PROPERTY

Eastern promise

Central and Eastern European property prices are on the up as investors go east for a slice of the action. Alexander Garrett reports

BEFORE THE BERLIN WALL FELL, THE idea of investing large sums of money in the crumbling cities on the other side of the Iron Curtain would have seemed risible to most in the West. What a difference a decade and a half makes.

Today, Central and Eastern Europe are the continent's hottest investment regions, putting the likes of London, Paris, and the sun-soaked Costas into the shade. While the property market in the UK has stagnated, prices in cities such as Warsaw, Prague, Bratislava and Budapest have been notching up double-digit growth over the last couple of years, while Moscow was possibly the highest riser of all last year, with increases of 30-40 per cent, according to Knight Frank.

Savvy investors from the UK, Ireland and other points west have judiciously been diverting their money eastwards to buy a range of properties, from new city-centre apartments to suburban townhouses, all built with high standards of comfort at relatively low prices.

During the 1960s the authorities in some Communist countries in Eastern Europe responded to the housing shortage by building large prefab concrete projects – known as *panelaks* in the former Czechoslovakia. These were pretty grim, built in satellites around city centres, often leaking and poorly insulated. Intended to be temporary, many are still occupied more than 30 years later. A new generation of young, upwardly mobile citizens is now desperate to move out of these relics of Socialism, fuelling a building boom in key cities, where contemporary apartment blocks and houses built to international standards are being snapped up by those who can obtain a mortgage.

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have joined the EU and signalled their intention to enter the eurozone," says managing director Vere Bruce-Gardyne. "The economic growth rate is the key – we are looking for places where local people have the financial resources to rent the property today, and will have the spending power to buy it in five years' time. We are aiming squarely at the emerging middle classes."

At Czarny Las, a forested area in Greater Warsaw, Letterstone is offering three-bedroom starter homes from €99,000, with gross rental yields forecast at 6.5 per cent. Swiss Franc mortgages are available for up to 90 per cent of the purchase price, at 3.55 per cent interest. "These properties are very easily commutable into Warsaw and there's a lot of industry growing up nearby," says Bruce-Gardyne. "It is speculated that Warsaw's population is set to double by 2010 as people are moving off the land and into office jobs, where they can earn more."

In Bratislava, capital of Slovakia and a corporate location for Volkswagen, Dell and IBM, one attraction is that you are only 45 minutes by car from Vienna, so it is possible to commute daily. Here, Letterstone is offering new-build flats at the Villa Bistrich development in the affluent Zahorska Bystrica district, near the old town and with views of the Carpathian Mountains. A one-bedroom apartment starts at £81,000, a two-bed at £111,000. Eighty per cent mortgages are available and the estimated gross yield is eight per cent. These are not luxury standard developments, but they do incorporate the type of features you'd expect to see in new builds in the UK, such as underfloor heating, laminate flooring and built-in white goods.

The real reason for investing in this part of the world is that strong economic growth is likely to push prices up over the next few years. Prices in some districts of the more mature locations, such as Prague and Budapest, have actually peaked for the moment, but the belief is that they will soon begin climbing again. Henry Wilkes, who runs a new division at estate agent Savills, specialising in Eastern Europe, says he strongly expects prices in the main cities to converge upwards towards the level of their counterparts in Western Europe.

In London, the city with Europe's most expensive real estate, 'good secondary' property currently sells for €6,000-7,000 per square metre, according to Letterstone. Similar property would cost €2,200-2,700 in Prague, €1200-1,500 in Budapest, €1000-1,300 in Bratislava and about the same in Warsaw.

Off-plan isn't the only way to buy, of course. There's also plenty of older housing stock in most central European cities – predating the Communist-era apartment blocks – but the prospects for such property to appreciate in value may not be so good. One place where older property is being snapped up is in Berlin, where apartments are extremely cheap and returns are high.

Around 80 per cent of residents in Berlin live in rented accommodation, and there is much stronger protection for tenants' rights than would be the case in countries such as the UK. At the same time, there has been a net outflow of population since the Berlin Wall fell in 1989. The consequence of this is low, low property prices (for the capital city of Europe's biggest economy) and relatively high rental yields. Berliners simply stopped buying property because of lack of confidence, and prices per square metre start at €750 rising to €2,000 – in many cases lower than the likes of Warsaw and Bratislava. You can buy an entire apartment building in Berlin – especially the former eastern half of the city – for as little as €737,800. Norenva, founded by former City banker Norbert Klink, has more than 50 apartment blocks on its books. A typical example in the Prenzlauer Berg district of Berlin has 21 apartments and two shop units, with a current rental income of €78,616, at an asking price of €105m. That works out at a yield of 7.5 per cent, and, although the Berlin property market has been very flat, some commentators reckon there is a lot of upside, as the German economy recovers.

For the more adventurous, there are numerous other locations still emerging that could prove to be very good investments, but which carry a slightly higher risk. The Baltic states, the Bulgarian capital Sofia – EU membership due in 2008 – and Istanbul in Turkey all spring to mind. In each case, the same test should be applied: can the locals afford to rent here now, and will they be ready to buy in a few years' time?

Far left: an artist's impression of Nowa Rezydencja Królowej Marysienki, a major new development of apartments in Warsaw by Knight Frank Poland. Above: an apartment block near the river in Berlin's Mitte district is for sale via Norenva for €3.9m, with an annual rental income of €300,000

Contacts: www.knightfrank.com; www.letterstone.com; www.norenva.com; www.savills