



RESIDENTIAL PROPERTY MARKET IN CEE

Standing its ground in a challenging environment

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Executive summary

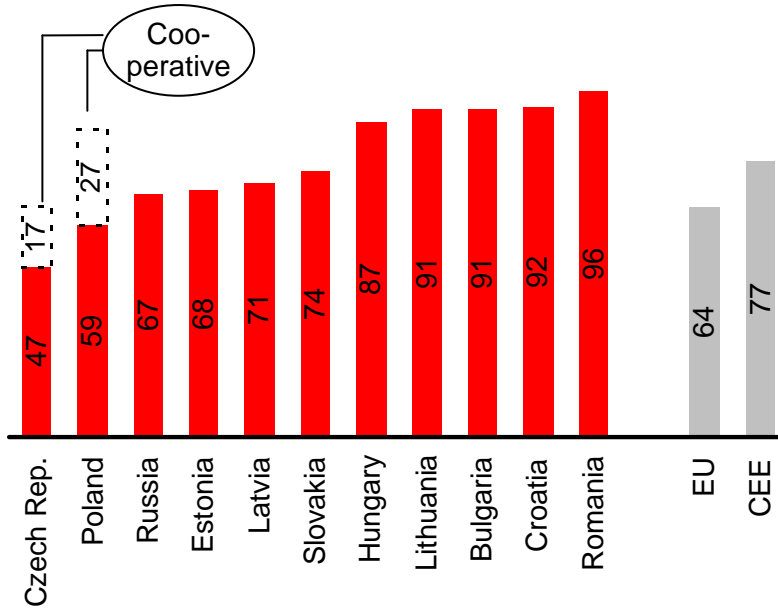
- **Gap in supply:** as a consequence of the transition process, home ownership is quite high in the CEE region, still in the context of a gap in supply. Acceleration in supply of new dwellings in the last years has been unable to fill the gap, which is even enhanced if quality standards are considered.
- **Household plans:** as income and living standards improve, demand for residential real estate is strong. 2 out of 10 households plan to buy an house in the next 10 years, mostly as an house to live in, but with some rising demand also for investment or second home purposes.
- **House prices:** the increases in house prices have been significant in the last years. It emerges clearly that income, access to credit and limited supply are drivers for real estate prices. We still believe that house prices in the region are compatible with an equilibrium level, although there might be out-of-equilibrium trends in some sub-segments.
- **Affordability:** the affordability levels have been reducing and the demand for house purchase is still mostly linked to the emerging middle class segment or to high net worth individuals. This means that on top of the existing demand, there might be a "potential demand" at the moment constrained by affordability issues.
- **Some risks:** there are however a few areas to monitor which might exhibit some oversupply – i.e. the holiday home sector in Bulgaria, or some imbalances in capital cities such as Bucharest. The bursting bubble in Kazakhstan should be the warning signal for the region.
- **Looking ahead: despite a less supportive macroeconomic scenario, we keep a positive view. We forecast some moderation in growth trends, but no backlash, as gap in supply coupled with persistently lively demand represent a long term driver**

Agenda

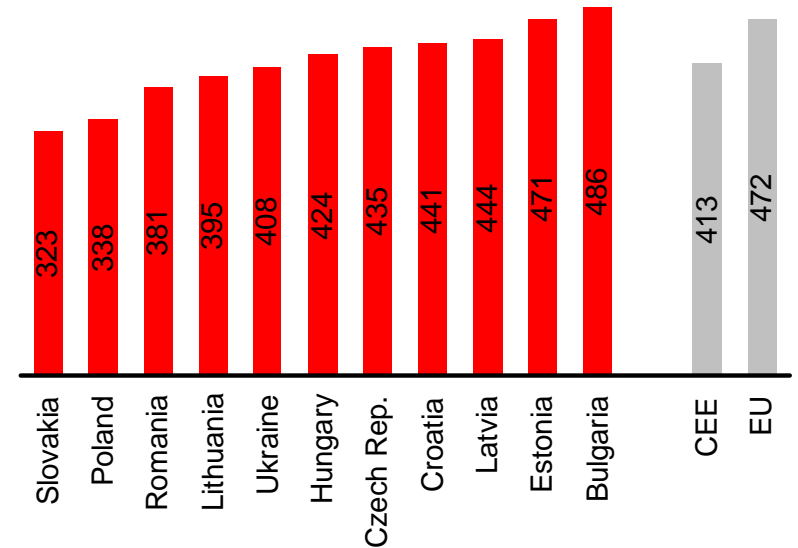
- **Residential Real Estate in CEE: supply and demand**
 - House price dynamics
 - Challenges and opportunities ahead
 - UniCredit Group: an active player on the market

The transition process throughout the region resulted in very high home ownership rates, still in the context of a gap in supply

Home ownership in CEE and Western Europe^{1,2,3}



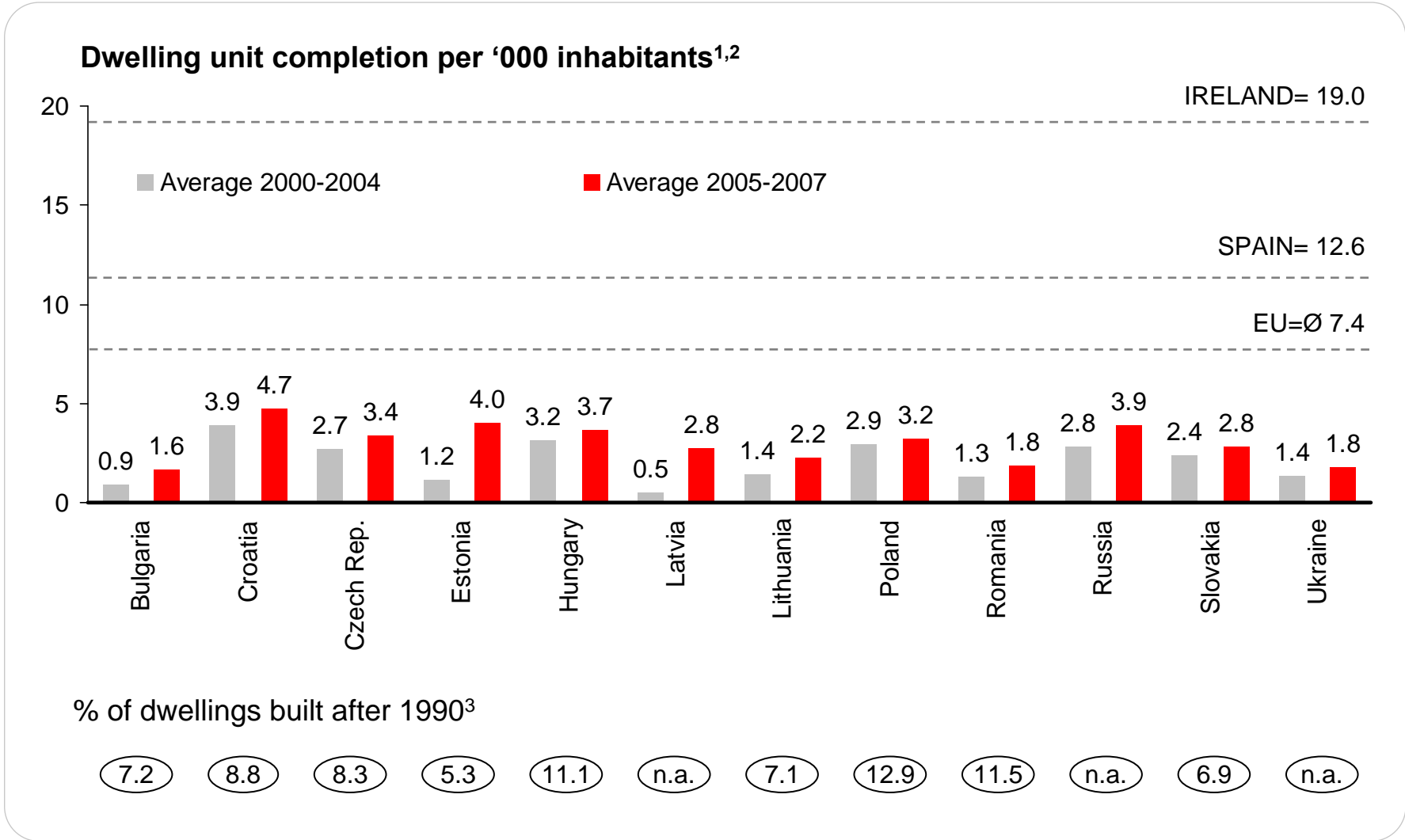
Dwelling stock per '000 inhabitants^{1,4}



