Center for City Development Policy

CITY PROPERTY MARKETS AT THE GLANCE:
MONITORING AND FORECAST FOR
SOUTH EUROPE AND BALKANS (2024-2025)



BUDAPEST, FEBRUARY 2024

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ABOUT CDP CENTER

Center for City Development Policy is the international team of experts, specializing in the development of cities and regions.

We believe that sustainable development of cities and their cooperation is pivotal to achieve such goals as improving the comfort and the quality of peoples life, harmonious development of the society and the economy. We consider that every city type is important - megapolises, agglomerations and authentic small towns.

The main topics of our interest are those in which cities can be active and can promote sustainable development, improve the level and quality of life of their residents:

- support and stimulate the investments in economy, education and science;

- support local enterprises and promote mutually beneficial conditions for transnational corporations;

- integration of big data and artificial intelligence in city management;

- support projects aimed on improving the quality of life;

- sharing best practices of residents and enterprises social initiatives;

- spreading new technological solutions and new forms of cooperation in R&D, innovation support.

We support and host science and public events, because we consider that the dialogue between all stakeholders is essential. Our team actively participates and initiates edge scientific projects, due the new topics and phenomena are constantly emerging. We also consider that it is necessary to support educational projects aimed at urban development for city leaders, entrepreneurs and non-profit organizations.

'We hope that our work will contribute to a better future and sustainable development!'



Stasia Alekhnovich,
Chief Research Director (Investments & Development), CDP Center

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FOREWORD



Leo Anuchin, Chief Research Director (AI & Big Data & Statistics):

In recent years, due to high inflation rates, many of us are looking for opportunities to protect savings and assess. Investing in residential real estate is one of the possible options.

Investments in residential real estate become profitable only if the price of property increases higher than inflation or there is sufficient rental income higher than interest rate on bank deposits. Thus, growing markets provide unique opportunity for investments.

Center for City Development Policy have selected several fast-growing real estate markets with great growth potential. We present the first overview of the growing residential real estate markets – **"City property markets at the glance: monitoring and forecast for South Europe and Balkans"**. We included four countries in the review: Bulgaria, Croatia, Greece and Romania.

In the last period they have managed to enter the trajectory of economic growth above average of EU countries. And their real estate market has great growth potential. The report includes current situation and forecasting the potential growth in prices for residential real estate from the point of view of macroeconomic trends.

At the first stage, **we compiled a list of the most promising cities in terms of the growth potential of the residential real estate market**. The criteria were: population size (at least 300 thousand people) and the presence of an airport (number of passengers at least 1 million per year). The high concentration of permanent population and large flow of people are exactly the base for the development of the residential real estate market from the point of view of macroeconomic conditions for growth. The list of cities included: **Athens, Thessaloniki, Sofia, Plovdiv, Burgas, Varna, Bucharest, Cluj, Zagreb, Iasi, Timis**.

Our monitoring and forecasting used modern macroeconomic and mathematical models and used both retrospective data and official forecasts of economic development. The main sources of data were official statistics, official forecasts on socio-economic development and, in some cases, data from the largest aggregators of the residential real estate market. In our Report the key forecast indicator is the House price index (HPI). It is considered as an average for the country or city in accordance with the Eurostat methodology.

- **in Bulgaria** in the forecast for 2024-2025, for a total of 2 years – our model showed the expected average increase in the residential house price index (HPI) in Sofia (+17.5%), in Varna (+14.7%), in Plovdiv (+13.6%) and in Burgas (+12.5%).
- **in Croatia**, which entered the Eurozone since 2023, we predict that by the end of 2024-2025, the total average increase in the house price index (HPI) in Zagreb can reach (+22.6%), in the cities of the Adriatic coast (+11.6%).
- **in Greece**, we have seen an increase in economic indicators over the past 2 years. The house price index forecast for 2 years gives Athens (+6.4%), Thessaloniki region (+17.6%).
- according to our forecasts, the largest increase in the average house price index in **Romanian cities** in 2024-2025 may be reached in total over 2 years by Cluj (+20.2%) and Iasi (+17.8%). The forecast for Bucharest shows an increase of up to (+12.7%), for Timis (+5.1%) in total over 2 years.

The report presents historical data by each country and city, describes the trends and key factors influencing the forecast.

The following indicators were taken into account: the GDP growth rate (the higher the rate of economic growth, the more profitable the investor's investment), labor costs in the economy

and wage growth (they directly affect demand- which means profitability for suppliers and investors increases), the unemployment rate (it is also important from the point of view of demand), the number of permits issued for construction of residential real estate (number and volume in square meters this allows buyers to choose real estate of the desired quality and optimal price, both on country and city level) and etc. For some cities we took into account the demand from non-residents.

The forecasts are sensitive to many factors and every six months we will update the forecast based on adjustments to current and forecasted indicators of economic and real estate market development.

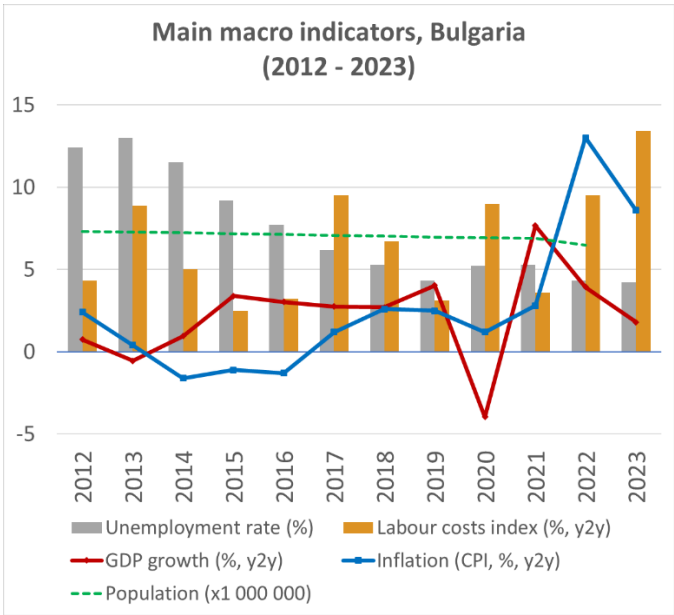
The **next updates** on the Southern Europe – Balkans cities are planned for **October 2024** and **February 2025**.

DISCLAIMER: Since the market of each country and each city is complex and the situation for all properties is individual, the research team doesn't offer any individual investment solutions and doesn't make any recommendations. In case you are planning to purchase/invest in real estate you should contact local real estate market specialists, who may provide you competent consultation.

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BULGARY

1. MACROECONOMIC BACKGROUND OF THE HOUSING MARKET



GDP (Gross Domestic Product), after declining by [-4%] in 2020, recovered and began to grow sharply by [+7.7%] in 2021. In 2022 and 2023, due to the high base of 2021, GDP growth rates decreased, but remain above the European average. This has a positive effect on supply and demand in the residential real estate market.

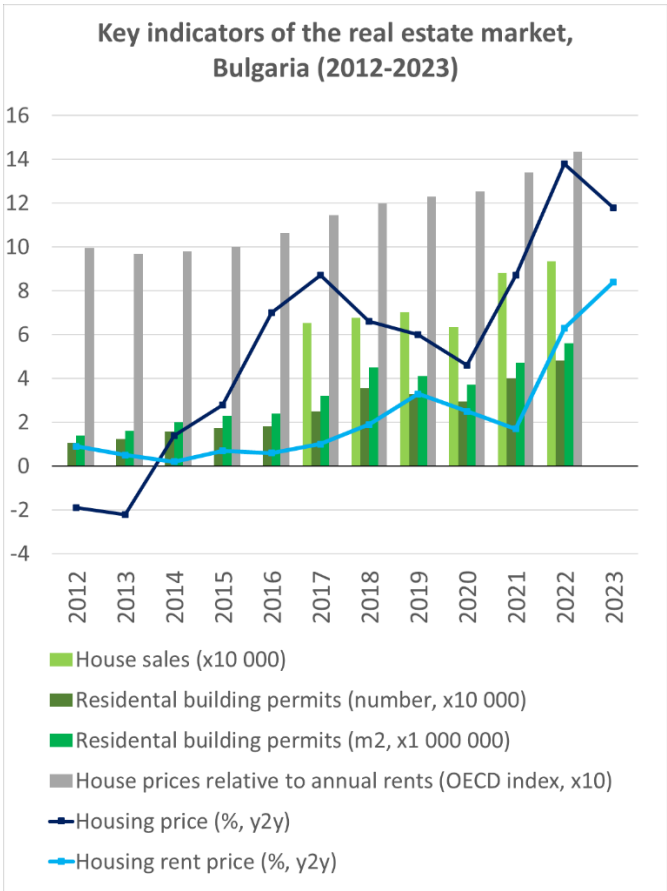
LCI (Labor Cost Index - the rate of increase in wages per hour per person) increased steadily in 2022 and 2023, which has a positive effect on demand in the real estate market. Average compensation per employee increased from 10.1 thousand EUR [2019] to 13.7 thousand EUR [2022].

