

THE RESIDENTIAL REAL ESTATE MARKET IN THE CITY OF VARNA (BULGARIA)

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Abstract: *The paper examines the development of the real estate market in the city of Varna, the subject focusing on the dynamics of the residential market in the region in the last few years. With regard to the available empirical data, some of the information used applies to Varna District. The paper analyzes in detail the following indicators: average housing prices, housing price indexes (including their changes), number, type and usable area of existing dwellings, various types of entries in the land registry (related to sales, donations, barter, legal mortgages, contractual mortgages), issued building permits (for dwellings, number of dwellings, total built-up area), the new buildings brought into use, the usable area of the new dwellings, and the new dwellings brought into use according to the number of rooms. Based on this analysis, a number of conclusions and summaries related to the subject of the study have been presented in detail.*

Keywords: *Development; Dwellings; Market; Real Estates; Varna.*

JEL code: *R30, R31, R32.*

INTRODUCTION

In the last decade, the real estate market in Bulgaria has gone through different stages of development which in economic theory and practice are known as growth, saturation, decline, maturity and recovery. The rapid growth of the 2003 – 2008 period that is associated with the preparation and accession of our country into the European Union, was followed by a financial crisis period which escalated into a global economic imbalance. With the exception of the agricultural land market, Bulgaria's real estate market was significantly affected during that time period, which was attested mainly by a lack of real estate demand, an increased supply of different real estate properties (dwellings, commercial property, office spaces, industrial property, storage sites et al.), a limited activity in new construction etc. The first signs of market equilibrium recovery were registered in 2014 when the resulting bank crisis led to a drastic drop in interest rates on deposit accounts of natural and legal persons offered by the country's banking institutions. The direction of significantly large capitals of commercial banks towards investments in real estate was a logical consequence of this market-related process. These are the exact reasons why this paper studies the dynamics and development of the real estate market, and more specifically the city of Varna's residential market, in the last few years.

1. THE CONDITION OF VARNA'S RESIDENTIAL MARKET

In order to better understand the condition of Varna's residential property market and that of its region as well as their dynamics in the last few years, we need to focus on the principal indicators on the base of which we can make some market forecasts and discover some trends: average market prices of dwellings, housing price indexes (including their changes), number, type and usable area of existing dwellings, various types of entries in the land registry (related to sales, donations, barter, legal mortgages, contractual mortgages), issued building permits (for dwellings, number of dwellings, total built-up area), the new buildings brought into use, the usable area of new dwellings, and the new dwellings brought into use according to the number of rooms.

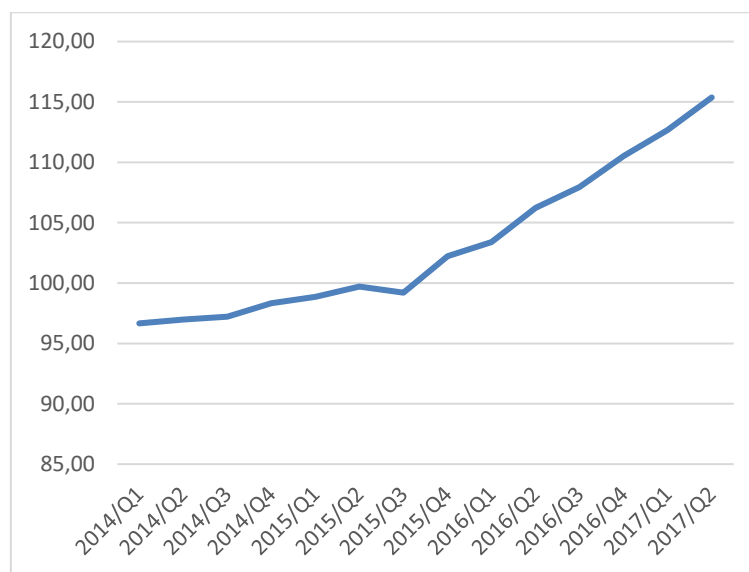
Table 1**Average residential market prices in the city of Varna¹**

