

Top Analysis



Real Estate: Strong price drop is imminent

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By Beate Lammer (Die Presse)

The financial crisis brings real estate bubbles to burst, but it makes even viable projects unsalable.

For years on end vacation settlements kept appearing along the Bulgarian Black Sea coast one after another.

"However, not all of them were of good quality," recalls Peter Oberlechner from Wolf Theiss Austria. But this was not necessary, as foreigners used to buy at any price. The situation with unbuilt land in Bulgaria was the same: Those with good contacts with the administration received licenses for construction very easy. That made property prices explode. For expensive terrains investors preferred to get license for shopping centers than warehouses.

The result: Over the coming months, it would turn out that there would be many new shopping malls on the market that would be in a direct competition. "If they are all built at all," Oberlechner stresses skeptically. The financial crisis could confuse investors' plans. This is due to the interest rates on loans in Eastern Europe, which rose by about 2% for just a year. And very few could afford such conditions. Only in Bulgaria there are currently real estate projects for over EUR 2 billion euros that are hanging on a thread.

Crisis comes with delay

After all, there are few warehouses, which means that viable projects could succeed - if they are financed. The same is the situation with parking lots and expensive office buildings, where there is still a huge demand, Oberlechner explains.

The same trend could be seen in Romania too. However, what the two countries don't need now at all is namely shopping malls, moreover in most urbanized zones. Good money, would also deal with residential projects in the Czech Republic.

There is a lack of good quality buildings throughout the whole region of Eastern Europe. After all, there are 34 million panel buildings that still need renovation. In Hungary things are a bit different, as a decrease in the demand for residential buildings could be observed already, though there are many houses in dilapidated state.

In foreseeable future constructions will stop everywhere.

"It is almost impossible to receive funding now," the Austrian expert explains. Banks make no more difference between profitable and irrational projects.

In Western Europe and the United States we can already see en masse price cuts. Nobody believes anymore that the crisis could pass by Eastern Europe.

"Perhaps it is only Asia that is spared by the crisis since investment companies there do not work with loans from abroad," says George Shoe from Deutsche Bank. In contrast to Asia, however, the majority of investments in Europe come from outside.

Buyers wait

The reason for the crisis consequences to be felt in Eastern Europe with a delay, after sweeping Western Europe and USA, is mainly the fact that there was long trust in the region's economic growth. These times, however, seem to have already gone into the past. If you can no longer pay your loan interest rate, the funding will be stopped. According to Oberlechner, this would lead to a wave of bankruptcies on the developing real estate markets. However, this risk is not yet taken into account by buyers who have enough own capital: They hope to get an estate announced for public sale cheap, which means that real estate projects would soon be realized at a price much lower than the reasonable.

Thus, for instance, during the first half of this year, 60% more investments were poured into the real estate market, compared to the same period last year. A similar price drop was observed both in Germany and the UK. During the second half of the year we could expect an even bigger price fall, experts say.

Prices for viable projects would calm down only when the bankruptcy wave passes. Oberlechner, however, sees another danger in that case: if there is a shrinking of economy, investors would not be able to get their returns.