HICP (Inflation – Index of Customer Prices) decreased in 2023 compared to 2022 – to 8.6% (from 13%). Inflation still stimulates investments in real estate to protect savings. Against the backdrop of high inflation, the key rate was increased, so the mortgage rate also increased. This limits the demand and the prices.

Unemployment remains at a consistently low level of 4.2%.

At the same time, the **permanent population** of Bulgaria continues to decline. The sudden overestimation of the population in 2022 can be attributed to the results of the new census. According to our estimates, this does not have a negative impact on demand, since the population, as incomes grow, improves the qualitative and quantitative characteristics of their housing.

2. KEY INDICATORS OF THE HOUSING MARKET



HPI (House Price Index). The annual average growth pace increased to the fastest level over the past decade. In 2022, the average growth in housing costs reached [+13.8%], according to our calculations by the end of 2023 it reached [+11.8%].

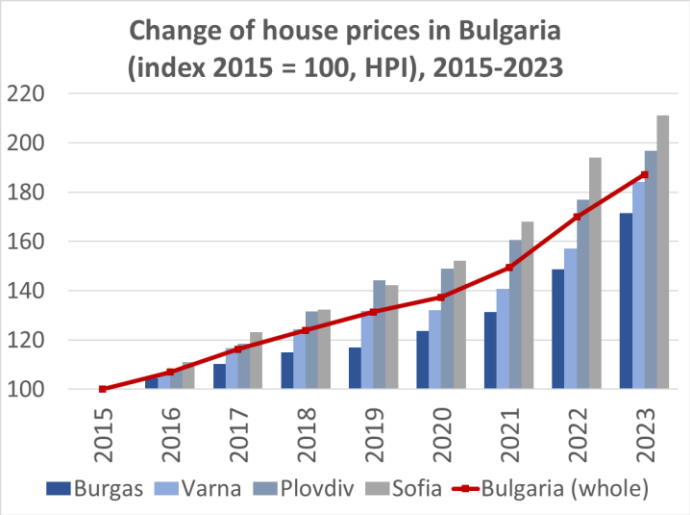
Rentals for housing have begun to rise after near-zero growth rates of the last decade. In 2022 it grew by average [6.3%], in 2023 by [8.4%]. The increase of prices in the rental housing market may stimulate additional demand from investors interested to get rental income. But for now, the composite indicator **House prices relative to annual rents** is growing, which shows that payback period for apartments through rental income takes longer than 10 years ago.

The 2022 data on **Residential building permits** (number and square meters) shows the record for the decade (x4 times higher than in 2012). It

indicates a sufficient increase in supply in the real estate market on the horizon of 2024-2025.

The number of **house sales** continues to grow (93.4 thousand sales in 2022), however, the share of mortgage has decreased.

3. DYNAMICS OF HOUSE PRICE INDEX (HPI)



On average, from 2015 to the end of 2023, the cost of housing in Bulgaria in national currency increased by 1.87 times (87%). (the exchange rate is pegged to EUR: 1.95 BGN per 1 EUR).

SOFIA



Sofia is the capital of Bulgaria, the largest business and educational center of the country. According to the census results, the population of the city reaches 1.28 million people (taking into account the results of the 2021 census), which practically equal to the results of the census in 2011.

HPI (House Price Index) from 2015 to the end of 2023 in national currency increased by 2.1 times (by 111%). This is the highest growth rate among the largest cities in Bulgaria. Sofia was more than 20% ahead of the national average. The peak of growth occurred in 2021–2023.

The average number of employees under labor contracts has increased significantly since 2015 by 9% (from 707 to 768 thousand workers). This confirms the growth in business activity, and hence the demand growth for real estate.

PLOVDIV



The second largest city in Bulgaria with a population of 631.5 thousand residents (2022). The city is a major economic and industrial center. It is also the second most important university city in the country.

Real estate prices in Plovdiv has increased by 97% (1.97 times) since 2015. This is the second place after Sofia.

Since 2013, the city has significantly reduced the unemployment rate - from 13.4% to 2.6% (2022). The average number of employees under labor contracts also increased from 203.9 thousand workers to 223.3 thousand – by 10%.

In recent years the city has continued to develop intensively as a tourist center. From 2015 to 2022, the number of accommodation establishments increased by 112 hotels (+62%). Night spends from 2015 to 2022 increased by 32% (from 939.6 to 1,241.2 thousand).

VARNA



Varna is one of the largest resorts in Bulgaria. The House Price Index grew less than the Bulgarian average (at the end of 2023 – +84% (1.84 times) compared to 2015, against +87% the Bulgarian

average). In 2020-2022, the index lagged significantly behind the average inflation, but in 2023 the average annual increase in property prices reached 20%, almost catching up the Bulgarian average.

The average number of employees under labor contracts still hasn't recovered since 2020, which primarily affected the hospitality industry (in 2020 the number of employees sharply decreased by 8%).

The statistics shows the city has labor shortage (the unemployment rate in 2022 dropped to a record 0.9%), i.e. we expect a recovery in labor migration and a further increase in demand for rental housing.

BURGAS



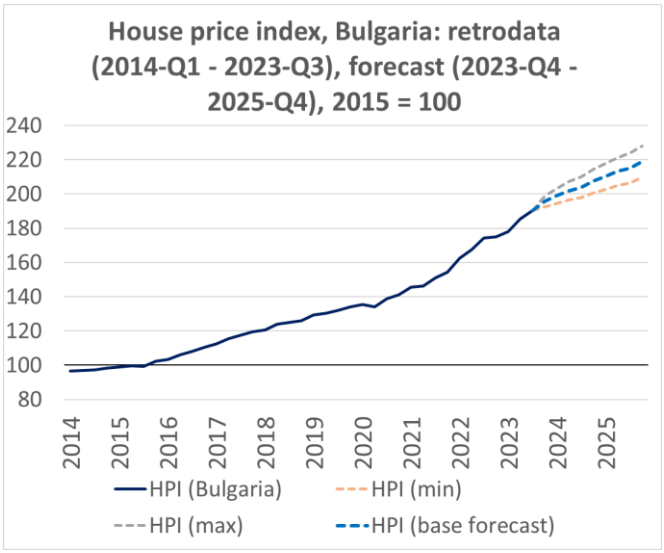
The main specialization of Burgas is tourism. In 2022, the city's population reached 378.5 thousand residents.

The city house price index has increased by 76% (1.76 times) since 2015. This is 16% lower than the Bulgarian average.

The city became the absolute champion in tourism industry, with more than 10.1 million nights spent by tourists in 2019. In 2022, the number of Nights spent exceeded the 2015 level by 18.1% (+1.38 million overnight stays).

The city continues to develop its tourism industry. From 2015 to 2022, the number of new accommodations increase by 276 (+36% compared to 2015).

4. FORECAST OF CHANGES IN REAL ESTATE PRICES IN BULGARIA AND MAJOR CITIES



CDP Center forecasts the House price index (HPI) for Bulgaria, showing the average increase in prices for residential real estate in the country and major cities for the period 2024-2025. The forecast is based on an analysis of both retrospective and forecast data on economic development and real estate market, affecting supply and demand. A detailed description of the approach is in the Methodology section of the Report.

Depending on the dynamics of factors influencing supply and demand in the market, we forecast 3 possible values – average HPI growth (the most likely scenario), minimum HPI growth and maximum HPI growth.

	Min. HPI	Avg. HPI (most likely scenario)	Max. HPI
2022		13.8%	
2023	9.8%	10.3%	10.8%
2024	*5.8%*	*8.4%*	*11.0%*
2025	*4.3%*	*5.5%*	*6.7%*
2024-2025	**10.3%**	**14.4%**	**18.4%**

Bulgaria's HPI is expected to grow in 2024-2025 at a slower pace, than in 2021-2023. In the past period, the real estate market was significantly cheered up by economic recovery, rise of labor costs and wages, which occurred against the backdrop of record inflation in 2022-2023. We expect that the growth in real estate prices in 2024 (on average for the year) will be 8.4%, in 2025 –

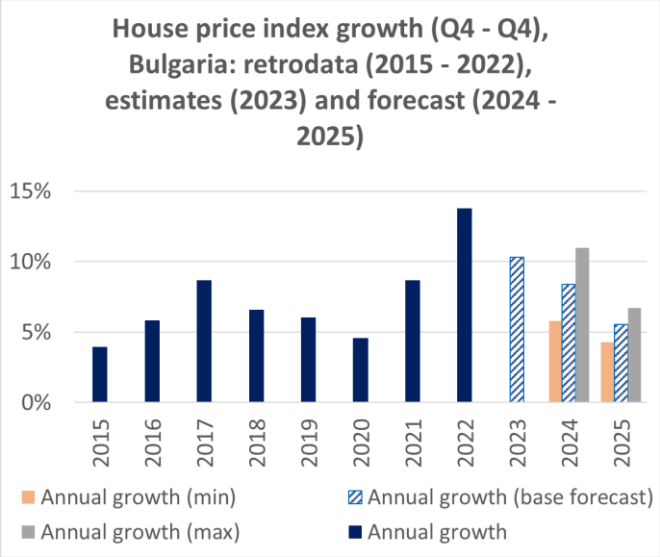
5.5%. In total, over 2 years, we forecast that average residential real estate price index will increase by 14.4%.

