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Real estate markets' potential in emerging European countries

by **Denis H. Camilleri**

Table – Indicators of advanced, developing economies and emerging markets

PROPERTY DEVELOPMENT has long been considered a preferred investment in the Maltese islands. However, with the price of local real estate having soared in recent years, investors are considering overseas ventures.

Indeed, a local hotel company has expanded into a chain of hotels in various countries. The *Kamra tal-Periti* (Chamber of Architects) has felt it opportune to organise an afternoon conference on this theme, which is being held on Thursday at Corinthia Palace Hotel, Attard.

The comparative table gives indicators for an advanced economy, such as Luxembourg, together with Malta considered a developing economy as compared with the emerging markets of Bulgaria, Romania, Hungary and Slovenia.

These are classified as emerging markets as they are shifting from a totalitarian regime to a free economy, previously identified as Eastern European, although some form part of central Europe.

To be noted however, that Slovenia and Hungary afford a comparable economic standing as Malta's, with Slovenia according to its 26th HDI ranking having surpassed Malta's 32nd ranking.

As the GDP standing of a country does not tell the whole story, a better indicator could be the Human Development Index (HDI)*, to assess the level of social development. The United Nations Development Programme (UNDP), to assess and compare development, has developed this index since 1990. Besides the wealth of the nation the UNDP consists of three combined major indices, namely life expectancy, educational attainment and income.

From the table it is further noted that the emerging market countries are presently witnessing a higher annual economic growth, although the annual inflation rate is also correspondingly higher.

Wages in Luxembourg are four times those earned in Malta, while Slovenian wages are a third higher than Malta's, with Hungary's wages being a third lower. Wages in Bulgaria and Romania are presently a fifth of those in Malta.

	GDP (PPP) \$/capita	GDP-%growth rate pa	Wages Euro/hr	Inflation %	HDI*ranking
Malta	19,739	1.7	7.77	2.47	32
Bulgaria	9,223	5.4	1.45	4.80	55
Romania	8,785	5.5	1.76	8.32	64
Hungary	16,823	4.6	5.54	3.37	35
Slovenia	21,808	4.3	10.54	2.40	26
Luxembourg	69,800	2.2	28.33	2.10	4

Although wages in these emerging markets are generally lower than Malta's, construction costs in these countries could be comparable to Malta's at Lm120/m² – this being possibly due to the higher building specifications required.

It is in the land values that the real estate differential occurs, as the price of a normal plot in Malta could fetch a rate Lm700/m² with annual growth rates over the past 25 years of 16 per cent per annum.

Malta's corresponding real estate value growth rate over the same 25 year-period averages out at 7.5 per cent per annum, although over the immediate past three years, the real estate growth rate has been in the double figure range.

This conference is to highlight the additional implications pertinent to overseas developments in these European emerging markets, such as planning, legal and fiscal measures.

With the vast amount of land ripe for development in these countries, is the planning process less stringent and bureaucratic, thus reducing risk to developers and hence enhancing expected profits? However, does a foreign developer encounter other risks along the planning route peculiar to foreigners?

Are the cadastral mapped records encountered in these markets of greater benefit than the sporadic registration system encountered in Malta, not encompassing the whole island? Although foreign citizens may acquire real estate in some of these emerging markets, ownership may be limited if the land on which it is built is not considered to be part of the real estate.

Does Malta's new trust legislation offer significant advantages to Maltese investors in real estate projects?

If a loan is to be undertaken, how far would a Maltese bank help out, or is it best or possible to outsource a bank from the country of purchase, which then involves foreign exchange risks? What is the amount of stamp duty due on purchase, do capital gains apply and is a property tax levied?

These and other queries are to be addressed by a panel of speakers with hands-on experience in these markets. The speakers, around which this conference is to be based, include John Hockey, recommended by The European Group of Valuers TEGoVA, who has a vast experience in various European offices, with hands-on involvement in new build and regeneration projects, co-ordinating activities by developers, investors, banks and advisers. Mr Hockey will talk about "Valuation: risk and uncertainty. Thoughts for home and abroad".

Real estate professionals across Europe are constantly asked how long the current development boom in many countries can last. With growing evidence of oversupply and allegations of corruption in certain countries, the wheel of fortune continues to turn, leaving valuers and investors debating value and return.

Discussing these and many other leading issues from a valuer's perspective, we will review reporting requirements and examine verifiable indicators that illustrate how and why the market is changing.

Banker Alfred Attard from BoV, who heads one of the corporate lending teams, specialising in property developments, will present "A banking perspective to financing property development abroad."

Lawyer Geoffrey Mifsud Farrugia, who has experience in the legal restrictions aspect of property dealings in Bulgaria, will also be a speaker. This with reference to tax implications, entry to the EU, regulated and unregulated land and other aspects of the real estate market.

Auditor John Zarb, a representative from the Malta Institute of Accountants, will delve into the auditors' expectations from emerging markets valuation reports, and problems currently encountered in this regard.

Lawyer Robert D'Alessandro, chairman of Credaltrust Management Ltd, is to delve into protection of investments for Hungary, Romania and Slovakia real estate projects. Developer Phil Stapley, CEO of Investment Solutions SRL, follows with operations, problems and recommended approaches for the Romanian market, with particular reference to the small investor.

The proceedings of this conference will be considered as guidelines to be delved into by future developers. This conference should be of interest to architects, accountants and auditors, estate agents, financial intermediaries and property developers, among others.

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