- The privatization in the early 1990s led to widespread private ownership, with around 77% of the housing stock being currently owner-occupied vs 64% in the older EU states
- Still the CEE region residential market is characterized by a housing gap

Notes: 1\ EU: AT, DK, FI, FR, IT, NL and ES; last available Census for EU countries; 2\ Data as of 2001 for BG, CZ, HR, LV, LT and SK; as of 2005 for HU and RUS; as of 2006 for EST, PL and RO; 3\ Calculated as ratio between owner-occupied dwellings over total occupied dwellings measures in physical units, except for Russia (sqm); 4\ As of 2001 for LT, 2006 for BG, HR, EST, LV, PL, RO and UKR and as of 2007 for CZ, HU and SK
Sources: UniCredit Group CEE Research Network, Department of the Environment Heritage and Local Government (Ireland), UNECE

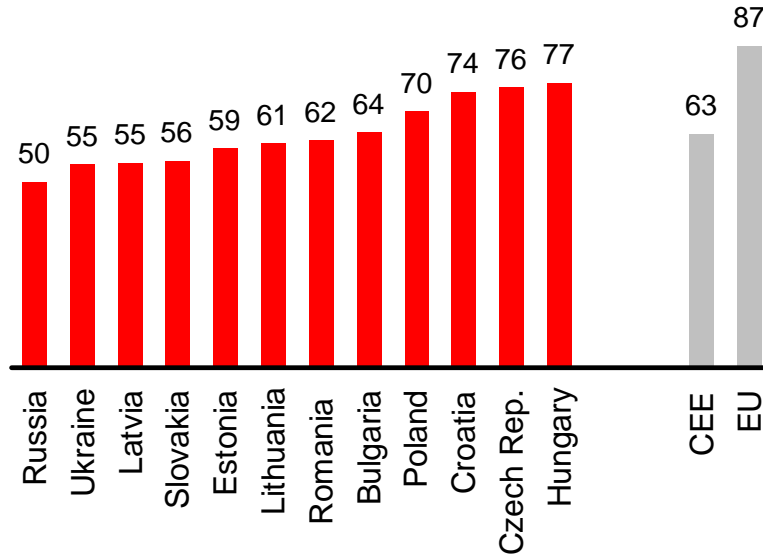
Construction activity has been strong in the last years, especially in the capital cities and urban areas, but well below western standards



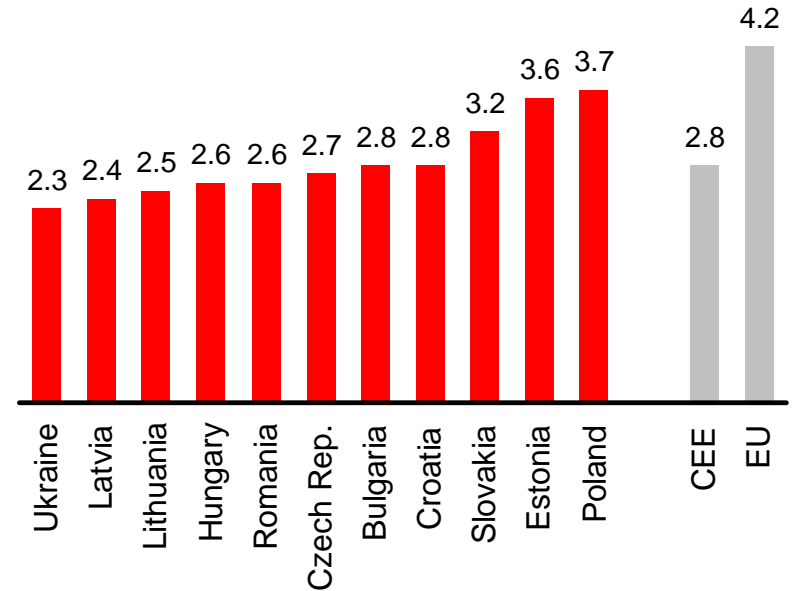
Notes: 1\ EU proxy including AT, DK, FI, FR, IE, IT, NL and ES; 2\ BG, HR and RUS (no. of apartments): 2000-2006; 3\Census data (last available year)
Sources: UniCredit Group CEE Research Network, Department of the Environment Heritage and Local Government (Ireland)

The housing gap is enhanced when quality standards are considered

Average usable area per dwelling^{1,2}



Average number of rooms per dwelling^{1,2}



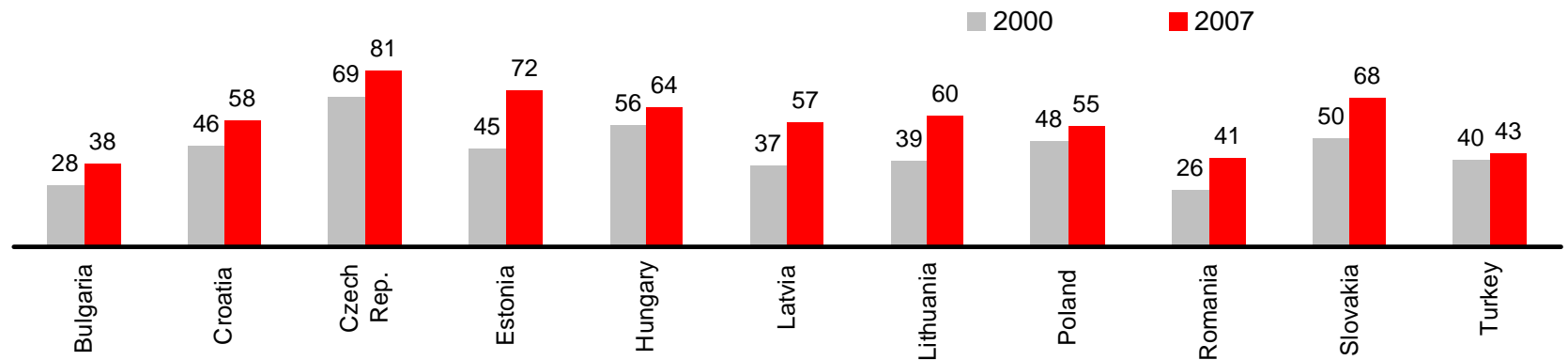
- The communist regime left the CEE region with a unique housing stock of relatively recent, but often rundown homes
- Quality and maintenance issues are particularly relevant in some CIS countries
- In Central European countries, like Hungary and the Czech Republic, quality standards are much more similar to western ones

Notes: 1\ EU proxy including AT, DK, FI, FR, IT, NL and ES; 2\ EU: Census data (last available year). As of 2001 for BG, CZ, HR, LV, LT and SK; as of 2005 for RUS and UKR, as of 2006 for EST, HU, PL and RO

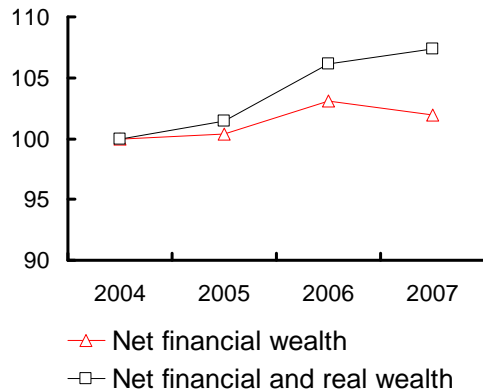
Sources: UniCredit Group CEE Research Network, Department of the Heritage and Local Government (Ireland)

Income convergence and improving living standards as drivers for demand for new residential real estate properties

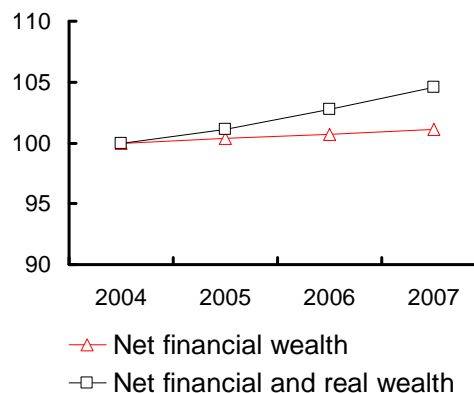
GDP per capita (EU27=100 in PPS)



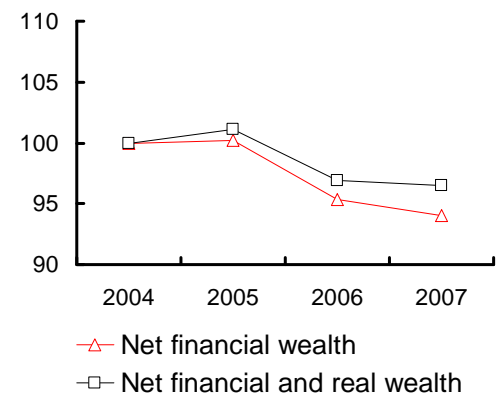
Net financial and real wealth in CE^{1,2} (Index 2004=100)