In 2022, there was a record in new building permits, which will significantly expand the supply in 2024 - 2025.

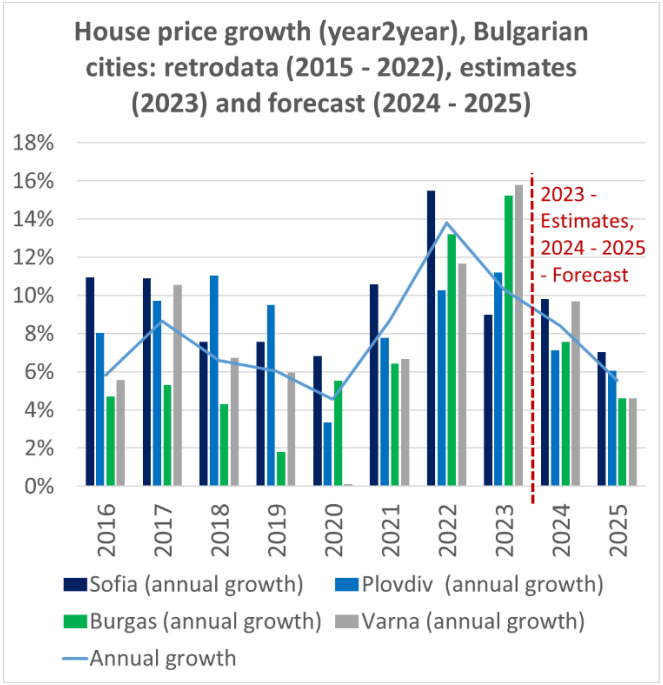
The growth pace of labor costs and wages will moderate compared to 2022-2023 levels. Relatively high mortgage costs and inflation reduction over the horizon of 2024-2025 will not be able to support the level of demand for housing at the level of 2022-2023.

In case of a greater increase in demand for housing than an increase in supply, it is likely that the index could grow even higher in 2024-2025 - up to 18.4%. But if the supply in the market exceeds the increase in demand, the index may increase by 10.3%.

Also, the forecast for the growth of the house price index may be greatly influenced by Bulgaria's plans to join the Euro zone.



On the diagram we present the retro and forecasted average HPI annual growth rate. Within a year, the growth rate traditionally differs, under the influence of seasonal and other factors. The forecast is very sensitive to the dynamics of the number of construction permits and the growth of wages and employment.



	Sofia (avg. growth)	Plovdiv (avg. growth)	Burgas (avg. growth)	Varna (avg. growth)
2022	15.5%	10.3%	13.2%	11.7%
2023	9.0%	11.2%	15.2%	15.8%
2024	9.8%	7.1%	7.6%	9.7%
2025	7.0%	6.1%	4.6%	4.6%
2024-2025	17.5%	13.6%	12.5%	14.7%

Sofia was the first city back on track to economic recovery in 2021. Therefore, Sofia house price index has grown well above the national average in both 2021 and 2022.

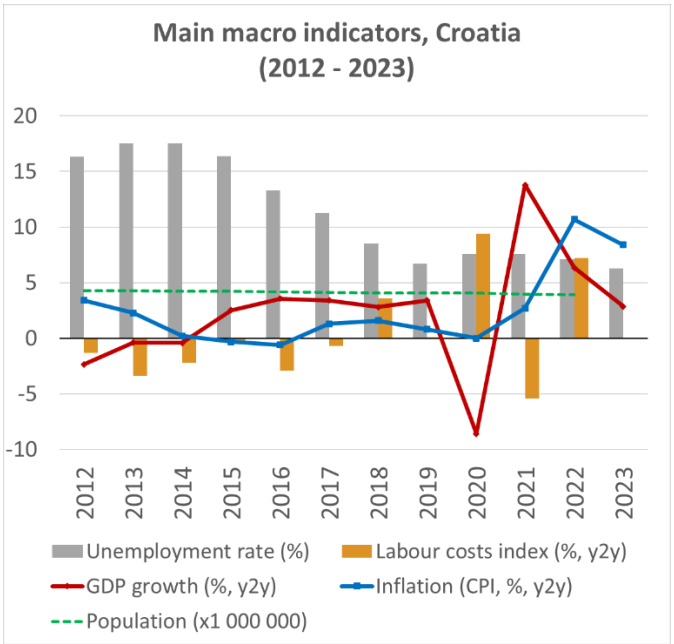
Against the backdrop of rising wages and high inflation rates, the house price index growth reached peak values in 2022. In 2023, due to the already achieved high base, the growth pace of housing prices already decreased. We expect average house price growth in 2024 exceeds 2023 levels (+9.8%), but returns to 7% by 2025.

Varna and Burgas showed very strong results in 2022 and 2023, amid the recovery of the tourism industry. The recovery will continue in 2024. In 2025, we expect growth of about 5%.

Plovdiv demonstrates greater stability in house prices due to the peculiarities of the economic structure.

CROATIA

1. MACROECONOMIC BACKGROUND OF THE HOUSING MARKET



GDP (Gross Domestic Product), after declining by [-8.6%] in 2020, has recovered and moved into sharp growth in 2021 [+13.8%]. In 2022 and 2023, GDP continued to grow by 6.3% and 2.9%, respectively, which is higher than the European average. This generally has a positive effect on supply and demand in the residential real estate market.

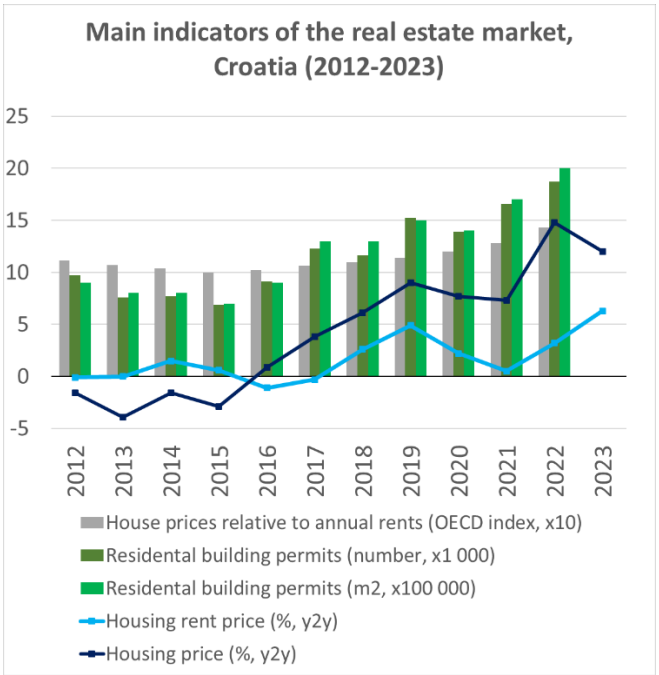
LCI (Labor Cost Index - the rate of increase in wages per hour per person) showed good pace in 2022, and it is expected that in 2023, based on the current results of the year, there will also be an increase in the indicator. This has a positive effect on demand in the residential real estate market. Average compensation per employee increased from 15.8 thousand EUR [2015] to 20.1 thousand EUR [2022], the growth accelerated in 2020-2022.

HICP (Inflation – Index Customer Prices) in 2022-2023 is above the European average, which stimulates investment in real estate in order to protect savings. In 2022, inflation was 10.7% (average annual), in 2023 – 8.4%

Unemployment has decreased greatly since 2018 and is now at a stable level, slightly above the European average.

Croatia's population continues to decline. According to our estimates, this does not have a negative impact on demand, since the population, as incomes grow, improves the qualitative and quantitative characteristics of housing. There is also a steady demand for residential real estate in coastal areas from foreign citizens.

