

ROMANIA – its image in Ireland is mixed to say the least. For the average person the country conjures up associations with political and economic refugees, the bloody fall of former communist dictator Nicolae Ceausescu, Dracula in his Transylvanian castle and the equally frightening Cheeky Girls.

This year, however, that changed somewhat when the Channel 4 show *The 20 Best Places to Make Money* placed Romania number one as the top European spot for investment. Indeed, if the programme is to be believed, investors should start heading over to the former communist country to get an early slice of the action.

The results, compiled by Pricewaterhouse Coopers, predicted that Romania could offer returns of up to 414 per cent over the next decade. Ireland was 14th with projections of 222 per cent and many were surprised that new locations, such

ago David Howe, an Irish solicitor, was looking for the next emerging property investment market. However he was looking to economic indicators – not for “a dream home in the sun”. After completing analysis on a number of countries, Howe deemed Romania to have the strongest indicators.

“Some people laughed, others said I was mad and some invested,” he says. Howe set up Investment Romania and has lived in Bucharest for over 18 months. He does believe that the attention Romania has attracted means that those looking to the area need to be even more careful.

Before the show aired, Howe says that a Google search on Romanian property highlighted lots of companies selling in Bulgaria, but only a few doing so in Romania. “Now there are so many compa-

are an issue, Romania has higher GDP growth and lower unemployment and public debt than Germany, Poland, Bulgaria, Turkey and Hungary.

Transport links will also improve dramatically with the completion of the Budapest-Bucharest Transylvanian Superhighway, which is scheduled to open in 2012, making the country much more accessible to the rest of Europe.

Howe reports that his clients have averaged 41 per cent profit and for 2006 they are projecting similar and even higher returns on selected investments. They are sourcing properties from €4,000 to €25,000,000 and in many cases offer profit share arrangements. In relation to rental return figures, six per cent is the norm. They recommend that straight investors go for commercial proper-

Eastern Promise

Every year there is a new media darling of the overseas property market and Romania has recently been talked up. But, wonders **Shane McGinley**, is it too early to be getting excited?

as the heavily promoted Bulgaria and Turkey, did not even make the list.

Yet since the Channel 4 show aired, many commentators have questioned the results and have deemed them far too general. The Overseas Property Professional [OPP] magazine expressed some concerns about Romania’s sudden elevation on to the property stage and quotes Dan Johnson from The Move Channel as saying that the programme failed to mention, “the lack of access to finance in a market that is severely underdeveloped and is not geared up to do business with English speaking people or companies”.

Even the TV show’s presenter Amanda Lamb has since diluted her enthusiasm for the area. In her latest list of the Top 10 Places to Buy in 2006, Romania is ranked eighth. While she still believes that “property there is very cheap and, as long as you get a good lawyer and make sure your deeds are in order, in a few years it should give you a tidy return”. However, she does maintain that “Romania is a long-term investment and, if I’m honest, a bit of a gamble because the property market is in its infancy”.

While Lamb may be adding cautionary notes, the die has already been cast and Romania is now ‘the new Bulgaria’ or ‘the new Turkey’, depending on who you talk to. And as is now the global norm, Irish property watchers were already in on the game long before the TV show aired. Three years

agencies which claim to have so much experience in Romania and everyone claims to be an authority,” explains Howe. “Furthermore their representations are inaccurate, especially as to rental return.”

Comparing Romania and Bulgaria is the first rookie mistake that many make, says Howe. While Bulgarian prices are increasing, the number of foreign investors is now crucial to the growth of the market, according to Atanas Garov, managing director at Colliers International Bulgaria. This is not the case in Romania where it is the domestic market that is buoyant and giving the growth rates projected by *A Place in the Sun*.

Although Howe compares the situation in Romania, and especially the capital Bucharest, to Dublin 10 or 15 years ago, almost 50 years of communist rule has to be overcome. Much of the existing housing stock is of a poor quality and would not be favourably comparable to western European standards. Domestic mortgages were only introduced in 2002 and there is no system of finance available for foreign property investment. It is entirely likely that this will change shortly, but for now foreign purchasers have to pay cash and land purchases must be done via a Romanian company.

Romania may be setting out on this path of recovery but economic indicators show that things are looking up. Even if interest rates and inflation

ties, and the more expensive produce the best yields. For example, Central European Properties are currently listing a five-storey 600 sq m building in the centre of the city of Cluj that has a tenant in the IT sector who is paying €4,000 per month, excluding VAT. The price on the building is €550,000. Alternatively, Howe recommends buying an apartment which is dual purpose, as residential property can be converted to office or commercial use without planning permission – all you need is the permission of the building administrator.