Net financial and real wealth in SEE^{1,2} (Index 2004=100)



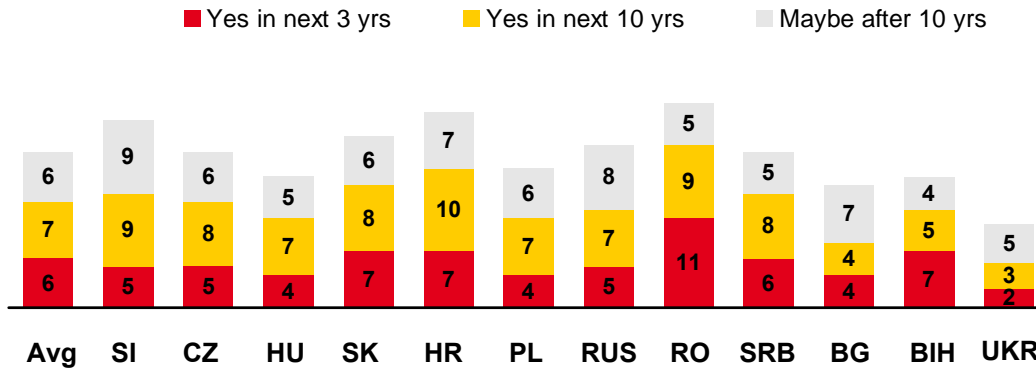
Net financial and real wealth in BE^{1,2} (Index 2004=100)



Notes: 1\ CE: CZ, HU, PL and SK; SEE: BG, HR and RO; BE: RUS andTK; 2\ Net financial wealth is defined as the difference between households' financial assets and liabilities; proxy for the overall accumulation of both financial and real wealth using the difference between households' financial assets and the non-mortgage component of debt
Source: UniCredit Group CEE Research Network, Eurostat

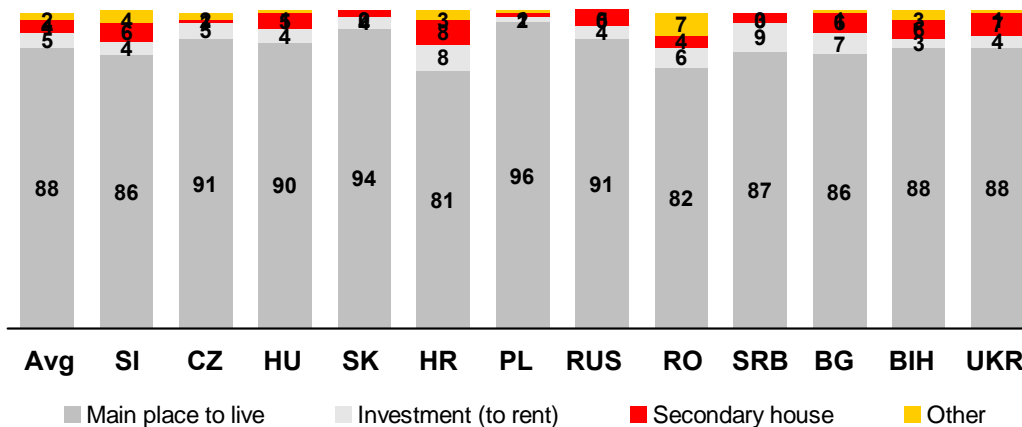
Survey data show strong potential demand, mostly as primary house

General likelihood to buy new house/flat (%)^{1,2}



- 2 out of 10 households intend to buy real estate property
- 9 out of 10 potential buyers are seeking for a house to live in
- Some rising demand associated to investment or vacation purposes, particularly in Croatia, Bulgaria and Romania

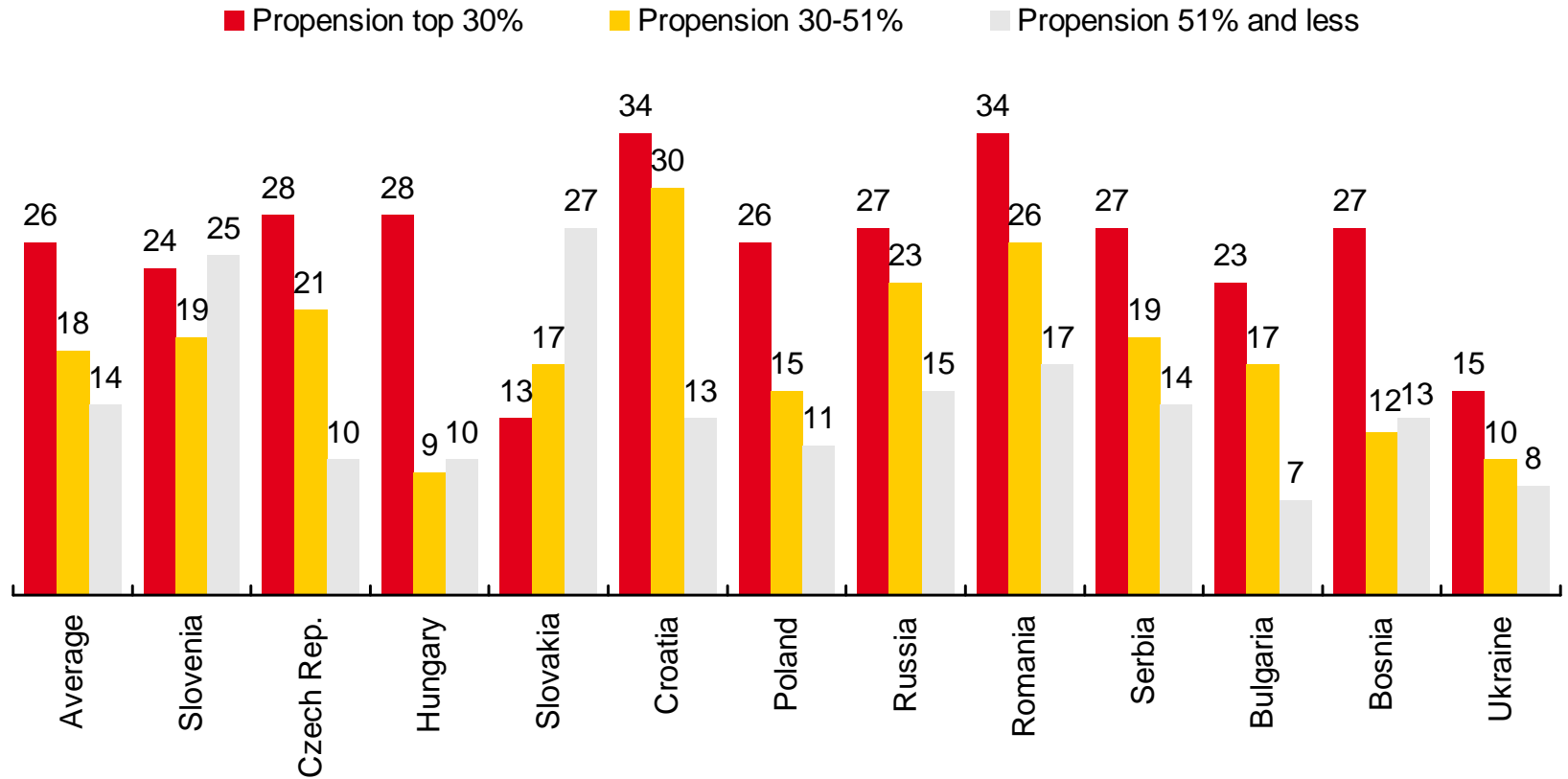
General likelihood to buy new house/flat, by purposes^{1,2,3}



Notes: 1\ Survey involving 1,000 individuals (more than 2,000 in RUS) aged >15 and living in the largest cities of the country; all interviews were conducted as personal face-to-face interviews by Bank Austria's long term partner agencies (GfK, RmPlus, TNS); 2\Countries are ranked by level of per capita GDP; 3\ Sample represented only by those willing to buy new house/flat
Sources: UniCredit Group CEE Research Network, Bank Austria Market Research

Demand mostly associated to higher income classes ...