Source	2015 (€/sq.m.)	2017 (€/sq.m.)	Change (%)
National Statistical Institute	758 (Q1)	909 (Q2)	19,94
Internet portal imot.bg – offers ²	663 (Q1)	737 (Q4)	11,16
Internet portal imoti.net – offers	725 (Q1)	784 (Q4)	8,14
Real Estate Agency „Mirela“ (internet portal mirela.bg) – offers	766 (Q1)	839 (Q4)	9,53
Real Estate Agency „Mirela“ (internet portal mirela.bg) – realized deals ²	729 (Q1)	767 (Q3)	5,21

Sources: NSI, IP imot.bg, IP imoti.net, IP mirela.bg and the author's calculations

The data from table 1 clarifies that the average market price rates of dwellings in Varna have increased significantly in the period from 2015 to 2017, especially in official results provided by the National Statistical Institute's (NSI), according to which the growth rate is around 20%. Other investigated sources of data note that for the studied period the growth of average housing prices in Varna is approximately 5% from realised deals and almost 10% when it comes to offers.

We can monitor the residential property price indexes (RPPI) for the whole country and Varna in fig. 1 and 2. What's striking is that the city's trend follows the country's main trend of dynamic growth.

**Fig. 1. Residential property price indexes in Bulgaria**

Source: NSI

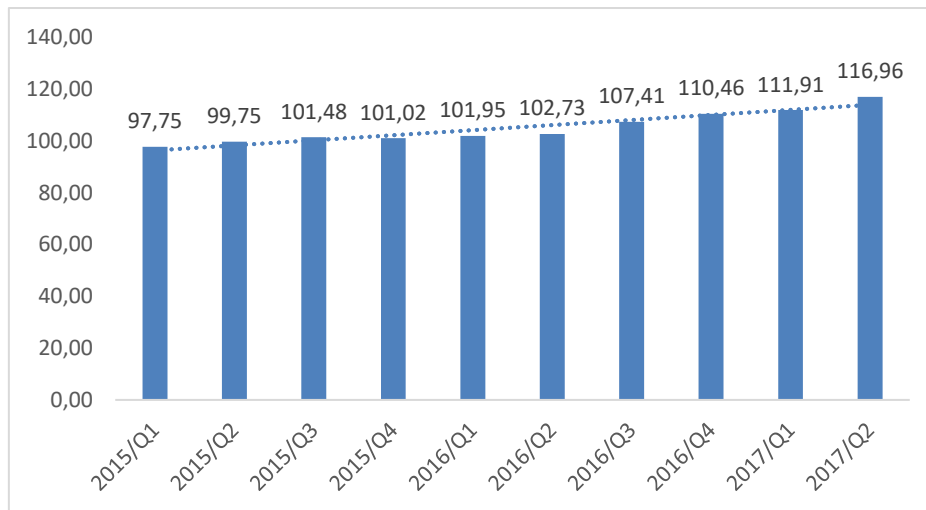


Fig. 2. Residential property price indexes in Varna
 Source: NSI and the author's calculations

Based on the results in fig. 3, we can clearly recognise that the average change (according to NSI data) in residential property price indexes is around 2.5% or within 10% on an annual basis. In the studied period (Q1 2015 – Q2 2017), the growth of RPPI during the previous quarter is expressed with a positive trend with the exception of Q4 2015. There is significant growth regarding this indicator for the periods Q1 2015 (6,4%), Q3 2016 (4,6%), Q2 2017 (4,5%).

What's interesting is the data regarding the number, type and usable area of the existing dwellings in the cities within Varna province (fig. 4, fig. 5, fig. 6). The 2014 – 2016 period is marked by the following principal trends: an increase of the number of dwellings as well as of their total usable area; there is a predominance of two-room and three-room dwellings after which come the four-room and one-room ones; the number of multi-room dwellings is insignificant (five-room dwellings as well those with six or more rooms).