For those looking outside the capital city agents A1 Real Estate have teamed up with Ganesha Global and developers CasaRom to build the Subcetate Residential Park in the city of Arad. When complete in 2012, the project will provide 870 units in an affluent 24-hour guarded complex. Prices for one bedroom apartments in phase one start at €655 per square metre and rental yields are predicted to be 14 per cent.

Paul Larkin, from the Limerick based BPI Group also advocates that the local domestic market is what Romania has to offer and will sustain its growth for the foreseeable future. While he does

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Romania is a gamble because the property market is in its infancy

believe that single or small investors can buy property and make gains – like landlords did in Dublin decades ago – he believes that the property food chain is only at the developer stage at present and the clients he deals with are buying up land to develop or sell on in a few years to benefit from the growth in prices.

At present the domestic market is the keystone to growth, but if Romanian tourism is managed correctly it will attract more visitors and lead to the sort of resorts now seen in the likes of Bulgaria. However there is a long way to go before that will be possible, as, according to Larkin, Romania still suffers from a poor reputation in Ireland and the UK.

While it may seem that Romania has a lot of internal housekeeping it needs to do before it can begin to challenge its negative perceptions abroad, there are some positive indicators emerging. In 'The Vogue List' – an annual ranking of the top 100 most important movers and shakers in fashion, design, travel, products and public figures – Romania was chosen by the magazine, as the 2006 holiday destination of the year. "A visit to Romania brings a lot of surprises," offered the magazine, calling it the 'New Zealand of Europe'.

While Vogue and A Place in the Sun may currently be exalting Romania, supreme caution should still be exercised. There are certainly no guarantees that Bucharest will go the same way as Dublin. Therefore, as is always the case with buying property, investors should do independent checks, be careful who you are taking advice from and basically don't do anything in an overseas property deal that you wouldn't dream of doing at home. ●

INFORMATION

Investment Romania

Tel: 0040 21 335 05 24

or Web:

www.investmentromania.com

BPI Group

Tel: 061 313 200

or Web: www.bpigroup.ie

Central European Properties

Tel: 01 239 3277

or Web: www.ceprop.com

A1 Real Estate

Tel: 00 36 1 219 5505 or

Web: www.a1realestate.hu or

www.1romania.com

Property Frontiers

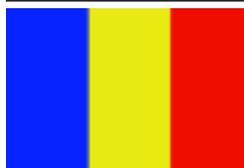
Tel: 00 44 1865 202 700

or Web:

www.propertyfrontiers.com



ROMANIA THE STATS



Population: 21.5 million

Flying time from Dublin: No direct flights currently – stop over in Budapest/London approx flight time 4 hours.

Currency: Lei (Ron) €1 = 34,485 lei

Time difference: +2 hours

ROMANIA AT A GLANCE

PURCHASING PROPERTY

A foreign individual may purchase an apartment within a block as a private buyer, however to purchase a property with land, the foreigner must do this through a Romanian limited company. This company may be wholly owned by the foreigner(s). Generally, the vendor will require a pre-contract and 10 per cent to be paid immediately. If an architect's report is required, this must be done in advance and, for those borrowing, this must be agreed in advance.

BUY-TO-LET

Romania has been earmarked for EU accession in 2007, and there has been increased excitement in the property market. There has been a significant hike in both commercial and residential developments. Many multi nationals are establishing offices in Romania and this has been of huge benefit to the property market. In Cluj, there is a high student population and there is a demand for apartments and alternative recreational facilities. Commercial rental yields have been recorded as high as 20 per cent but that can't be regarded as the norm.

LEGAL ISSUES AND FEES

The lawyer, appointed by the purchaser, will prepare the pre-contract. The lawyer will act for the law, not exclusively for the purchaser. The lawyer's fee can be in the region of 1.5 per cent of the purchase price. Stamp duty is on a sliding scale and will be calculated by the lawyer. It is approximately 1.5 per cent. The closing of the deal will happen at an office of a public notary. If a company is required, the process should begin before the property is identified. It takes several weeks for the process to be completed and a number of standard forms must be completed with the lawyer. Once the process has begun the individual may sign the pre-contract and then the final payment will be made when the company is complete. The property will then be registered in the name of the company. (Info: CE Properties)