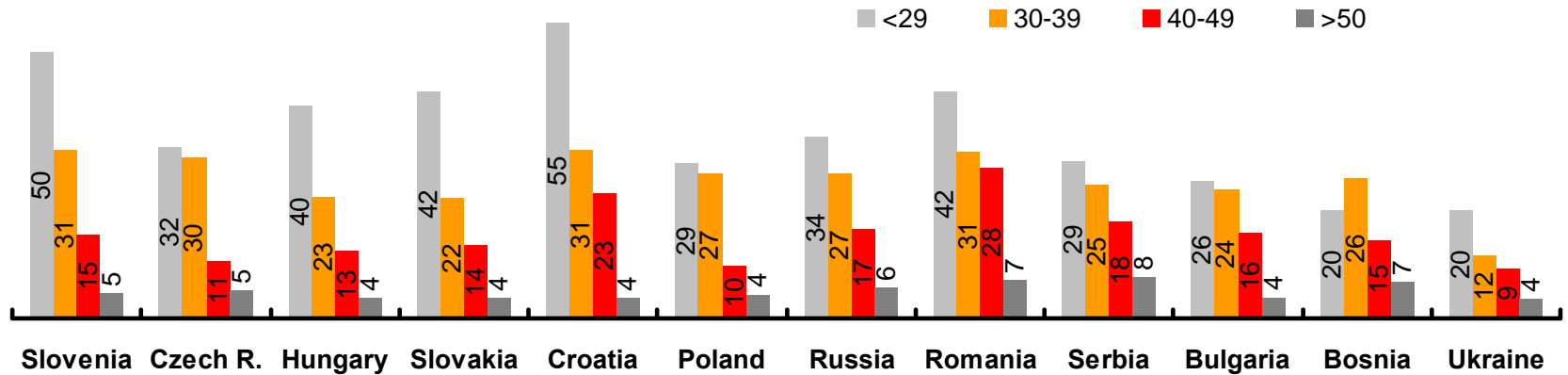
General likelihood to buy house/flat, by income¹



Notes:1\Countries are ranked by level of per capita GDP
 Sources: UniCredit Group CEE Research Network, Bank Austria Market Research

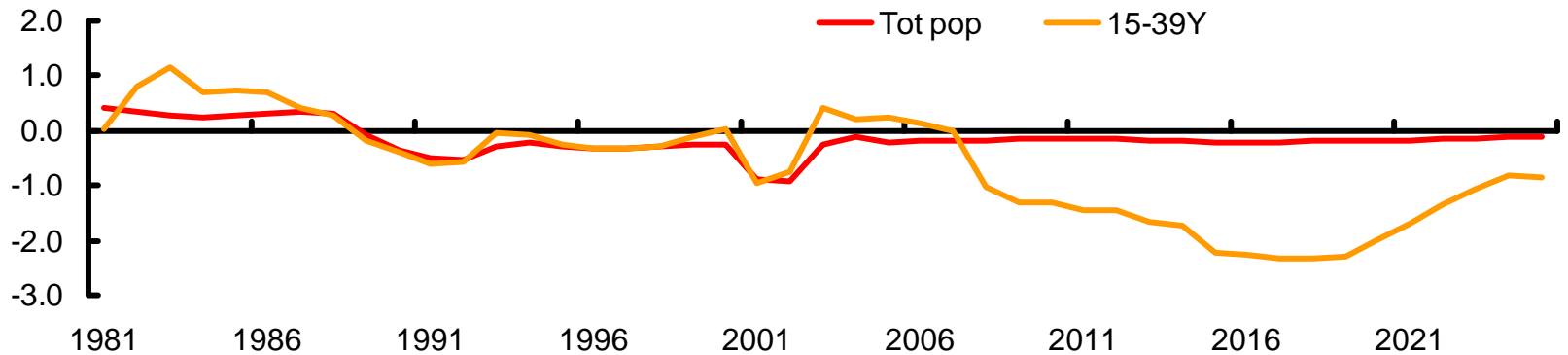
... and younger generations

General likelihood to buy house/flat, by age (%)¹



Evolution of CEE population aged 15-39Y in 1981-2025F²

(% yoy growth)



Notes:1\ Countries are ranked by level of per capita GDP; 2\ CEE: BG, CZ, EST, HU, LV, LT, RO and SK
Sources: UniCredit Group CEE Research Network, Bank Austria Market Research, Eurostat

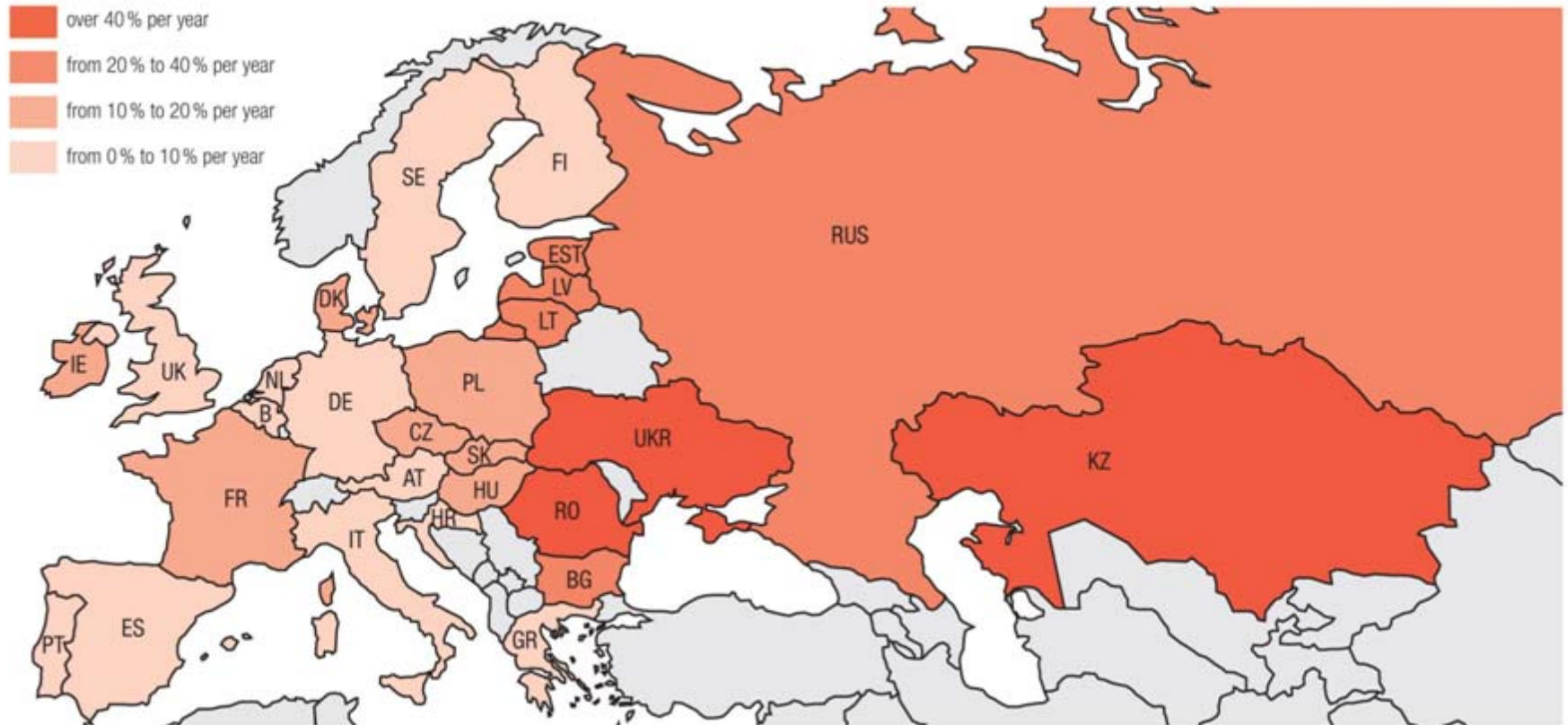
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- Residential Real Estate in CEE: supply and demand
- **House price dynamics**
- Challenges and opportunities ahead
- UniCredit Group: an active player on the market

Growth in house prices has been persistently high ...