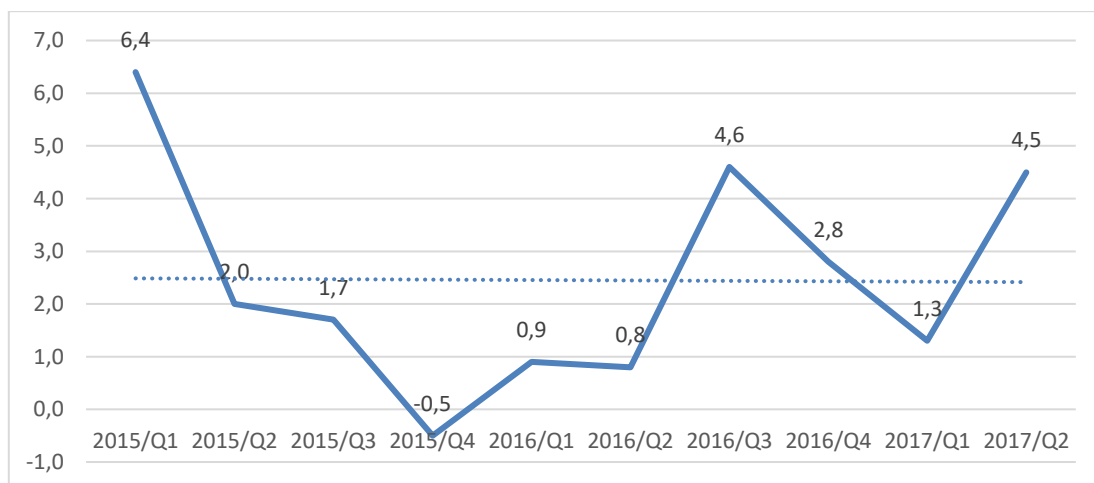


Fig. 3. Changes in RPPI in the city of Varna (during the previous quarter)
 Source: NSI and the author's calculations

According to the Registry Agency, the 2014 – 2016 period marks a growth in real estate sales in Varna's registry service as well as an increase in legal and contractual mortgages (fig. 7). The number of donations made in 2014 and 2015 is almost the same while in 2016 there is a growth in that aspect. In the studied period, there is a decrease in the number of barter deals.

The data that was studied up to this moment and the emerging residential market trends in Varna and the region (according to the data from fig. 8 and fig. 9) are supported by the statistics that indicate the growth of granted construction permits (by number of residential buildings, number of dwelling units and their total useful floor area).

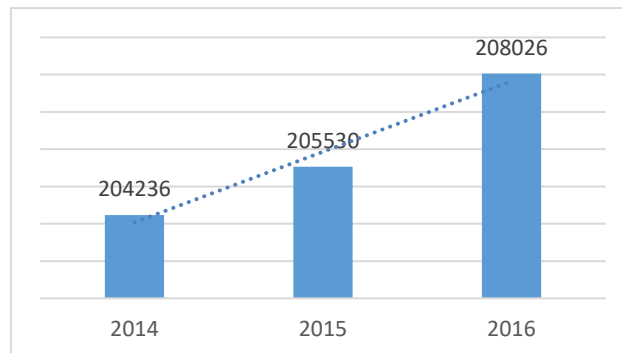


Fig. 4. Number of dwellings in cities within Varna province
Source: NSI and the author's calculations

According to fig. 10, the most prominent rise in the number of new dwellings brought into use (a total of 355 in Varna province) can be seen in 2014 (for the 2014 – 2016 period). Regarding types of construction, concrete and steel buildings are predominant, followed by brick and other kinds of prefabricated structures. The main area of the new dwellings brought into use is the dwelling area, followed by the ancillary and the kitchen area (fig. 11).

