Trends of institutional residential investments in a “super-homeownership” country

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Introduction

Questions

Workshop question: **which local constellations and path dependencies direct institutional investors to and away from specific segments of the housing markets?**

1) What kind of historical pathways created the possibility for the emergence and advancement of institutional investors in housing? = path-dependency + long-duré analytical perspective

2) What was the role of the state in this process? = national and local conditions

3) How were global processes shaping the local (re)formations of the housing regime?

The role of the state in the context of dismantling state socialism in an era of globalization and financialized accumulation regime:

- in the formation of a capitalist mode of production (of housing)
- ensuring the spatiotemporal fixes for the global capital under catching up pressures = from a semiperipheral status

Romanian specifics

Two transitions during the 20th century:

- from liberal capitalism to socialism after WWII

- from state socialism to neoliberal capitalism after 1990

In the context of **different world systems** (influenced Romanian political economy that played a role):

- Westphalian state capitalism, Cold War, regional Comecom (mixed housing regime)
- neoliberal capitalism, globalization:
    - trends: abolishment of public housing and residualisation of social housing
    - Ro in CEE: undervalued market, prices can increase

Romanian specifics

Residential real estate market:

- 1990s: incipient form constituted by state interventions, privatization of old state-owned stock, the state-funded constructions still significant

- since the 2000s:

  - the state: withdrawal from new constructions and financing, from market regulation and spatial planning; creating a business-friendly fiscal policy

  - developers: build-to-sell model, mostly Romanians (but might be backed up by foreign investors), except large investments made by foreign developers

  - build-to-rent practices: foreign institutional investors in retail, office, and logistics

Characteristics:

- the private housing sector is fragmented, the phenomenon of the concentration of residential property is new

- the state saved the private construction sector during the 2008/9 financial crisis

- purchase of new homes: mostly by cash, mortgaging growing slowly

- the percentage of mortgages from GDP, 2020: 8.4%, an increase from 3.3% (2007)

- social housing is in public ownership (municipalities)

- public housing is under 2% of the total housing stock

Theoretical and empirical sources

REDURB research project: Class formation and reurbanization through real estate development in an Eastern periphery of global capitalism

Empirical research: 8 cities, interviews (real estate actors, municipalities), national legislation, local development strategies, privatization documents of factories, documents regarding their transformation into real estate development sites

Theoretical approach:

- uneven development, multiscalar peripheralization, subordinate financialization
- role of the state in creating conditions for real estate development (political economy of privatization, derisking investments)
- global processes at the local level: spatial fix of capital, WB-IMF-EU politics of conditioning, de- and re-territorialization in the investment process
- deindustrialization, economic restructuring: rebranding, urban regeneration
- neoliberalized governance, growth coalitions, interurban competition

Historical pathways: creating possibilities for institutional investors in residential real estate

The legacy of a mixed housing regime (1945-1989)

1) Central role of the state in planning, organizing, and controlling development

- recognizing the right to personal property in the Constitution
- elaborating institutional and financial mechanisms for the production of flats by the state budget and for giving loans to the population to construct/purchase housing in personal property

2) Socialist mixed housing property regime and state/market mix in a centrally planned and organized economy:

- 70% of housing is personal property but controlled by the state (50% of the population in rural areas)
- in urban areas: 50-60% state-owned flats

3) Romania linked to global economy:

- Eastern block, Council for Mutual Economic Assistance (COMECOM)
- Cold War: politics of independence, but dependence from external loans
- 1980s: neoliberalization of capitalism worldwide, the crash

Manufacturing a market-dominated regime (the 1990s)

1) The central role of the state

- creating institutions and mechanisms to privatize:
    - economic production (housing was separated from labor),
    - housing (right-to-buy law by early 1990s; restitution law in 2001)
    - land and banks
- deregulating spatial and territorial planning
- finishing state-funded blocks started before: 1995 - 26.4% of new homes constructed by public budget

2) The structure of property in the housing sector

- by 1995: 92% of total housing stock in private property
- fragmented property regime (delayed the creation of opportunities for institutional investors)
- private production of housing by physical persons and uncontrolled housing market: commodification
- homeownership ideology, culturalist explanation
- social housing remained public but insignificant (decentralization + preventing the financialization of social housing)
- institutional investors in residential real estate are almost nonexistent: the first year for which NSI gives numbers for housing constructed by other funds than the population's is 1995 (0.7%)

3) Romania in a global context: catching up country = transitology:

- housing, enabling market to work (WB, 1993)
- new loans from WB and IMF, conditionality politics (privatization)
- which capitalism to catch up with: the statist/developmentalist welfare regime (cc 21% social rental)? OR the market welfare regime? (cc 71% homeownership)
- super-homeownership, creating the possibility for the total dominance of the market

Housing as a financial asset (2000s)

1) The role of the state

- creating the legal frames for investment funds
- saving the construction and banking/mortgage sector from the effects of the 2008/9 financial crises: First Home and ANL

2) The stabilization of the private sector

- by the mid-2000s: most industrial enterprises, land and housing (97.5%) was privatized
- intensified private housing construction, peak 2008: 67,200 new homes, of which 91% from private funds
- emergence of institutional investors in residential real estate (local developers): 2008, 7.3% of housing built by other funds than the population's
- privatization of the banks finished + establishing new commercial banks/branches of foreign banks (by 2010, 40 of the 42 banks were private)
- percentage of mortgages from PIB, before 2007: 3.3.% + 2013: 0.9% of homeowners are with mortgages
- World Bank estimation: 2015, in regional cities, the percentage of private rental (most without contract) was around 15%
- strengthening the Romanian investment funds created during the 1990s:
  - the five Romanian Private Property Funds (30% of the social capital of to-be-privatized industrial enterprises; later, Financial Investment Societies)
  - Romanian Businessmen Mutual Fund (1993), since 2000 registered at RASDAQ market
  - National Investment Fund (1995)
- professional NGO, Undertakings of Collective Investments: became a full member of the European Fund and Asset Management Association in 2009 with 28 members, of which 21 societies administered 47 open-end funds and 7 closed-end or alternative investment funds

