Expectations for 2008

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Some time ago, in the beginning of 2008, I was writing about my expectations on the Romanian real estate market for the year. At that time, I had in mind an old slogan of the 1990s: "*It's time for construction*". Five months have already passed and I can see that my forecast about the real estate industry was quite realistic. I can confirm my previous prediction that now, more than ever, the construction market is the place to be for any investor in search of enticing projects in Romania. Equally, I would also admit that the business climate got somehow arduous because of the last few months' evolution in the international and local financing market, as detailed below.

Looking at the past, we learned that 2005 – 2007 were years when money was mainly directed towards land acquisition. The boom in land prices within this period was fed at the time by a sharp decline in borrowing costs on the prospect of membership to the European Union. The international credit crunch crisis in mid 2007 was, however, visible in the Romanian real estate financing market as well. Numerous financial experts and representatives of the National Bank of Romania saw this influence as a positive opportunity for Romania to balance the deficit of the country's current account as it has been alleged by many that rapid money-growth is a useful early warning of credit and asset-price bubbles. Under such circumstances, expectations are that the Romanian real estate market is just taking a deep breath before a new increase of the financial results arises for the investors.

It is beyond any doubt that, given the current international crisis, the Romanian real estate market is still doing well, even if more uncertainty has crept in lately. Romania's membership of the European Union has led many multinationals to open offices and production and manufacturing units in Bucharest and other important city centres around the country. This should normally be followed by an increase in demand for industrial and office space, as well as housing facilities. Accordingly, it is far from difficult to predict that the years to come will feature a new investment trend in real estate:. The construction market appears to have first chance to become the shining star of this era, as major earnings will be generated by the large demand for residential, office and commercial space in Romania and the substantial amount of new projects to be developed in this respect. Last but not least, one should not forget the infrastructure needs Romania faces under the new challenges of an open and emerging market.

On the other hand, the impact of implemented credit restrictions, limiting the availability of banking finance, is having a negative effect on demand in this still very young market. The tighter conditions for granting mortgage loans imposed by Romanian banks are pricing out potential buyers. At the same time, wage costs in the construction industry have risen sharply compared with other industries in Romania and these trends are fuelling wage inflation, making it harder for local firms to compete with multinational companies. To this extent, major local players are already looking at the market for strategic partnerships with investment funds and, in some cases, takeovers have already been planned this year. Therefore, it may be time for small and medium size foreign investors, who have enjoyed the position of being the first players on the market, to choose to reduce their market positions in order to repay their debts. This may also lead to exit transactions and takeovers of early developments.

From a real estate lawyer's perspective, I would envisage that the continuing sophistication of legal services is needed more than ever. The reasons I would give for this would include, first of all, the emergence of major institutional players on the market. This is usually seconded by real estate development companies and internationally reputed constructors (traditionally partners of investment funds).

These include companies like ING Real Estate Development, Bouygues Immobilier, Ferrovial Group, and Africa Israel. An important group of medium size investment funds have already contributed greatly to the real estate culture in Romania and we must not overlook names like Teesland, Grupo Lar, PPF Investments, Equest Balkan Properties, and Immofinanz. Moreover, the credibility provided by associating big names with real estate projects in Romania is expected to attract financing from reputable banks like Deutsche Bank, BNP Paribas, Barclays, Hypo Real Estate Bank, and Bank of Scotland which, as we have already seen, are willing to finance new real estate and infrastructure projects in Romania.

In terms of legal services, we are expecting to see more complex structures utilized in the implementation of real estate projects and FIDIC terms and standards of business should be increasingly referred to upon negotiation. The financial situation accompanying such developments will include transactions specific to syndicated loan markets and various trading with loan instruments. Accordingly, practices standards like those regulated by the Loan Market Association would become more and more relevant to Romanian practitioners.