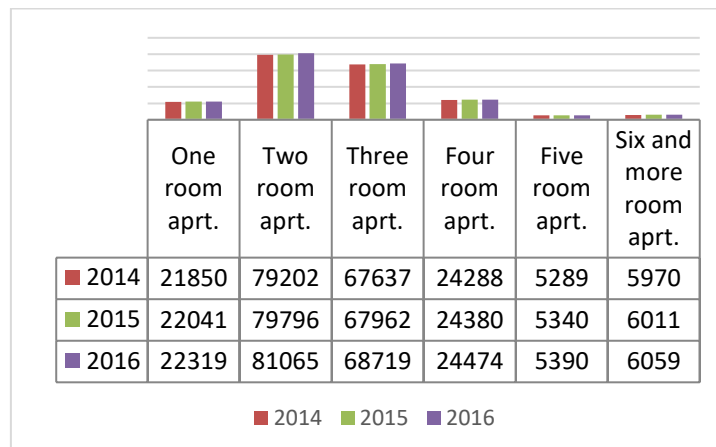


Fig. 5. Dwellings in cities within Varna province (arranged by the number of rooms)
Source: NSI and the author's calculations

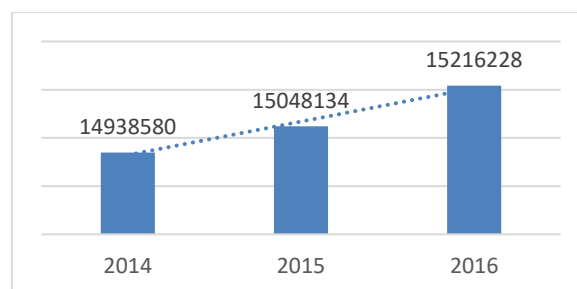


Fig. 6. Usable area of dwellings in cities within Varna province
Source: NSI and the author's calculations

When comparing the data of the already existing dwellings and the new dwellings brought into use (for the 2014 – 2016 period), it becomes clear that Varna and the region follow a trend of primarily building two and three-room apartments. There is, however, another interesting market tendency worth noting – there are more new brought into use one-room apartments compared to four-room ones. However, among the already existing dwellings (in cities within Varna province) there are more with four rooms than with one. The number of new five-room dwellings brought into use as well as the residences with six or more rooms has remained almost constant during the studied period.

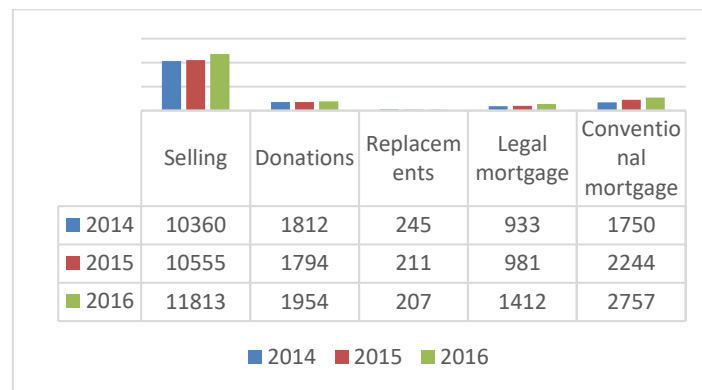


Fig. 7. Number of registries in RS – Varna (based on a personal and real system)
 Source: Bulgaria’s Registry Agency and the author’s calculations

