Private Rented Sector Booms in CEE

A report by international law firm CMS and commercial real estate services and investment firm CBRE shows that investors continue to shift their attention away from office investment in favour of other real estate sectors.

In the CEE, economic growth and loose economic policies have led to a housing price boom and made access to housing much less affordable. This has meant that rental accommodation is becoming an increasingly popular option. This trend is expected to continue as residential developers consider built-for-rent as an attractive alternative to built-for-sale.

Lukas Hejduk, *Head of the CMS CEE Real Estate Practice* says: “As the world emerges from the Pandemic, we have witnessed new ways of living. Real Estate investment is shifting as the sector looks to respond to new expectations from consumers. Affordability issues and population growth will force the CEE market to adapt and slowly but steadily, to follow the pattern of Western Europe in terms of living sector structure.”

A favourable legal framework is also a crucial factor driving PRS investment in CEE. Although the legislation affecting PRS projects is still in the development phase, it is generally flexible and meets the dynamic requirements of this asset class. Special investor-friendly regulations affecting PRS projects have been implemented in recent years and provided auspicious conditions for growth in this new sector.

Roxana Fraţila, CMS partner and Head of the Real Estate & Construction practice in Bucharest, said, “The overall economic situation and new consumer behaviours, especially between new generations of professionals in terms of mobility and attitudes towards owning or renting properties, will most likely force the Romanian market to adapt to the model of Western Europe in terms of built-to-rent, just as other countries in CEE have.
Romania does not have specific legislation to cover the development and financing of built-to-rent structures, but this is not necessarily detrimental to investments in this segment.
On the contrary, our laws are in general flexible and favour institutional investors, so the first to invest in the Romanian living sector structure, based on the current legislation, may actually benefit from the lack of such projects on the market and produce steady rental yields long-term, as well as new sources of income. In turn, tenants would have rentals and maintenance that are managed professionally rather than in the traditional renting system, which is currently mostly managed by private individuals and small sized real estate companies with only several projects in their portfolio. As Romania remains a real hub for high credit IT & BPO businesses, we are seeing that the development of the built-to-rent segment may make sense at least, for now, in the proximity of office premises from the main cities around the country.”

Joanna Mroczek, *Head of CEE Research & Strategic Consultancy at CBRE*, commented: “In the light of rising interest rates, high construction costs, energy and inflation, residential rental assets (PRS) still remain a safe alternative for investors, mostly due to high undersupply and high individual and institutional demand in all the markets, supported by demographic migrations.
The report also argues that ESG is as important a consideration in the private renting sector as it is in other Real Estate sectors. ESG strategies adopted by residential developers include specific carbon footprint reductions in the production of new facilities, measuring performance according to international standards, implementing the principles of the “closed loop” economy and analysing opportunities to optimise investments in terms of emissions and resource consumption.”

The report can be found *here*.