

## YEAR IN REVIEW: Health check

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### Real estate and tourism in recent years have steadily pumped cash into the Bulgarian economy. Do they still?



**SUNNY BEACH:** In April, on the eve of the summer tourist season, the resort was still dotted by construction sites, one of the main reasons for complaints by foreign tourists in recent years. Photo: Julia Lazarova

For many people, 2008 was the year that the property balloon burst, but that is not strictly true. Despite the US sub-prime mortgage crisis spreading to other developed nations, property prices in Bulgaria displayed a steady increase in the first half of the year, albeit not at the same rate that made Bulgaria the country with the fastest price growth rate in the world in 2007. Only in recent months have prices begun to show signs of decline.

prices and construction activity, only irregular and far from comprehensive “status updates” from real estate firms.

The problem, like with other sectors of the economy, is that there is virtually no centralised statistical data that would gauge real estate

But there is widespread agreement that the one segment that went downhill, and fast, is that of holiday properties. Geared heavily towards investors from developed countries, a large share of whom were British and Irish buyers, it showed the first signs of slowdown already in 2007 and did even worse in 2008. Hopes in the first half of the year that Russian customers will compensate for the declining number of Brits proved to be a false dawn as the US problems became global ones.

The other big fad of recent years – commercial areas – is yet to show the same level of decline, but there is a tangible threat of saturation of the market, especially if household consumption goes down in case of an economic downturn. That is yet to happen, but with gloomy economic forecasts multiplying, it could be just around the corner. Already a number of announced projects have been put on hold, while three deals for the sale of malls, one completed and two under construction, in Sofia have collapsed in November.

Residential real estate also appears to have peaked out, with the number of deals being done falling down in the second half of 2008. After years of steady growth, which came despite the fact that 90 per cent of Bulgarians are homeowners, potential customers are no longer willing to pay the prices asked by sellers. According to the data cited by Kapital weekly, prices in Sofia have more than doubled since 2004, while cumulative inflation over the same period of time was only 40 per cent. It does not help that foreign investment funds, which were busy buying real estate even into 2008, have stopped doing so and are now even actively looking to exit their investments, pushing down prices from the supply side.

Office space is not doing any better – the chronic lack of space from recent years seems to have toned down as new construction has flooded the market, while prospects of an economic slowdown are pushing down demand.

The key factor that put a dampener on the sector was banks slamming the brakes on lending in autumn, when the global financial crisis took a turn for the worse. The credit crunch did not appear to have a major impact on the willingness of banks to



lend money before that, but after September, Bulgarian banks all but froze loans for new projects and began asking potential customers to put down a larger amount of their own money when giving mortgages, while at the same time raising interest rates on old loans. Inevitably, developers and buyers are not the only ones to suffer the consequences of over-extending their reach, with construction companies also feeling the pinch.

Even though at this stage it is much too early to talk of a deflated balloon, doomsayers might not be totally wrong, merely getting their predictions in early.

### **Budgeting for recession**

Tourism is another sector where statistics are sketchy at best and too often dismissed as unreliable. What data is available from the State Tourism Agency (STA) seems to disprove the pessimistic scenarios at the start of the summer season: as of end-August, for the first time in years, revenue from foreign tourists in Bulgaria was greater than the amount spent by Bulgarians abroad. The difference was by no means small either, with foreigners spending 1.45 billion euro in Bulgaria, while Bulgarians took 900 million euro out of the country when they went on holiday.

The trend may appear confusing as one surfed for available offers online, where the opinions posted in favour of holidaying abroad vastly outnumbered those who planned to stay within Bulgaria's borders. Although the number of people vacationing abroad is rising rapidly, according to STA data, and comes mainly from the age groups that are more likely to use the internet for research and booking, most Bulgarians still think local when taking their summer holidays.

Constantly rising prices, however, coupled with no change in the standard of service and the massing grey clouds on the horizon of Bulgaria's economy, mean that Bulgarians spend less time vacationing, to the extent that the high summer season is now just one month, half of what it used to be. It's a vicious circle, that has prompted hotels and restaurants to further raise prices in a bid to stay profitable. This, in turn, is cutting into the willingness of domestic customers to vacation longer.

Tourists from foreign markets, some already feeling the hurt of their economies slowing down, are doing no better. The number of Brits and Scandinavians visiting the Bulgarian seaside was down this year, according to an informal poll by Kapital weekly in August, while the German market recorded a small recovery after years of decline. Even the Central and Eastern European markets brought fewer tourists, the only exception being Russia.

Winter resorts are even more dependent on foreign tourists, who accounted for 90 per cent of overnight stays in Bansko, Borovets and Pamporovo the previous season. So far, the forecasts for this winter are for a drop of between 20 per cent and 40 per cent in the number of tourists, even though Bulgarian resorts continue to be advertised as budget destinations outside the country.

Now that the economic recession is a fact in much of Europe, many potential tourists are cutting down on unnecessary expenses and tourism is suffering the consequences. It does not help that too many Bulgarian hotels are yet to react and lower prices. By the time they do, it could be too late to save the season.