2. KEY INDICATORS OF THE HOUSING MARKET



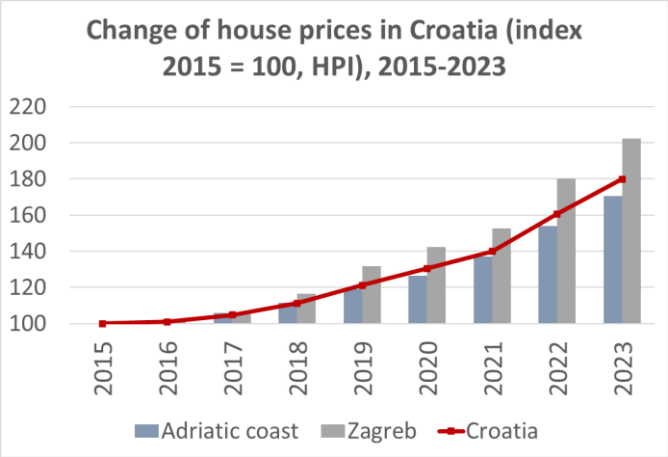
HPI (House Price Index). The annual average growth pace increased to the fastest level over the past decade. In 2022, the average growth in housing costs reached [+14.8%], according to our calculations by the end of 2023 it reached [+12%].

Rentals for housing since 2017 almost match the growth rate of residential real estate prices, showing the stability of the real estate market. And in 2022 it grew by [3.2%], in 2023 by [6.3%] compared to last year. The increase of prices in the rental housing market may stimulate additional demand from investors interested to get rental income. Although, the composite indicator **House prices relative to annual rents** is steadily growing, which shows that payback period for apartments through rental income takes longer than 10 years ago.

The 2022 data on **Residential building permits** (number and square meters) shows the record for

the decade (x2 times higher than in 2012). It indicates a sufficient increase in supply in the real estate market on the horizon of 2024-2025.

3. DYNAMICS OF HOUSE PRICE INDEX (HPI)



On average, from 2015 to the end of 2023, the House price index in Croatia increased by 1.79 times (by 79%).

To analyse the dynamics at the city level, we chose Zagreb, the capital, largest and the most economically developed city of Croatia, and "Adriatic Coast" - composite indicator for residential real estate in coastal cities (Split, Zadar, Rijeka and others) and nearby districts.

ZAGREB



Zagreb is the capital of Croatia, largest and the most economically developed city in the country. According to the Croatian Bureau of Statistics, the population of the City of Zagreb reaches 767 thousand people (taking into account the results of the 2021 census), which is 37 thousand lower than in 2018.

The housing price index growth from 2015 to the end of 2023 increased by 2 times (by 102%). Zagreb was 1.5 times ahead of the national average. The peak of growth occurred in 2022–2023.

The rise in housing prices is accompanied by active growth in housing construction. The volume of permits for the construction of residential buildings increased 4 times from 2015 to 2022 from 112.6 to 444.5 thousand square meters.

Finishes dwelings increased over the same period by more than 2 times (from 191.5 thousand square meters to 409.8 thousand square meters).

CROATIAN "ADRIATIC COST"



The cities of the Adriatic coast have become not only centers of economic and cultural life, but also among world famous tourist sites, attracting visitors from all over the world.

Over the past decades, a significant logistics infrastructure has been built, making them convenient and accessible.

Since 2015, the price level index for residential real estate has increased by an average of 71% (1.71 times), which is lower than the average for Croatia and Zagreb.

This is due to the fact that the region has become a very popular location for the construction of new residential buildings.

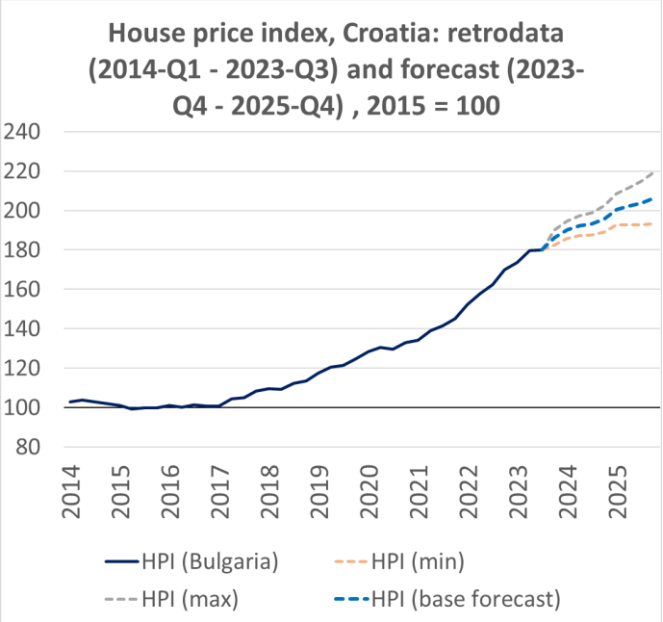
Finishes dwelings has increased in all cities and regions of the Adriatic coast.

Growth in finishes dwelings from 2015 to 2022:

- x3 – (Zadarska, Zadar – from 102.3 to 300.7 thousand square meters);
- x2 - (Primorsko-goranska, Rijeka - from 87.6 to 187.3 thousand square meters);
- x2 – (Istarska, Porec – from 85.9 to 204.2 thousand square meters);
- x2 – (Splitsko-dalmatinska, Split – from 106.6 to 187.2 thousand square meters).

Demand for housing highly depends on rising incomes and the desire to invest in real estate of residents of Germany, Italy, Austria and Hungary.

4. FORECAST OF CHANGES IN REAL ESTATE PRICES IN CROATIA AND ADRIATIC COST



CDP Center forecasts the House price index (HPI) for Croatia, showing the average increase in prices for residential real estate in the country and major cities for the period 2024-2025. The forecast is based on an analysis of both retrospective and forecast data on economic development and real estate market, affecting supply and demand. A detailed description of the approach is in the Methodology section of the Report.

Depending on the dynamics of factors influencing supply and demand in the market, we forecast 3 possible values – average HPI growth (the most likely scenario), minimum HPI growth and maximum HPI growth.

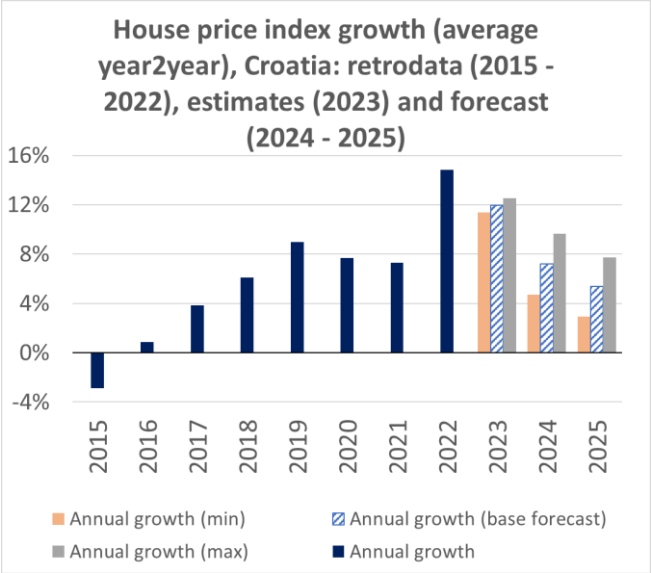
	Min. HPI	Avg. HPI (most likely scenario)	Max. HPI
2022		14.8%	
2023	11.4%	12.0%	12.5%
2024	4.7%	7.2%	9.6%
2025	2.9%	5.4%	7.7%
2024-2025	**7.8%**	**12.9%**	**18.1%**

The country average HPI in 2024-2025 is expected to grow at a slower pace than in 2021-2023. In recent years, Croatian market shows a trend towards an increase in the cost of residential property. The trend is mainly associated with integration into the Euro zone (Croatia switched to the Euro in 2023) and the expansion of Schengen.

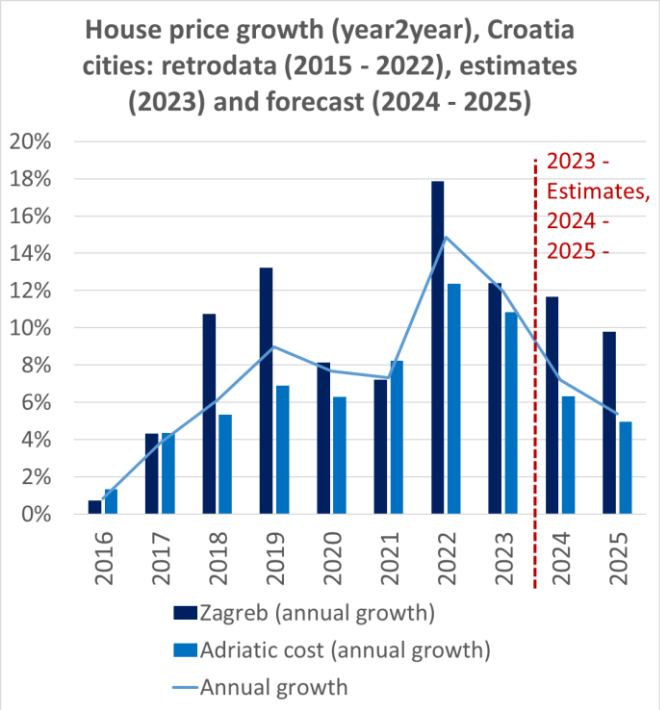
Economic recovery in Germany and Italy is significantly stimulating both supply and demand for Croatian real estate. We expect that the growth in real estate prices in 2024 (on average for the year) will be 7.2%, in 2025 – 5.4%. In total, over 2 years, the residential real estate price index will increase by 12.9%.