Residential property prices in the enlarged Europe

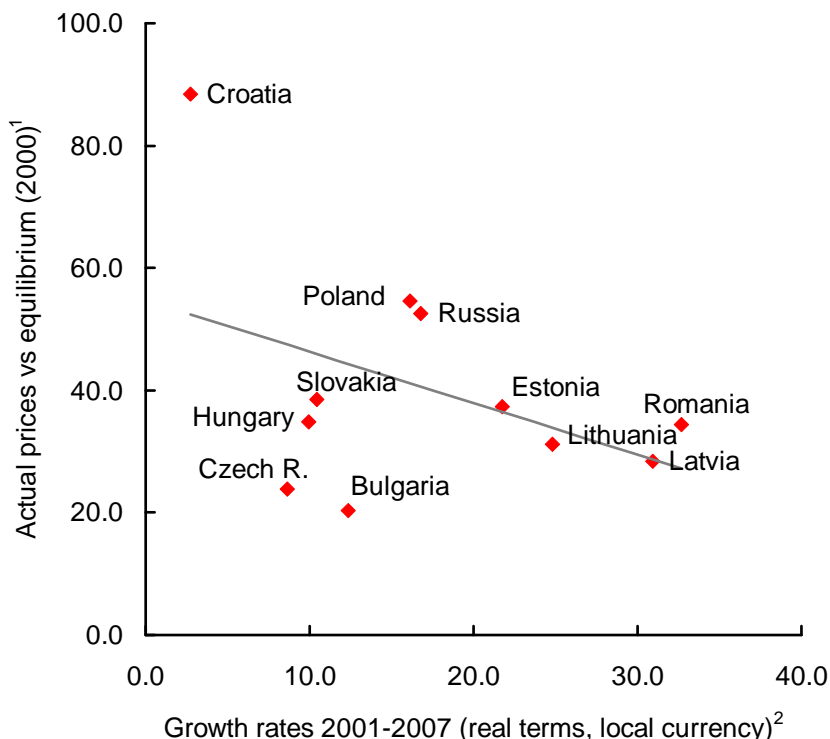
(yearly average increases 2002-2007)^{1,2}



Notes: 1\ Growth rates calculated in local currency (nominal terms). All data used are from NCBs and local Statistical Offices and refer to non-harmonised national sources, thus any comparison on the dynamic of house prices across countries should be taken with care; 2\ B, DE, IT: 2002-2005; NL, PT, LV, LT: 2002-2006. House prices for Latvia and Ukraine refer to capital cities
 Sources: UniCredit Group CEE Research Network based on National Statistical Offices, NCBs, Department of the Environment Heritage and local Government (Ireland)

... but mostly compatible with the convergence story ...

Actual vs equilibrium prices in 2000 and growth rates of actual prices³



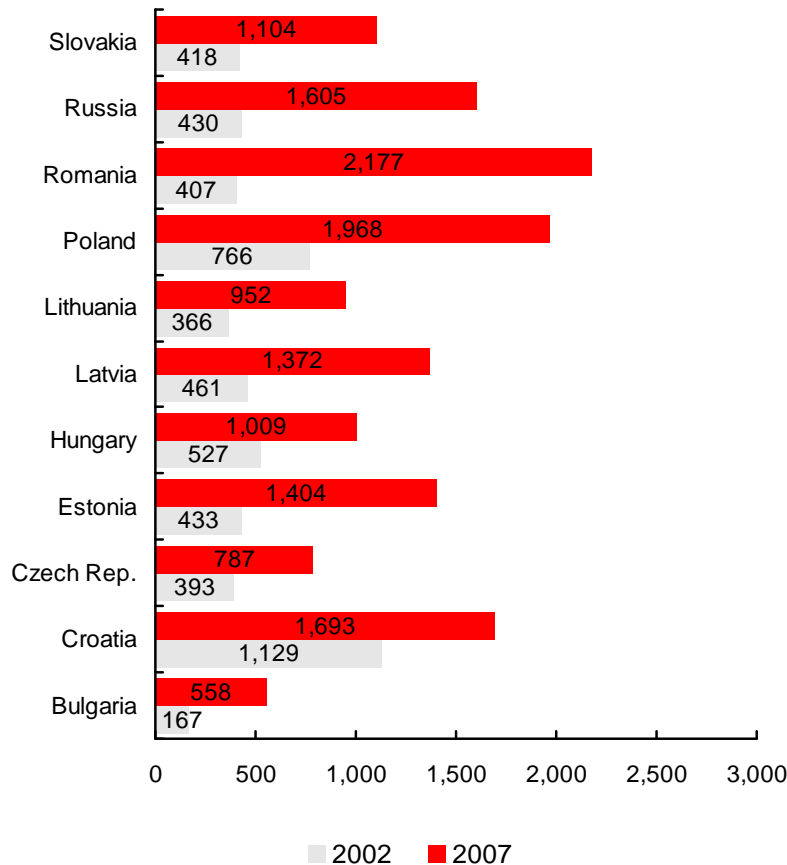
- **Improving household financial conditions and limited supply** remain key drivers of strong demand (1% increase in income and supply result in 1.1% and -2.8% change in prices, respectively)
- The large inflows of immigrant workers toward EU contributed to higher demand for housing through substantial inflows of **remittances** (1% increase in the ratio of remittances over GDP results in 0.6% increase in prices)
- Fast development in the **mortgage market and greater availability of credit** at better conditions might have spurred the growth of house prices (1% increase in the ratio of mortgages over GDP and interest rates results in 0.2% and -0.01% change in prices, respectively)

Notes: 1\ CZ: 2001; EST, LT, PL, RO, SK: 2002; RUS: 2003; 2\ EST, PL, RO, SK: 2003-2007; LV: 2001-2006; LT: 2003-2006; RUS: 2004-2006; prices for Latvia refer to Riga suburbs, while for Romania to Bucharest; 3\ Equilibrium house prices are calculated based on out-of-sample estimation by regressing house prices (expressed in real terms) on GDP per capita in PPS and mortgage rates using Eurozone countries as a benchmark

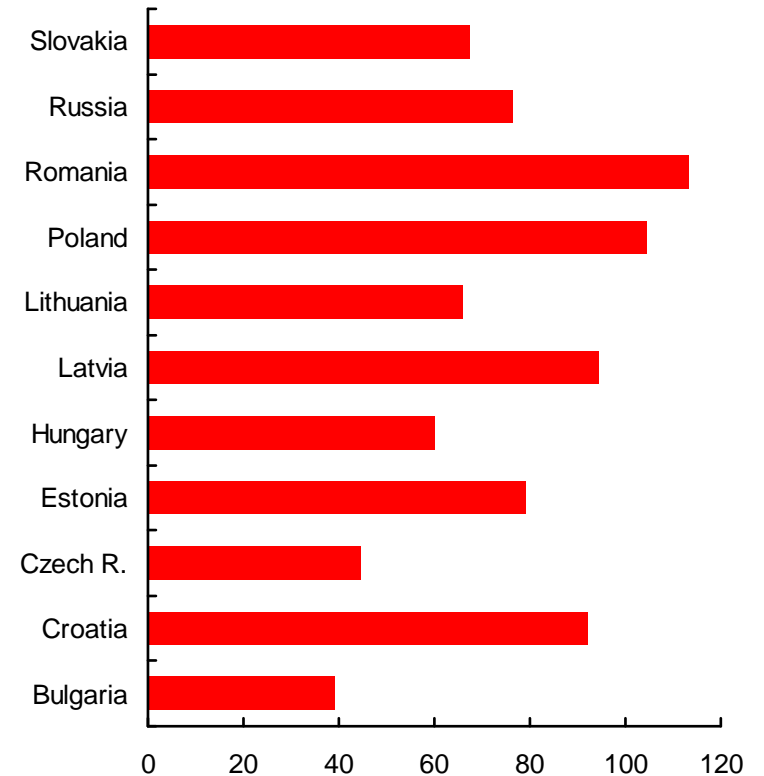
Source: UniCredit Group CEE Economic Research

... and with no major deviations from equilibrium trends

Real estate prices, country average
(EUR per sqm)^{1,3}



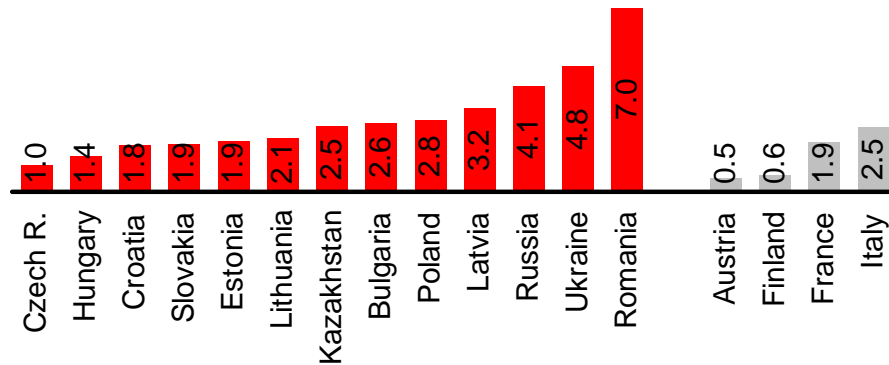
Ratio of real estate prices over equilibrium prices in 2007^{2,3,4}



