June 2007 to June 2008. Loans are predominantly taken out in foreign currencies (mainly EUR) which account for approximately 90% of all housing loans contracted.

**New housing supply**

The Romanian residential market is still an emerging sector of the national economy. In recent years it was strongly driven by intensified activities of developers, financial institutions, and foreign funds.

Despite the evident increase in developer activity in recent years, in large cities in particular, its results in terms of number of dwellings delivered for occupancy are still hardly visible on the Romanian market. Although over 47,000 dwellings were delivered in 2007 – of which half were completed in urban areas – the building output of 2.2 units per 1,000 inhabitants was still very modest. However, the vast majority of the new supply is delivered by private individuals and developers. Based on market analyses, developer plans, and number of flats on offer, more dynamic increases in the market supply by developers may be expected in the nearest future, which undoubtedly will bring about yet another boost in the level of competition between developers.



Number of dwellings completed in Romania between 2000-2007 according to the type of investor; Source: Romania's National Institute of Statistics

# REAS News

## REAS to speak during Barcelona Meeting Point symposium (4-9.11.2008)

REAS representatives will be speakers during 12th edition of Barcelona Meeting Point (4 - 9 November 2008), one of the most important conferences concerning the global real estate market.

On November 6th REAS experts will speak of property business in Central and Eastern Europe during the session "Property Business in CEE". Dr. Władysław Jan Brzeski, FRICS, will talk about economic background of the real estate market and Mr. Paweł Szejter will present the situation in the residential markets in CEE. Mr. Kazimierz Kirejczyk will moderate panel discussion concerning chances and threats of financing real estate investments in the region.

## REAS reviews Bucharest residential market and launches the new edition of "Residential market in Romania" report

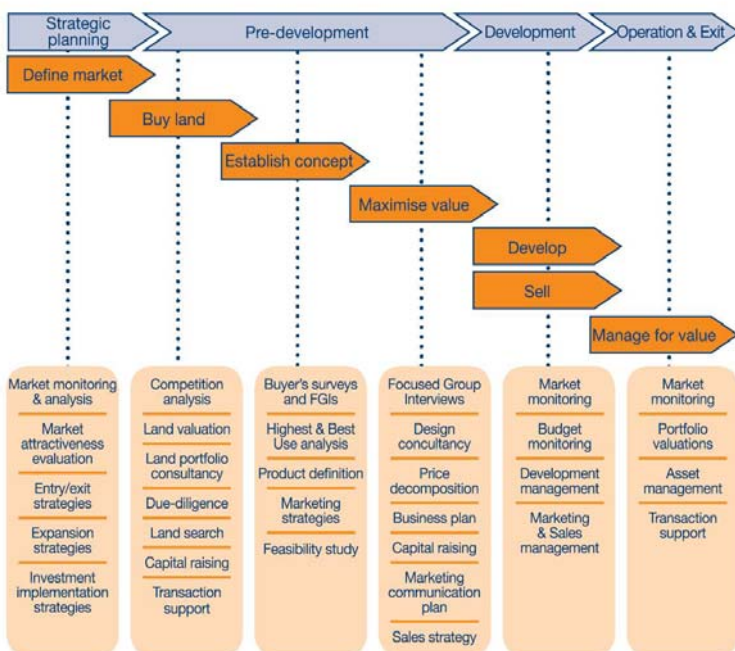
Perspectives and tendencies observed on the residential market in Bucharest were the main subject of the press seminar organized by REAS on 25th September 2008 in Romania's capital. At the same time, REAS officially launched the new edition of the report "Residential Market in Romania", presenting residential markets of four cities: Bucharest, Cluj-Napoca, Constanta and Timisoara.

## REAS launches Romanian version of corporate website [www.reas.ro](http://www.reas.ro)

Due to increasingly intensive presence and operation on the Romanian residential market, in September 2008 REAS launched its Romanian website: [www.reas.ro](http://www.reas.ro).

The website introduces REAS services and features commentaries regarding residential markets in Poland, Romania and other Central and Eastern European countries.

### About reas



REAS is an expert advisor in the planning and development of housing projects in Central Europe.

REAS staff are the leading Polish specialists in market research, design, housing project management, project financing, marketing and sales, as well as urban and housing development. REAS partners, as advisors to the World Bank and the Government of Poland, have played an active role in Polish housing sector reforms in the early 1990's.

Since 1997, REAS has been advising developers, investment funds, banks, local governments and other institutions active on the Polish housing market. From the beginning, REAS has set the standard for investment services and is an invaluable source of comprehensive information concerning the residential market in Poland and CEE region. Independence and objectivity, combined with extensive knowledge and long-term experience, allow REAS to effectively support its clients at every stage of a housing project.

REAS is strategic partner to **Jones Lang LaSalle**, the leading global real estate services provider.