Recent years have shown rapid growth in new housing construction (both finishes dwelings and new building permits), which will further stimulate the expansion of the residential construction market.

In case of a greater increase in demand for housing than an increase in supply, it is likely that the index could grow even higher in 2024-2025 - up to 18.1%. If the rate of increase in supply in the market exceeds the increase in demand, the index may grow by 7.8%.



On the diagram we present the retro and forecasted average HPI annual growth rate. Within a year, the growth rate traditionally differs, under the influence of seasonal and other factors. The forecast is very sensitive to the dynamics of the number of construction permits and the growth of employment and demand from non-residents.



	Zagreb (avg. annual growth)	Adriatic cost (avg. annual growth)
2022	17.9%	12.3%
2023	12.4%	10.8%
2024	11.6%	6.3%
2025	9.8%	5.0%
2024-2025	+22.6%	+11.6%

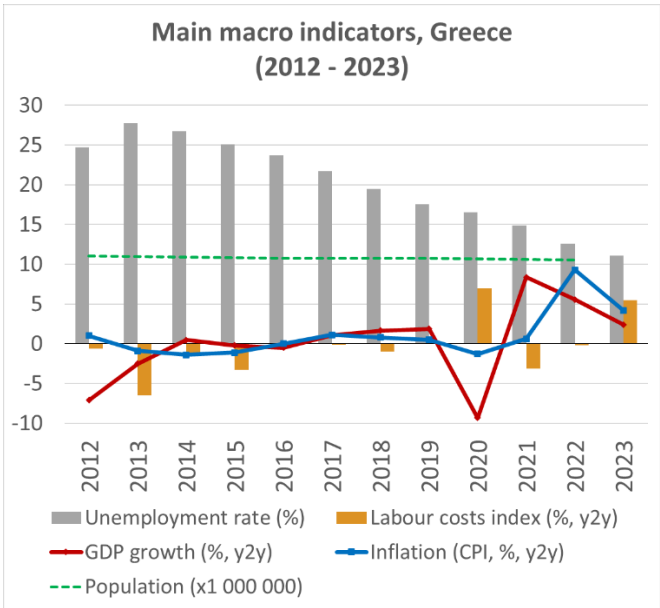
In 2023, Croatia joined the Eurozone, and over the last 2 years (2024-2025), the residential real estate market continues to balance demand, supply and prices.

Housing prices (HPI) in Zagreb traditionally grow faster than the Croatian average; we expect 11.6% on average by the end of 2024 and 9.8% by the end of 2025.

The Adriatic coast already has a high price base. Large volume of annual launched residential properties, will limit the rate of price growth (on average in 2024 - up to 6.3%, in 2025 - up to 5%.

GREECE

1. MACROECONOMIC BACKGROUND OF THE HOUSING MARKET



Over the past 10 years, Greece's **GDP (Gross Domestic Product)** growth has shown approximately near-zero or negative values. In 2018-2019, positive dynamics emerged, and in 2019 GDP grew to 1.9%. After a decline of -9.3% in 2020, recovery growth amounted to 8.4%. In 2022 and 2023, the dynamics are positive, with a moderately positive trend, ahead of the EU average. This has a positive effect on supply and demand in the residential real estate market.

LCI (Labour cost index - the rate of increase in wages per hour per person) showed negative and near-zero values. Average compensation per employee has remained almost unchanged since 2015 (decreased from 20.7 thousand EUR [2015] to 20.6 thousand EUR [2022]). At the same time, according to preliminary estimates, 2023 will show a slight increase compared to the level of 2022 (~+4%).

Unemployment in 2023 is at a historic 10-year low of 11.1%, but this is almost 2 times higher than the European average (6%).

HICP (Inflation – Index of Customer Prices). Previously low economic growth was accompanied by low inflation and even deflation. At the same time, in 2022 and 2023, inflation jumped to 9.3% and then decreased to 4.2%, which will have a limited impact on the growth in demand for real estate.

Population of Greece continues to decline. But there is steady demand from resident population in major cities and agglomerations. There is also sufficient demand from non-residents for residential real estate in tourist regions with developed year-round logistics (the regions of Thessaloniki, Athens, Heraklion).

2. KEY INDICATORS OF THE HOUSING MARKET

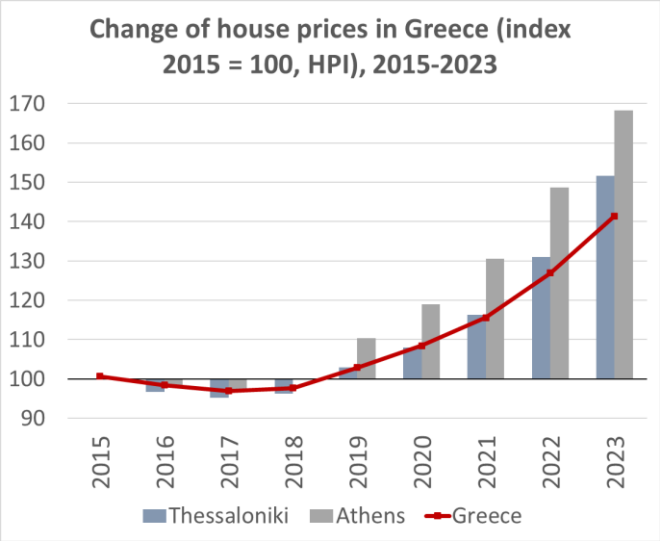


HPI (House Price Index). During the period from 2012 to 2017, the cost of residential real estate in Greece had decreased. The shift to slow positive pace occurred only in 2018. In 2022 and 2023, against the backdrop of economic recovery, housing price growth reached its highest points of the last decade [+9.9%] and [11.3%].

Rentals for housing decreased in 2012-2019. Then, in 2020-2022, the rental prices pace remained near-zero. In 2023, first time per decade, rent prices significantly grew by 5%. The composite indicator **House prices relative to annual rents** is growing, which shows that payback period for apartments through rental income takes longer than 10 years ago.

Data for 2021 and 2022 on **Residential building permits** (number and square meters) shows that the construction market has picked up sharply and is at the highest level in a decade (2 times growth by 2012). This indicates a gradual restoration of supply in the real estate market over the horizon of 2024-2025.

3. DYNAMICS OF HOUSE PRICE INDEX (HPI)



On average, since 2015, the cost of residential real estate in Greece increased by 40% (1.4 times to 2015). The main growth occurred in 2022–2023.

ATHENS



Athens is the capital of Greece, the largest business and tourist center of the country. According to the census results, the population of the city reaches 643 thousand people (results of the 2021 census), which is 21 thousand people less than the results of the previous census in 2011. The Athens Metropolitan Area is already home to more than 3 million people and continues to grow.

The housing price index from 2015 to the end of 2023 increased by 68%, 1.5 times higher than the growth rate of real estate prices in Greece.

Unemployment in the city has more than halved since 2015, from 25.2% to 12.1%.

The annual volume of construction permits per year increased from 2015 to 2022 by 2.5 times - from 363 thousand square meters to 868 thousand square meters, which generally indicates a revival of the residential real estate market.

THESSALONIKI



Thessaloniki is the second largest city in Greece, with a developed economy. Thessaloniki population is 319 thousand residents (2021 census). The region's population is 1.8 million people. The Thessaloniki region is a convenient logistics hub due to its airport and proximity to the tourist areas of Northern Greece.

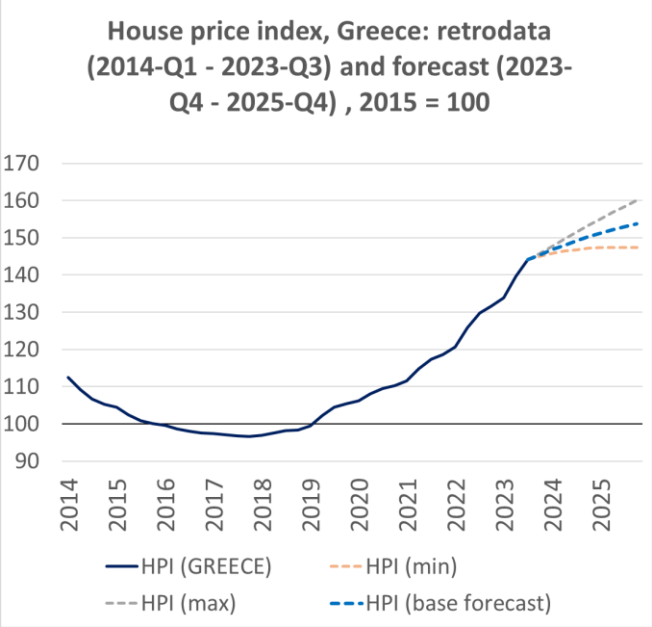
The Thessaloniki house price index has increased by 52% since 2015, ahead of the Greek average but behind Athens.

