

The 5 Worst Property Markets In 2011



In today's economic climate, it is now more important than ever to assess property markets very carefully before investing. Property remains the number one investment choice you can make for financial gain – and this is still possible if you choose your location wisely.

With this in mind, we have identified the world's worst property markets in 2011.

A good property market will have the following:

- **A stable economy**
- **Good capital growth prospects**
- **A reliable rental market**
- **Accessibility to mortgage finance**

Ultimately, property should be an investment that pays for itself, however anyone investing in the five countries featured will probably have ended up losing money in the last 12 months.

In 2011 the five worst property markets in the world are all in Europe. This should come as no surprise following the recent rekindling of the debt crisis in the Eurozone and the impact this has had on those countries struggling to recover from the economic slowdown within its borders.

This report will take into account the following factors in assessing those countries in our shortlist:

- **Economic outlook**
- **Availability of finance**
- **Demand**
- **Capital growth prospects**
- **Rental market**
- **Level of risk**

We'll also look at some of the possible advantages certain markets could offer investors in 2012.

2011 Worst Property Markets



5. The Czech Republic

Back in 2006-2008 the Czech Republic was a dream location for pioneering overseas investors. Now the excitement has gone, it looks as if this particular property market has gone further into reverse in 2011.

The 20 and 30% annual increases in property prices are now a distant memory. Property investors fell out of love with the capital Prague back in 2008 when the property market overheated and the global financial crisis began in earnest.

Since then a **combination of high prices, oversupply and some of the lowest rental yields in Europe, even in the capital Prague, have made this a property investor's bohemian nightmare. Add to this fiscal uncertainty and persistent rumours about VAT rises; have made what was once one of the most attractive property markets, one of the ugliest in 2011.**

The Czech Republic is a notoriously difficult market to find statistics you can rely on. Monthly or even quarterly reports are difficult to get hold of, but **according to the latest data available from Q2 2011 property prices fell by 5.2% annually and actually went into freefall plunging a further 2% on the quarter, the fastest rate of any of our contenders bar one.**

It was once the case that you could make a nice steady profit from property in the Czech Republic's larger cities and particularly in the capital Prague, but now with average yields only a little over 3%, is it really worth the effort?

There are cheaper alternatives elsewhere in Europe offering far higher yields even in the neighbouring Slovak Republic. So if anyone tells you that it's time to look again at the Czech Republic make sure they're as conservative as this market is likely to remain for some time.

- **Pros**

- Pro-landlord rental market
- Low transaction costs
- Ready supply of tenants

- **Cons**

- Property price data is hard to find
- Properties are expensive and yields in Prague are poor in comparison to other European capitals
- The pressure to sell isn't as great as elsewhere in Europe



4. Bulgaria

Bulgaria was once regarded as 'the new Spain' for overseas investors – not anymore.



Unfortunately, for many investors lured into coastal and Bansko ski properties with no exit in sight, the dream came to a sorry end. They'd have been better off buying a beach hut in Bournemouth as many will no doubt be trapped in a plummeting property market with no resale market insight and a country experiencing severe economic difficulties – hardly a recipe for property investment success.

Property prices are in freefall and there appears to be no way out of the spiral. British and most definitely Irish investors have fled and have now been replaced by a new invasion of Russian property investors. By all accounts, the Russians know how to drive a hard bargain, resulting in falling prices.

The added problem is these Russians are fewer in number and less than 5% of them are interested in investing in areas other than the coast.

Property prices in Bulgaria registered a further 10.95% decline in 2011 and there is no indication of when they will hit rock bottom with the economy being hit hard by recession.

For some British and Irish investors caught out when the bubble burst, there might be the small consolation of spending annual winter and summer holidays on the Bulgarian coast and ski resorts, but the novelty has probably already worn off when you look at the aforementioned declines in value this year.

Meanwhile the capital Sofia was subject to huge foreign investor interest in 2007, but the ensuing bubble has long since burst and if you still fancy a trip out there to view what's available be warned, Sofia is regarded as one of the most dangerous cities in Europe. Organised crime is rife and almost a third of its citizens never feel safe in the capital!

If you like living dangerously the one bright spot is that average yields are ok in good locations at between 5 and 6%, assuming a tenant can be found.

- **Pros**

- The Russians are helping to prop up the coastal markets
 - Yields are good if you can get a tenant
 - Distressed sellers mean low prices

- **Cons**

- Corruption.
 - Investing in ski property remains a slippery slope
 - Falling property prices and a struggling economy
 - Virtually no resale market, developers can't even sell new property
 - You will be lucky to find tenants



3. Greece

Greece - a country known for enjoying a good party has faced the biggest financial hangover in its history this year, the only surprise is that it hasn't topped our list of worst property markets.

A country in debt to the tune of €340 billion and struggling to stay in the EU for much of 2011 makes Greece a leading contender for the worst place to invest.

In Greece's case the country is in such a dire economic position that the boundaries between good and bad have become as blurred as your vision is likely to be after a night drinking Ouzo, the national tippie. It was certainly possible to source some attractive discounts on property in Greece in 2011 with many distressed sellers looking to offload property, but there is no end in sight to the problems the country faces.

Property prices fell by just under 10% in the first half of 2011 alone and with the population now coming to terms with higher taxes, high unemployment and a bleak future, domestic demand for property will inevitably fall even further, leaving only foreign investors to prop up markets in desirable coastal areas.

The decision to invest in coastal property should be one based on demand and sound market fundamentals. Unfortunately, investing in Greece in 2011 could well have meant losing 10% plus of property value and the uncertainty that comes with a country on the brink of economic collapse. **The average rental yield isn't great either at just 3.7%.**

Greece is a dream holiday destination, which enhances its appeal to property investors looking for the best of both worlds, but it will have quickly turned into nightmares and sleepless nights as worries about a return to the Drachma and a possible overnight halving of property prices continue.