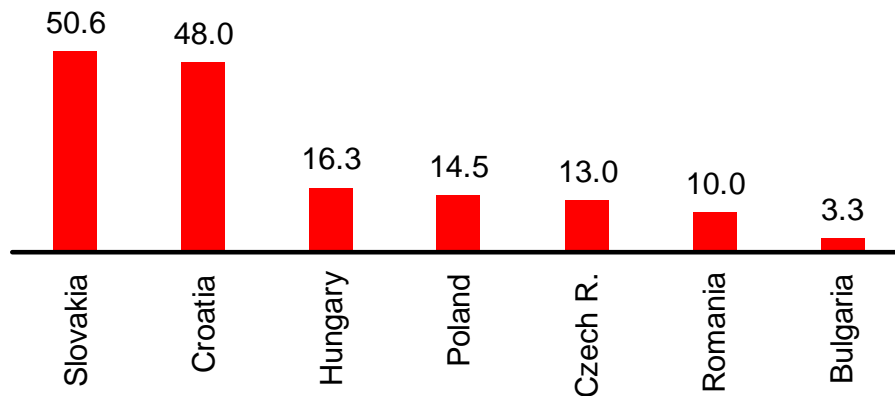
Notes: 1\ LV, LT: 2006; 2\ LV, LT, RUS: 2006; 3\ Prices for Latvia refer to Riga suburbs, while for Romania to Bucharest; 4\ Equilibrium house prices are calculated based on out-of-sample estimation by regressing house prices (expressed in real terms) on GDP per capita in PPS and mortgage rates using Eurozone countries as a benchmark
Source: UniCredit Group CEE Economic Research

Housing investment affordability has significantly decreased over the last years

Affordability Index (2007)^{1,2}



Affordability of housing investment³
(percentage of households over total)



- Over the last years, growth in real estate property prices was much higher than in wages. This results in a sharp deterioration in housing affordability
- Low affordability implies that in many countries demand for house purchases remains mostly related to the emerging middle class segment or to high net worth individuals

Notes: 1\ The affordability index is calculated as house prices (€ per sqm)/ average gross monthly wages; 2\ As of 2006 for Latvia and Lithuania; 2005 for Italy, Finland and Austria and as of 2003 for France. Prices for old EU Countries (except Finland), Latvia and Romania refer to the capital cities; 3\ Share estimated using an affordability index benchmark of 2 (measured as house prices per sqm over gross monthly wages) and official statistics on households' income distribution
Sources: UniCredit Group CEE Research Network, Department of the Environment Heritage and Local Government (Ireland)

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- UniCredit Group: an active player on the market

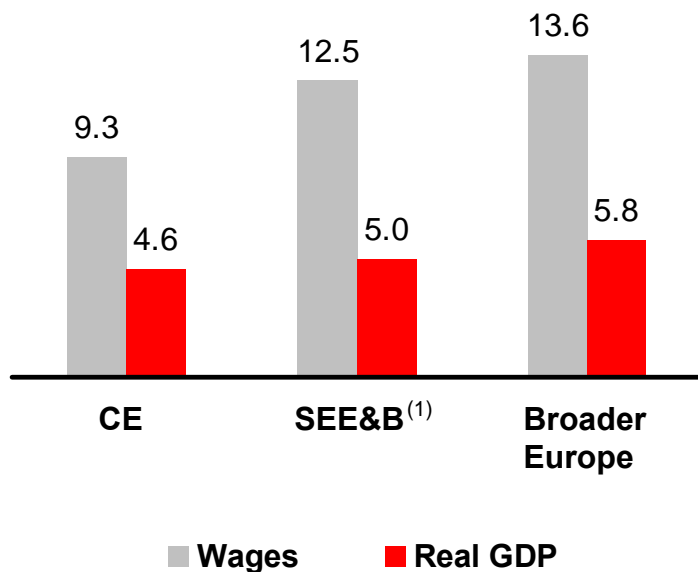
The current macroeconomic scenario might be less supportive for the residential real estate market ...

Some deceleration in growth, as the economic cycle peaked in 2006-2007, but still very high rates...

... with international repricing of risk to lead to some credit tightening and possible lowering of capital inflows

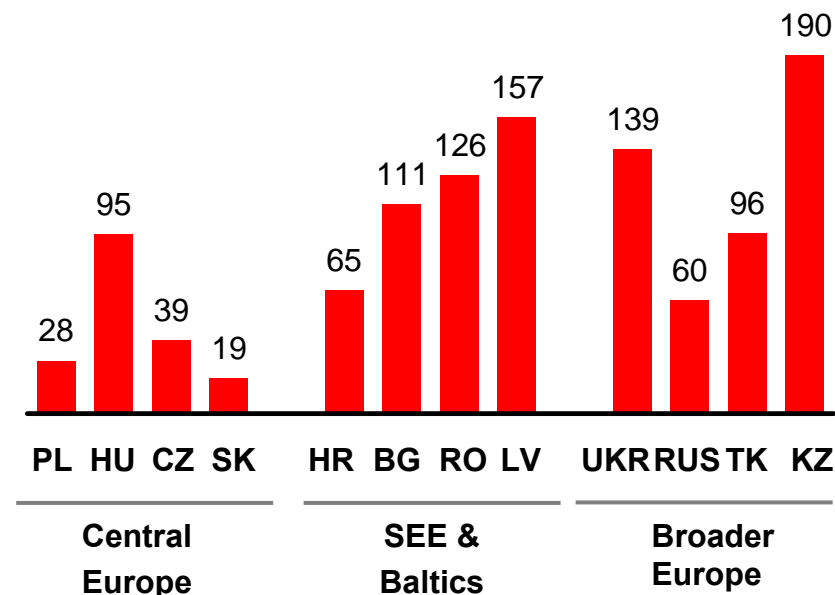
Real GDP and gross monthly wages

% growth p.a. 2008-2010



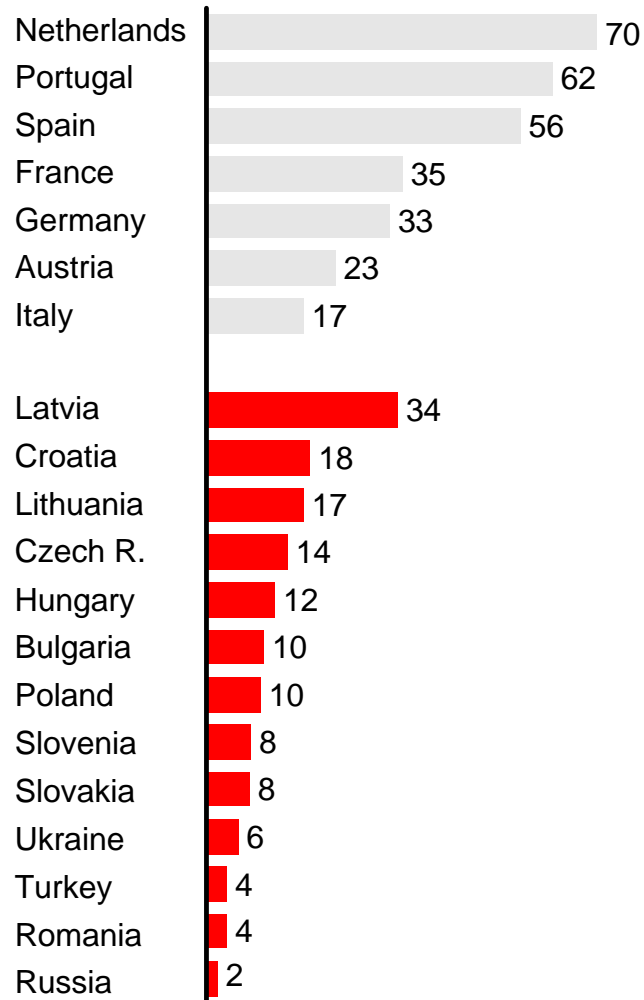
Δ CDS spread vs USD (June '07- April '08)