Since 2013, the city has reduced its unemployment rate - from 26% to 15% (2022), significantly exceeding the European average.

The annual volume of housing construction permits per year increased fourfold (x4 times) from 2015 to 2022 - from 426 thousand square meters to 1,678 thousand square meters, which indicates a revival of the real estate market and a high potential of foreign buyers demand growth.

4. FORECAST OF CHANGES IN REAL ESTATE PRICES IN GREECE AND MAJOR CITIES

CDP Center forecasts the House price index (HPI) for Greece, showing the average increase in prices for residential real estate in the country and major cities for the period 2024-2025. The forecast is based on an analysis of both retrospective and forecast data on economic development and real estate market, affecting supply and demand. A detailed description of the approach is in the Methodology section of the Report.



Depending on the dynamics of factors influencing supply and demand in the market, we forecast 3 possible values – average HPI growth (the most likely scenario), minimum HPI growth and maximum HPI growth.

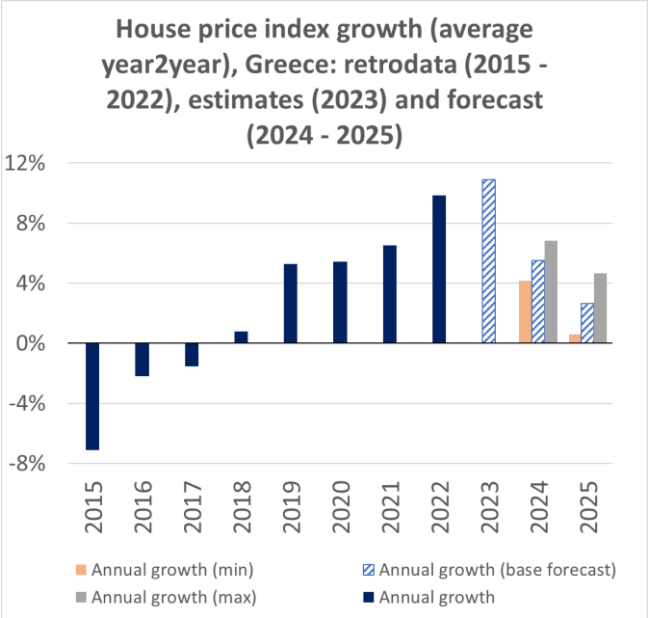
	Min. HPI	Avg. HPI (most likely scenario)	Max. HPI
2022		9.9%	
2023	10.8%	10.9%	11.0%
2024	4.2%	5.5%	6.8%
2025	0.6%	2.7%	4.7%
2024-2025	**4.7%**	**8.3%**	**11.8%**

Over the past decades, the housing price growth index has shown near zero or negative values, starting to recover only in 2019. Thus, the low base effect is one of the main reasons for the expected growth of the index in 2024–2025.

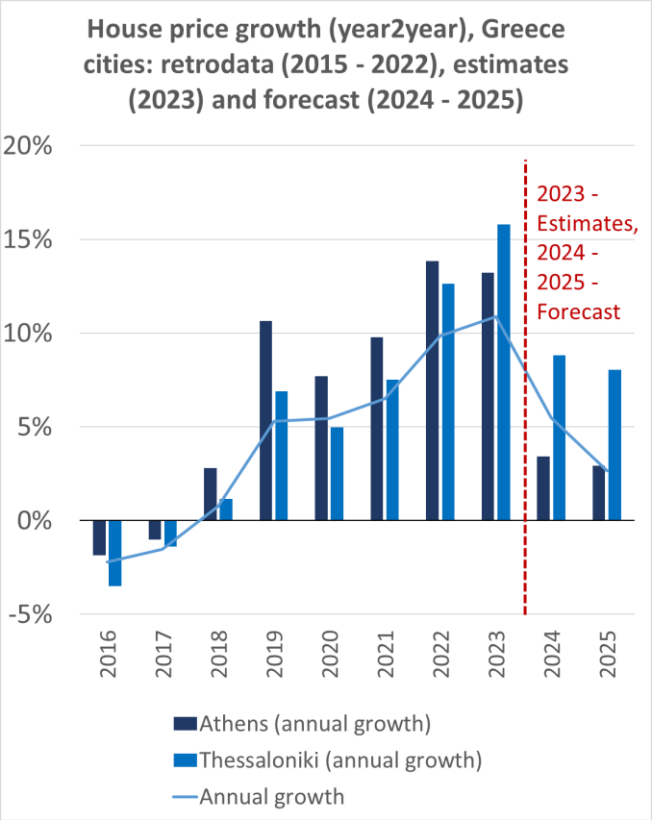
The HPI is expected to grow at a slower pace in 2024-2025 compared to 2021-2023. The real estate market is now significantly stimulated by the economic recovery and the growth in demand from non-residents of Greece. We expect that the growth in real estate prices in 2024 (on average for the year) will be 5.5%, in 2025 – 2.7%. In total, over 2 years, the residential real estate price index according to our calculations will increase by 8.3%.

The economy just started to recover, for this reason, the maximum and minimum HPI forecasted values seem possible. It depends on the economic recovery pace. In case of a greater increase in demand for housing than an increase in supply, it is likely that the index could grow even higher in 2024-2025 - up to 11.8%. If the increase in supply in the market exceeds the increase in demand, the index may grow by 4.7%.

In 2021 and 2022 there was a record in number of yearly housing construction permits, especially in tourist areas, which will significantly expand the supply in 2024 - 2025.



On the diagram we present the retro and forecasted average HPI annual growth rate. Within a year, the growth rate traditionally differs, under the influence of seasonal and other factors. The forecast is very sensitive to the dynamics of the number of construction permits and the growth of wages and employment.



	Athens (avg. annual growth)	Thessaloniki (avg. annual growth)
2022	13.8%	12.6%
2023	13.2%	15.8%
2024	3.4%	8.8%
2025	2.9%	8.0%
2024-2025	6.4%	17.6%

Both largest cities and nearby regions have shown high rates of growth in real estate prices in recent years.

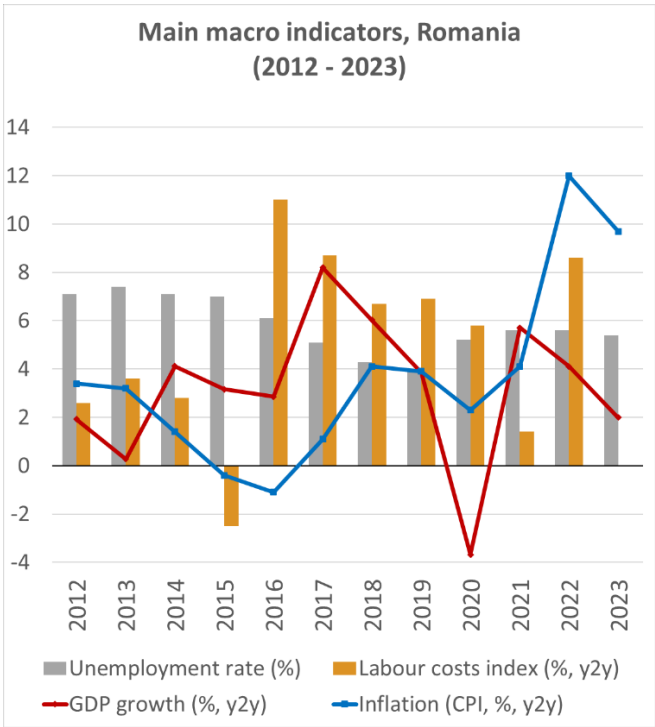
At the same time, Athens, as more focused on domestic demand, according to the results of forecasting and taking into account macroeconomic indicators, shows more moderate growth rates in 2024-2025 (6.4% in total) compared to Thessaloniki.

We expect that Thessaloniki and the surrounding region will show a doubled pace in house prices in 2024-2025 (forecast - 17.6% in total) compared to the rest of Greece (8.3%). A slight decrease in the pace will be facilitated by a significant increase in housing construction in the region, which will provide more opportunities for purchasing real estate (increase in yearly construction permits in 2021 and 2022).

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ROMANIA

1. MACROECONOMIC BACKGROUND OF THE HOUSING MARKET



GDP (Gross Domestic Product) pace in 2020, 2021, 2022 and 2023 is generally very close to the European average. This generally supports the real estate market at a moderately positive level.