- **Pros**

- Well known territory for holiday home investors
- A gamble here in 2011 might pay off in 2012
- Distressed sellers

- **Cons**

- Oversupply in some areas and lack of domestic demand
- Return to the Drachma could leave investors trapped with no exit
- Property prices could easily halve overnight with a change of currency



2. Cyprus

Cyprus has long been popular with British investors, but now even its biggest advocates are losing interest and this includes interest in the island's once popular resort properties.

Anyone buying a property in Cyprus in 2011 will no doubt have been convinced by glossy brochures celebrating Cyprus's excellent year round holiday climate; glorious beaches and an increase in the number of tourists visiting its resorts. This might well be true, however these factors alone don't add up to a property market worth investing in.

The well-publicised naval base explosion in the summer led to electricity cuts costing the economy millions of Euros. This came on top of successive downgrades, which now see the country rated at Baa3 or one level above junk status. The worsening situation is mainly due to a combination of an indecisive government and the inevitable fallout from neighbouring Greece's perilous economic position.

Earlier in 2011, Cyprus's vulnerability to the Greek problem was downplayed, but the country's two largest banks are exposed to the tune of €5 billion as well as having substantial retail operations in Greece.

A stagnant economy, a looming debt crisis and an unstable, indecisive government has heavily affected the Cyprus property market in 2011 and there appears to be no end in sight to the slide in prices.

Prices of apartments for example have dropped by 15% since 2009 and with the average property being more than 21 times the average Cypriot salary demand can only come from overseas investors.

Unfortunately, transaction levels fell in 2011 as even the foreign investors who help prop up the market have decided to pull out. There are even question marks about the build quality of some of the many new apartments further undermining the markets increasingly shaky foundations.

The heavy reliance on overseas investors and tourism has in turn made the situation perilous for anyone hoping for a return on their investment even in the long term as the crisis plays itself out. **Falling rental yields which now stand at 3.6% for apartments and just 2% for houses** mean there are far better yielding sun investments to be found elsewhere in the world.

- **Pros**

- Great location for a holiday home if you're prepared to lose money
 - A property market geared up for foreign investors

- **Cons**

- It takes more than a year to evict a tenant in Cyprus
 - Perilous economic situation
 - Cost of borrowing will increase
 - Tight lending conditions
 - Stagnant economy and recession forecast for 2012
 - Exposure to Greek debt





1. Ireland

With all the attention on Greece, Ireland's debt problems and the catastrophic decline in property prices have fallen below the radar mainly because its citizens have taken a Keep Calm - Carry On approach, but don't be fooled.

Ireland's property market boom was the envy of the world between 2000 and 2006, back then the country was the place to be if you wanted to make a fortune from property. Prices tripled in this period allowing a hoard of Irish investors to start investing in overseas property in places like the Bulgarian coast, which is said to have attracted more than 10,000 property purchases from Irish investors.

The unfortunate reality is, that to some extent one bubble fed into another, until the whole thing came crashing down in 2008 when the global economic crisis took hold.

Fast forward to 2011 and **apartment prices in 2011 are now a whopping 60% down from their peak after yet another painful 15% fall in 2011, by far the worst of any of our contenders.**

Rental yields of just 4.8% nationally provide little consolation even though yields in excess of 7% are possible in the centre of Dublin. The sheer scale of the building frenzy that took place in the boom years will result in a lot of spare apartment units for years to come and there is also the bleak economic picture to consider.

The Celtic tiger is still licking its wounds and struggling to emerge from the last recession. Its property market in 2011 saw the most spectacular falls in Europe with tightening lending conditions, public sector pay cuts and rising unemployment hitting domestic demand hard.

Few people have the will let alone the finance to invest in property, so it is difficult to see where money can be made in this market, apart from well-chosen rental properties in Dublin. Any further shocks are likely to put more downward pressure on Ireland's property market for years to come.

- **Pros**

Fire Sale auctions are attracting foreign investor interest

Prices are up to 60% below what they were, which is good news if we are nearing the bottom, not so good if the rate of decline is a continuing trend

- **Cons**

Tight lending conditions

Economic uncertainty

Much of Ireland's prosperity came from the construction boom - so where do we look now for the long-term positives?

So to sum it up what does all this mean for you the investor?

The five worst property markets mentioned in this report include some countries that may come as a surprise. They also reveal that it is impossible to ignore the impact, successive debt crises has had on property markets in Europe.

The current market conditions pose a challenge for the portfolio property investor in 2012 and on the flipside, opportunities. With uncertainty, still a major factor in Europe it is no longer the case that focus can be switched to other countries and markets that show signs of growth without doing the research.

The interesting thing about this current property slump in Europe is that it has spread to all areas from the emerging capitals of Central and Eastern Europe, to popular coast and ski resorts. Some are showing signs of recovery, but the property markets within weak economies are still sliding, which is why it is no coincidence that those who have struggled most in 2011 are all in our top five.

So as we take a break to consider what's in store for 2012 it is right to feel cautious, but there is also cause for optimism. There are now unprecedented opportunities to invest in the types of housing that would have been unthinkable back at the peak of the market in 2008. These kinds of opportunities also exist beyond Europe's borders in the US.

Understanding the market you invest in is now more important than ever. Bulgaria, Ireland and Cyprus should provide a warning for those who don't consider the underlying fundamentals of a property market before investing.

In a market where the some of the old rules don't apply, we still believe it is still important to ask yourself one basic question before you invest:

Will this be a property that pays for itself?