bps

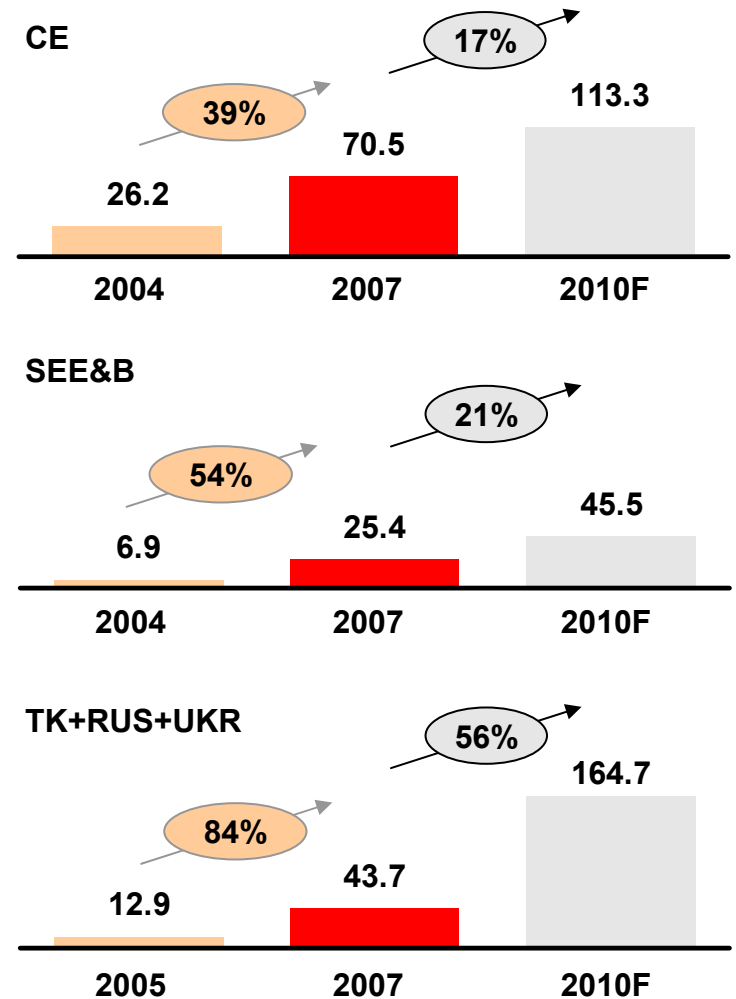


... but the mortgage market will continue to expand

Housing loans (% of GDP, 2007)



Housing loans volume¹ (EUR bn)

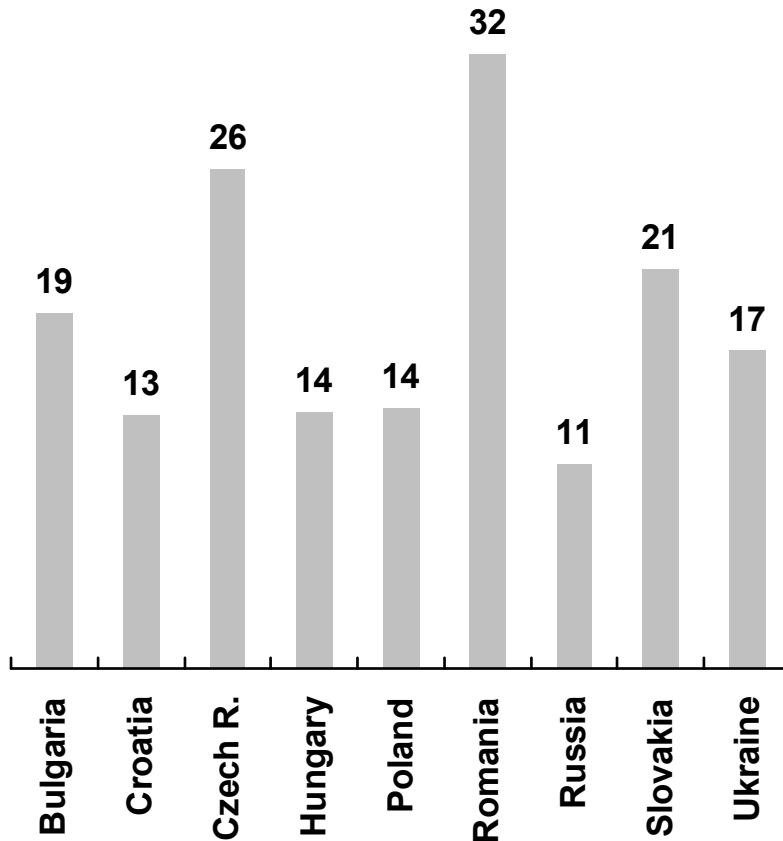


Note: 1\ CE: PL, CZ, SK, HU, SI; SEE&B: BG, HR, RM, LV, LT
 Sources: UniCredit Group CEE Research Network, ECB

% growth p.a.

Gap in supply matched to continuously lively demand will remain a clear driver for long term sustainability

Years to saturation¹



- Bulgaria: more selection to come on the holiday home segment
- Croatia: monetary tightening is expected to slow otherwise solid growth
- Czech Republic: no housing bubble on the horizon (yet)
- Hungary: some oversupply, but no evidence of price bubble
- Kazakhstan: bubbles do burst
- Poland: first signs of stabilization, but housing gap remains
- Romania: some cooling but still with high potential in the mid term
- Slovakia: still healthy growth potential on the horizon
- Turkey: still a market for few people
- Ukraine: untapped potential in the medium-high segment, with some cooling on the luxury one

Note: 1\The number of years before saturation in the residential property market is calculated as the ratio between the estimated market potential (total number of households willing to buy a new house/flat) and the current level of construction activity (based on last available data) under the extreme assumption that all potential buyers will look for new housing

Sources: UniCredit Group CEE Economic Research, Eurostat

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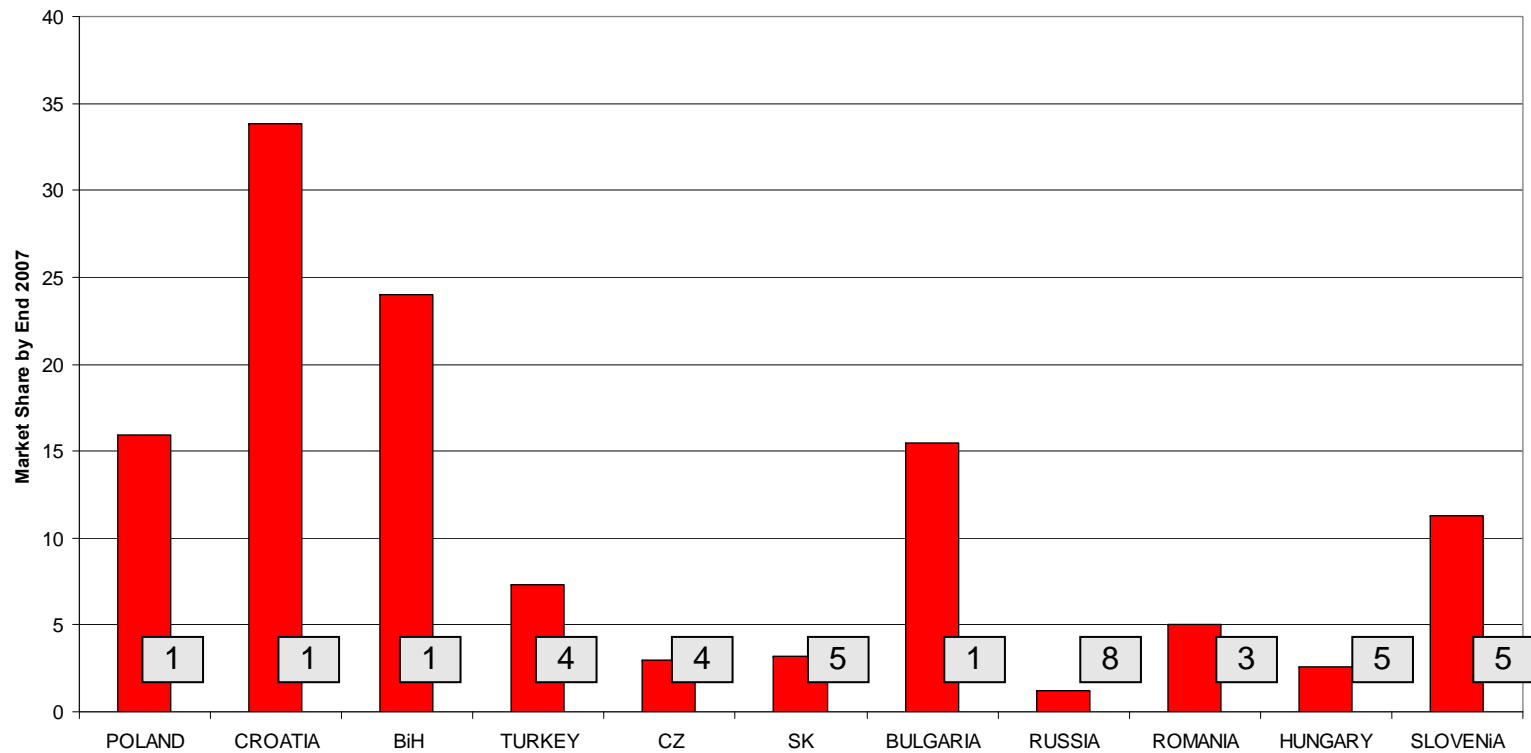
Number 1 Network for Mortgage and Real Estate Financing

- Mortgage and Real Estate Market in CEE shows great potential for future growth.
- With a presence in 20 CEE countries UCG can boast the most extensive network in the region.
- Each bank is able to provide a complete range of real estate products and services for mortgage loans as well as commercial real estate projects.
- The financing solutions are tailor made, combining local market knowledge with international financing expertise.