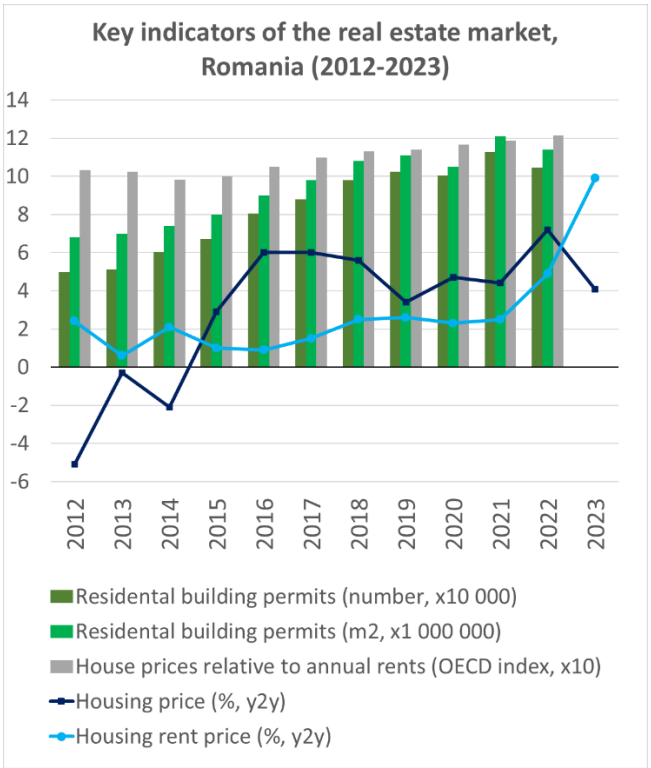
LCI (Labor Cost Index) pace decreased between 2016 and 2020, but showed stable positive growth year-on-year. In 2022 and 2023, against the backdrop of economic recovery and inflation acceleration, the Labor Cost Index increased by 8.6% (2022) and 10.1% (2023, CDP estimate).

HICP (Inflation – Index of Customer Prices) in 2023 compared to 2022 there was reduction to 9.7% from 12%. As before, inflation stimulates investments in real estate in order to protect savings. Against the backdrop of high inflation, the key rate was increased, so the mortgage rate also increased.

Unemployment for the last 4 years has slightly exceeded the equilibrium level for the labor market and since 2020 has slightly exceeded 5% (2023 – 5.4%, CDP estimate).

At the same time, according to official data, the **permanent population** of Romania continues to decline. According to our estimates, this does not have a negative impact on demand, since the residents, as their incomes grow, improve the qualitative and quantitative characteristics of their housing.

2. KEY INDICATORS OF THE HOUSING MARKET

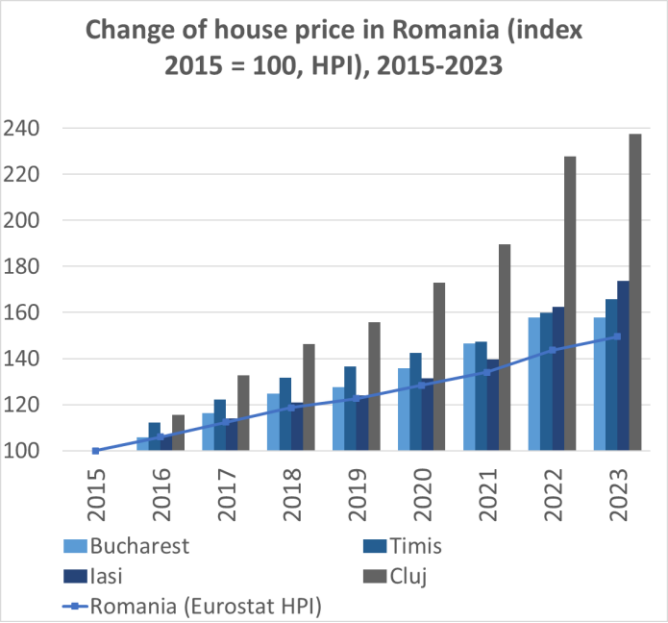


HPI (House price index) of the residential real estate price index in 2020 increased compared to 2019. Against the backdrop of economic recovery and inflation acceleration, in 2022 the HPI increased by average 7.2%. In 2023, according to CDP estimates, price growth slowed down and reached 4.1%.

Rentals for housing have grown steadily over the past decade by 2% per year. In 2023, the prices significantly grew by 9.9%, what may stimulate additional demand from investors interested to get rental income. But for now, the composite indicator **House prices relative to annual rents** is still growing, which shows that payback period for apartments through rental income takes longer than 10 years ago.

In 2022 yearly **Residential building permits** (number and square meters) increased almost 2 times compared to 2012. This indicates a serious increase in supply in the real estate market on the horizon of 2024-2025.

3. DYNAMICS OF HOUSE PRICE INDEX (HPI)



On average, from 2015 to the end of 2023, the price index for residential real estate in Romania in national currency increased 1.5 times (50%). (approx. exchange rate for December 2023 – 4.97 RON per 1 EUR).

BUCHAREST



Bucharest is the capital of Romania and the country's largest economic center. According to the 2022-census results, the population of the city reaches 1.7 million people. Since 2015, the city's population has decreased by 128 thousand resident.

The price growth index from 2015 to the end of 2023 in Euro increased by 1.58 times (by 58%).

Since 2015, Average nominal net earnings have doubled, from 2.6 thousand RON in 2015 to 5.3 thousand RON in 2022, which indicates increase in demand.

Although since 2015 the number of permits for the construction of residential buildings per year has decreased from 681 to 486, the total area of issued permits has increased 2.5 times - from 800 thousand square meters to 2 million square meters (in 2022).

IASI



One of the largest cities in Romania with a population of 774 thousand residents (2023).

The House Price Index in Iasi has increased by 74% (1.74 times) since 2015.

Since 2015, Average nominal net earnings have increased 2.2 times, from 1.7 thousand RON in 2015 to 3.9 thousand RON in 2022, which indicates sharp increase in demand.

Since 2015, the number of permits for the construction of residential real estate per year has decreased slightly (from 2.1 thousand to 2 thousand), but the total area of permits has increased by 29% - from 400 thousand square meters to 518 thousand square meters (in 2022).

CLUJ



Cluj, one of the historical centres of Southern Europe, got the second wind in the 2010s due to its development as a logistics and tourism hub. The population of the city in 2023 is 688 thousand people.

The city showed high growth of the House price index - it increased by 2.38 times since 2015 (in Euro). This is the highest rate of growth in real estate prices in Romania.

Since 2015, Average nominal net earnings have increased 2.2 times, from 2 thousand RON in 2015

to 4.6 thousand RON in 2022 (+131%), which indicates a significant increase in demand.

The number of construction permits for residential real estate increased by 34% (from 1.6 thousand to 2.1 thousand) in 2022, but the total area of issued permits decreased by 18% - from 693 thousand square meters to 567 thousand square meters (in 2022). This probably indicates the development of medium-density housing.

TIMIS



In 2023, the city's population is 652 thousand inhabitants.

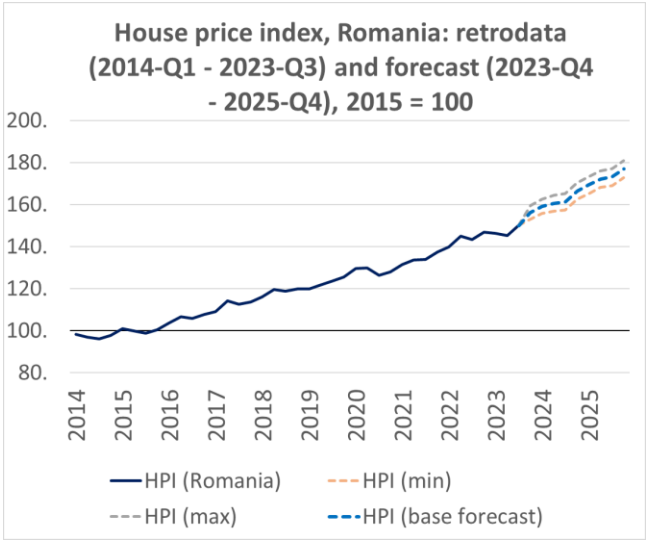
The city showed high growth of the House price index - it increased by 1.66 times by 2015 (in Euro).

Since 2015, Average nominal net earnings have increased 2.2 times, from 2 thousand RON in 2015 to 4.2 thousand RON in 2022 (+106%), which indicates an increase in demand.

The number of construction permits for residential real estate increased by 21% (from 2.2 thousand to 2.7 thousand) in 2022, the total area of issued permits also increased by 66% - from 452 thousand square meters to 754 thousand square meters (in 2022).

4. FORECAST OF CHANGES IN REAL ESTATE PRICES IN ROMANIA AND MAJOR CITIES

CDP Center forecasts the House price index (HPI) for Romania, showing the average increase in prices for residential real estate in the country and major cities for the period 2024-2025. The forecast is based on an analysis of both retrospective and forecast data on economic development and real estate market, affecting supply and demand. A detailed description of the approach is in the Methodology section of the Report.