3) Opening Romania to the global flows of capital

- adjusting national legislation to EU laws regarding the free movement of capital: single market, capital market, alternative investment funds, banking union, competition law, state aid
- in retail: Lidl Discount SRL (2007), Kaufland Romania SCS (2003), Carrefour Romania SA (2007), Auchan Romania SA (2005), Mega Image SRL (1994) and Metro Cash & Carry Romania SRL (from 2001) - not simple retail firms, but they act as real estate investors, trading land, constructing or renting buildings, and using land and buildings as collateral for new financial pools

Increasing investment fever (2014-2020)

1) The increasing role of investment funds (2022)

- 158 open-end funds listed: 100 established after 2014; 92 of them registered in Bucharest or Cluj-Napoca, 12 listed under Austrian addresses (Vienna), for the rest of funds, the registration address is not being revealed.

- 227 alternative investment funds: 10 registered between 2014 and 2019, and the rest after 2020, about 100 not having registration year mentioned; of them, 37 registered in Romania, mostly in Bucharest and Cluj-Napoca, and the rest abroad, mainly in Germany, but also in Stockholm, Luxemburg, Amsterdam, Dublin, Vienna, and Paris.

2) Intensification of real estate/housing financialization through institutional investors

- uneven penetration of investors with large portfolios to cities:
  - third-tier: investors and developers in retail, manufacturing, and logistics
  - second-tier and capital city: also included residential and office

- Romanian mixed-use property developers: Iulius Group, Maurer Imobiliare, Kaspers Development, Cosmopolit, SDC Imobiliare, Globalworth, Dedeman, Evergent, Kosmopolit and Nordis (premium and hotels), sometimes backed up financially or sold to foreign investment funds) + foreign firms with projects on all real estate sectors: Speedwell (Belgium); Bina Real Estate SRL (France);

- formerly retail-based transnational developers transforming into (mixed-use) residential actors (developers-investors-operators), with a special focus on CEE (with offices and properties in several countries and cities within countries): AFI Europe (The Netherlands); Prime Kapital (backed by pension funds in South Africa); NEPI Rockcastle; Immochan/Ceetrus (France) – diverse services: acquisition and development of properties, asset and property management, mortgage financing, debt finance, leasing, sale, marketing, some are listing their bonds on stock market; lifestyle

- investment funds buying properties: Revetas, investment fund (focusing on CEE); New Century Holding (NCH Capital)/ Broadhurst investment fund (one of the pioneer funds, present in Romania since the early 1990s, with assets in all sectors of the economy);

- office building construction and transactioning: Taco Holding AG (Swiss), Robert Bosch GmbH engineering company (German), First Property (British investment fund), Black Rock (American investment company), White Star Real Estate (USA-based)

What comes next in rental housing?

Post 2020-trends of financialization

The **increased role of mortgages** (2021)

- Homes in private property: 98.76% + Owner-occupied homes: 95.3%

- Homeowners with mortgages: 1.4%

- Share of mortgages from GDP: 2020, 8.4%

- Homes purchased by mortgages versus cash: national level – 45%; 60% in Bucharest, 48% in Cluj

The **increasing trend of housing costs** in 2021 compared to 2010 – Purchase price/ Rental cost:

- 120/45% in Hungary;

- 55/5% in Slovakia;

- 40/15% in Bulgaria;

- the EU average: 39/16%;

- the Romanian trend was the opposite: 10/20%.

Rentierism among non-institutional investors: the percentage of those who purchased a home as an investment (mostly for renting it out) was around 30% of the buyers, many of whom were physical persons, not institutional investors.

Example of Cluj-Napoca:

- 2020: almost 24% of physical persons with residential properties owned more than one unit.

- 2023: the number of physical persons who owned more than one residential property increased (e.g., by 21% in the case of two properties; by 61% in the case of the owners of 6-10 properties)

Very recent trends forecasting the future

Rising interest rates and the decrease of people's purchasing power due to high inflation:

- Colliers International: expectations about the rise of private rentals to the detriment of buying by cash or loan in this country.

- Blitz Imobiliare (June 2023): in Cluj-Napoca, the city with the most expensive real estate market, rental prices increased by more than 20% to the average amount of 505 euros/month (much higher than the minimum wage in Romania, at around 300 euro net/month) + reductions in the number of transactions and residential prices were recorded: 6.3% in May 2023 compared to 2022) = a rise in demand for private rentals in circumstances where the supply of social and public housing is almost nonexistent.

"The residential sector in Romania is an emerging real estate sector for institutional investors, with great potential for the future. The lifestyle of the new generations, the lack of quality options, the high purchase cost and the high-interest rates are factors that will contribute to the development of this market segment. Taking the Polish development as an example, we are confident that Romania will attract more institutional investors in residential areas in the coming years." (Andrei Văcaru, Head of Capital Markets CEE at iO Partners; interview Property Forum, 18.08.2023).

Our conclusion:

The advancement of institutional investors in residential real estate couldn't have been possible without decades of capital-friendly state measures in housing, planning, public administration, and finances.