Mortgage Market: Position of the Group's banks in CEE

UniCredit Group Mortgage Market Share in CEE



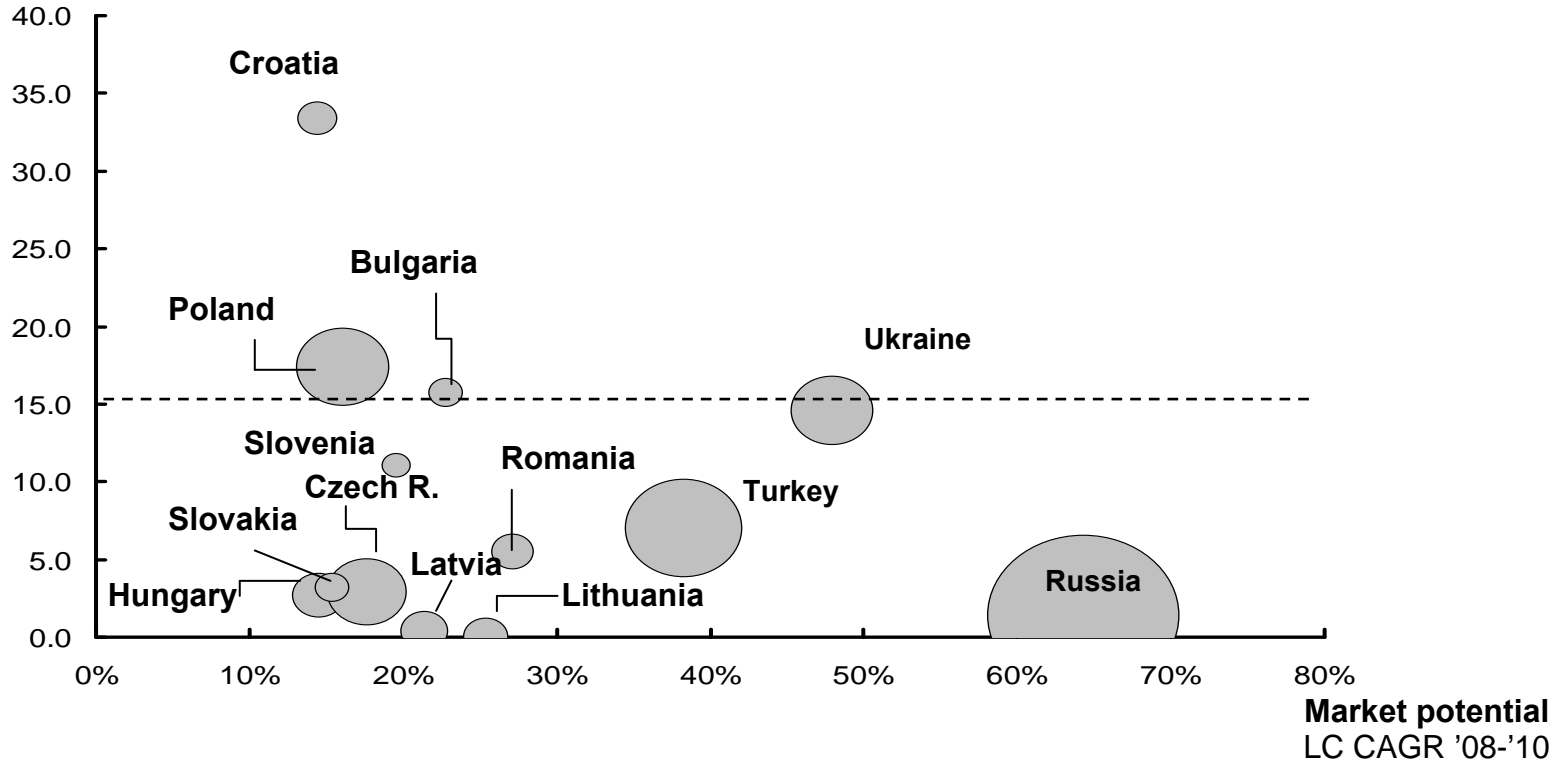
 = market position

Mortgage Market: UniCredit Group is a leading regional player

Positioning

Market share
in Q4 2007

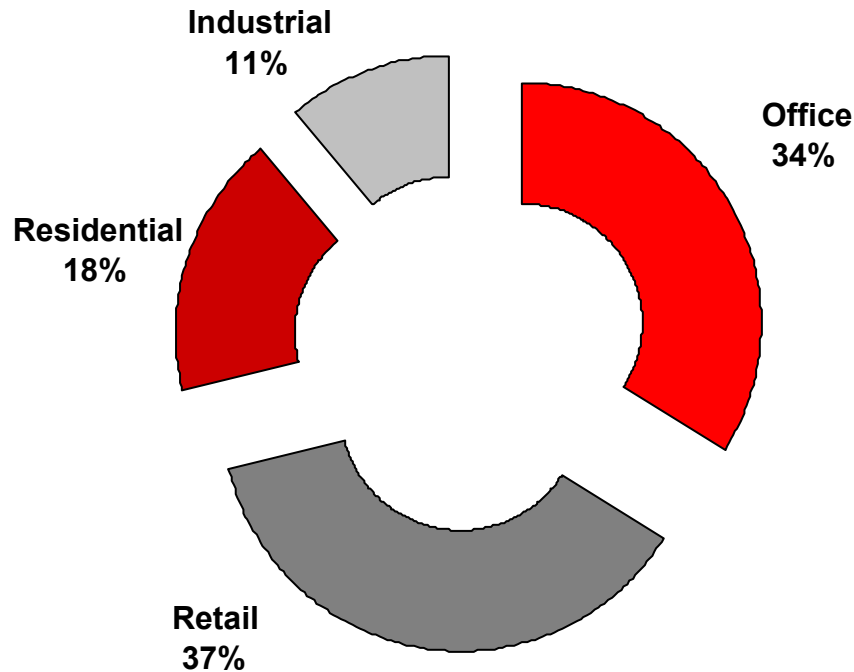
○ = *New volumes 2008-2010
(EUR bn)*



- All UCG countries of presence in CEE are of strategic importance for the mortgage business
- Russia, Ukraine, Poland and Turkey key markets for future growth

Real Estate: a fast moving business segment

**Financing Volumes of UniCredit Group
by Segment in CEE**



- Commercial Real Estate in Central Eastern Europe is one of the most active business segments, with double digit growth rates in countries such as Russia, Romania and Bulgaria
- UniCredit Group is supporting such important growth, with total financings in the region expected to be in excess of € 10 bln at the end of 2008 (ca +60% yoy)
- A substantial growth is foreseen for all the segments (residential, office, retail and industrial/logistic) in the development markets, while for the mature ones the driving forces will be mostly the residential (ca +70%) and industrial (more than doubling yoy) segments.

Real Estate: some examples of what we do



Airport City Belgrade

Development/Investment Financing
Office Park
Belgrade/Serbia

Lenders: Bank Austria and UniCreditBank Serbia



Joint Ventures between AKRON GROUP
and GLD Invest Group



OLP – Odessa Logistic Park

Short-Term Financing
Logistic Park
Odessa/Ukraine

Lenders: Bank Austria and UniCredit Bank Ukraine



Forum Aydin

Development/Investment Financing
Shopping Center
Aydin/Turkey

Lenders: Bank Austriai and Yapi Kredi

Odessa Logistic Park

Built in a joint venture programme with Akron Group and GLD Invest Group.

Phase 1: 54.900 m² area for offices and warehouses

Project Size: 3 phases, finished in 2010 with a total area of 170.000 m²

Conclusions

- **Supply gap:** the CEE residential real estate market is still characterized by a quantitative and qualitative supply gap, despite the strong growth in new buildings recorded in the last years
- **Dwelling demand:** the demand for residential real estate is strong and on top of the existing demand, there might be a "potential demand" at the moment constrained by affordability issues
- **House prices:** Increases in house prices have been significant in the last years. We still believe that house prices in the region are compatible with an equilibrium level.
- **Outlook:** Looking ahead, despite a less supportive macroeconomic scenario, we keep a positive view. We forecast some moderation in growth trends, but no backlash, as gap in supply coupled with persistently lively demand represent a long term driver
- There are however a few areas to monitor which might exhibit some oversupply
- **Supportive:** As UniCredit Group we recognize the residential real estate market potential in CEE. We are actively supporting the development of the market, both at the retail level, being a major player in the mortgage market, and at the developers level, with a dedicated structure