Depending on the dynamics of factors influencing supply and demand in the market, we forecast 3 possible values – average HPI growth (the most likely scenario), minimum HPI growth and maximum HPI growth.

	Min. HPI	Avg. HPI (most likely scenario)	Max. HPI
2022		7.2%	
2023	3.4%	4%	4.5%
2024	6.4%	8.3%	10.2%
2025	6.3%	6.8%	7.2%
2024-2025	**13.1%**	**15.6%**	**18.1%**

HPI before 2022 grew moderately. The pace in 2022 increased to the record level of 7.2% (since 2015). But in the 2023 the pace decreased, especially in the capital of Romania, Bucharest, which makes a significant contribution to total results of real estate market. The analysis shows that a significant influence to the slowdown in the real estate market was made by the increase in the key rate of the Bank of Romania, which reduced the availability of mortgages and bank loans for developers.

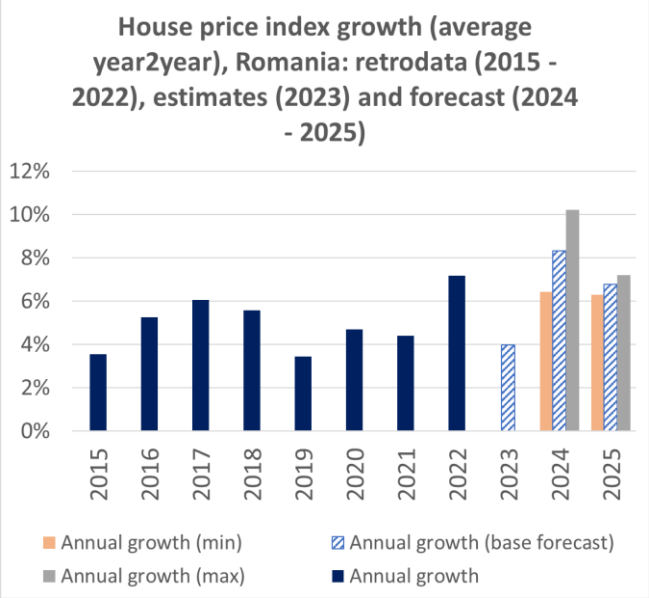
According to our forecasts in 2024-2025, the pace will recover and regain the slowdown of 2023. In 2024, the average increase in housing costs is expected to be 8.3%, in 2025 – 6.8%. We expect that during 2024-2025 the total HPI will increase by 15.6%.

The annual number of construction permits has been at a relatively stable level since 2017. But in

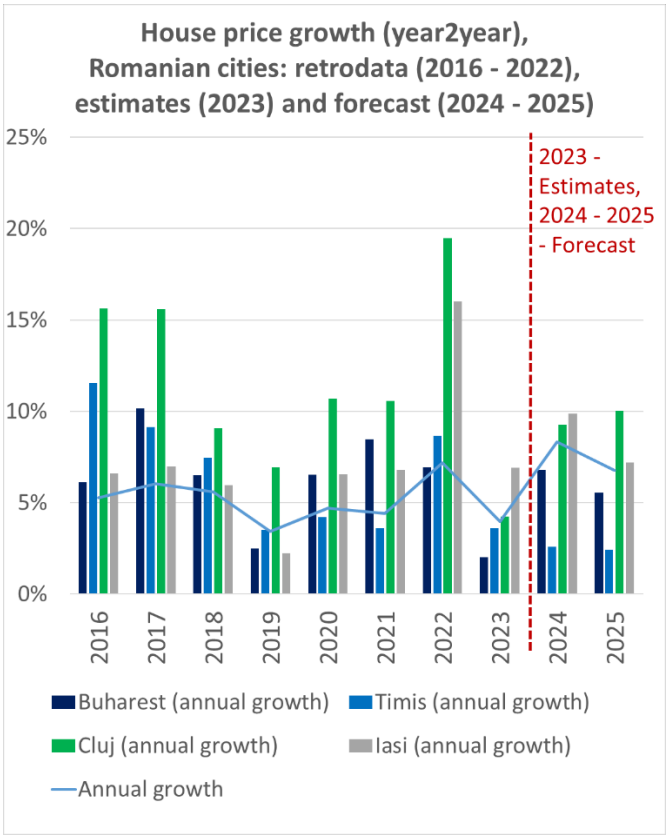
2022, we see a decrease in both the number of permits and a decrease in the total area of planned development. This means that supply will not expand much in 2024 and 2025 – i.e. the level of real estate prices will receive an additional incentive to grow.

The predicted pace of wages in the economy also shows that demand for real estate will be at a stable level. Following the expected reduction in the key rate and increased availability of mortgages, a demand revival is expected.

In case of a greater increase in demand for housing than an increase in supply, it is likely that the index could grow even higher in 2024-2025 - up to 18.1%. If the rate of increase in supply in the market exceeds the increase in demand, the index may grow by 13.1%.



On the diagram we present the retro and forecasted average HPI annual growth rate. Within a year, the growth rate traditionally differs, under the influence of seasonal and other factors. The forecast is very sensitive to the dynamics of the number of construction permits and the growth of wages and employment.



	Bucharest (avg. annual growth)	Timis (avg. annual growth)	Cluj (avg. annual growth)	Iasi (avg. annual growth)
2022	6.9%	8.6%	19.5%	16.0%
2023	2.0%	3.6%	4.2%	6.9%
2024	6.8%	2.6%	9.3%	9.9%
2025	5.5%	2.4%	10.0%	7.2%
2024-2025	12.7%	5.1%	20.2%	17.8%

The pace in the cities is quite different depending on the structure of the urban economy. In all cities, especially Bucharest, the rise in prices is significantly restrained by the increased cost of mortgages. Bucharest also showed a record number of building permits in 2022 - more than 2 million square meters (+20% by 2021). It is expected that newly constructed housing will continue to restrain the rise in housing prices.

We expect that after the key rate reduction, the cost of residential real estate in Bucharest will return to 6% on average per year (in 2024-2025). Cluj and Iasi will continue to grow at rates above the national average (2024-2025 average total: up to 20% and up to 17 % to the level of 2023).

METHODOLOGY

For the research we selected the largest cities in Southern Europe and the Balkans. The key criteria were the level of economic development, population size (at least 300 thousand people) and the presence of an airport (number of passengers at least 1 million per year). In our opinion, these criteria demonstrate the sustainable development of cities and provide high potential for economic development dynamics.

We created a constantly updated database of socio-economic indicators based on sources of public official statistics (EuroStat, National Statistical Offices of countries, Data from municipalities, Central banks). The data was gathered both on the country and city level.

In a few cases, we use data from the largest aggregators of residential real estate markets, it allowed additional opportunities for analyses.

The retrospective database by city and country covers the period since 2000. The forecast base takes into account published official forecasts of socio-economic development for the period until 2026.

House price index forecasting was based on modern macroeconomic and mathematical modelling methods.

As the main model we used the Autoregressive integrated moving average with exogenous variables (ARIMA with regressors).

For regressors used season and calendar adjusted data. Annual data (if needed) was temporally disaggregated of flow time-series.

For the purpose of forecasting we selected the variables which showed the most influence on the HPI.

To select the most reliable forecast we used AIC (Akaike Information Criterion) and, in some cases, the Least Squares Method.

Depending on the dynamics of factors influencing supply and demand in the market, we forecast 3 possible values – average HPI growth (the most likely scenario), minimum HPI growth and maximum HPI growth.

We also see that for stable markets, the spread of forecasts is lower. And for countries, where market is highly dependent on foreign residents, the forecast should also take into account the impact of economic growth in other European countries.

Key sources of data:

[1] Eurostat

[2] Macroeconomic projections of ECB

[3] National Statistical Institute (Bulgaria)

[4] The National Institute of Statistics (Romania)

[5] The Hellenic Statistical Authority

[6] Croatian Bureau of Statistics

[7] Indicele imobiliare.ro.

[8] Forecasts of Bank of Greece, National Bank of Romania, Bulgarian National Bank and Croatian National Bank.

PROPOSIAL FOR COOPERATION

We publish our research as part of a series of regular reviews, monitoring and forecasts on growing residential real estate markets.

The next publications on the Southern Europe - Balkans region are planned for October 2024 and February 2025.

We believe that real estate market analysis should be conducted with the participation of local real estate market professionals. We would be glad if you could share your assessment of the situation on the housing market or other relevant information.

The best and most insightful opinions will be included in the next review, scheduled for publication in autumn, 2024.

Also, we believe that our readers are interested in experience of specific cities, and the most interesting new projects in residential real estate, projects to improve the level and quality of life in the cities.

We would be glad if you contact us in any case.

We hope for fruitful and mutually beneficial cooperation.

CDP Center team.