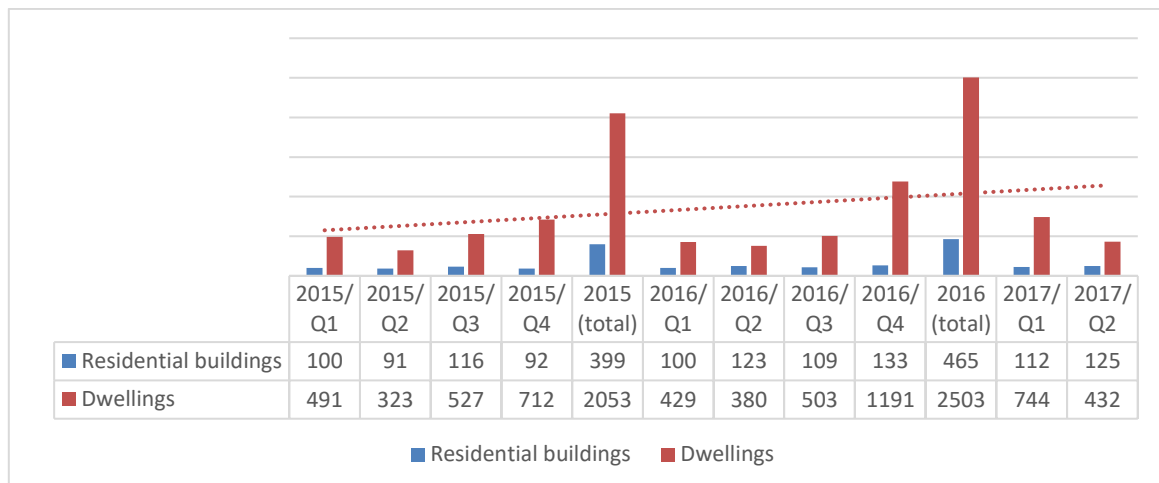


Fig. 8. Granted construction permits for new buildings in Varna province
 Source: NSI and the author’s calculations

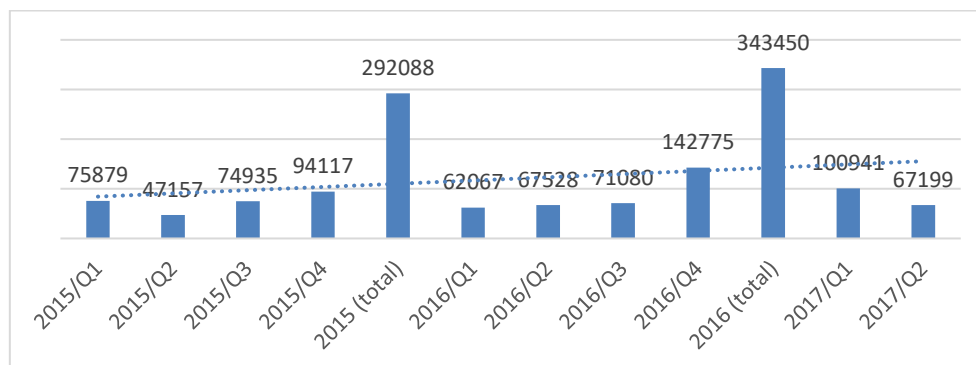


Fig. 9. BUA for construction of new dwellings in Varna province (sq.m.)
 Source: NSI and the author’s calculations

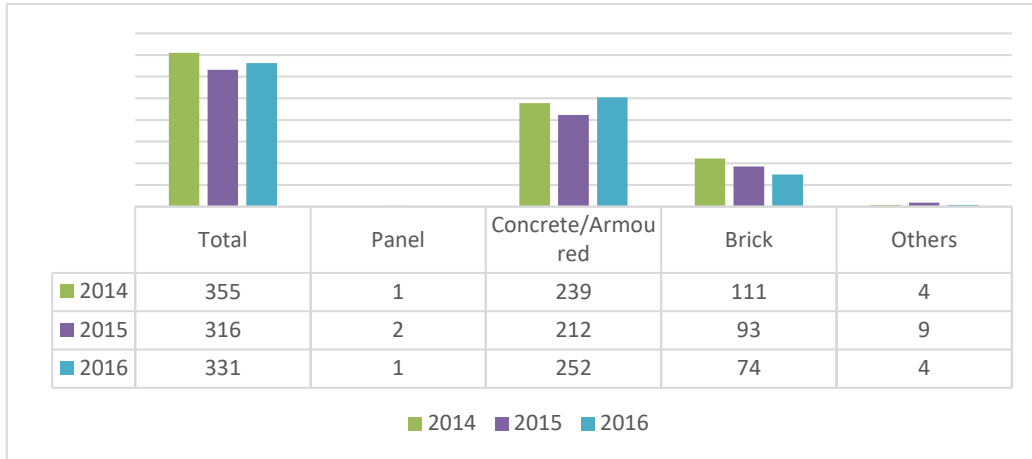


Fig. 10. New dwellings brought into use in Varna province
 Source: NSI and the author's calculations

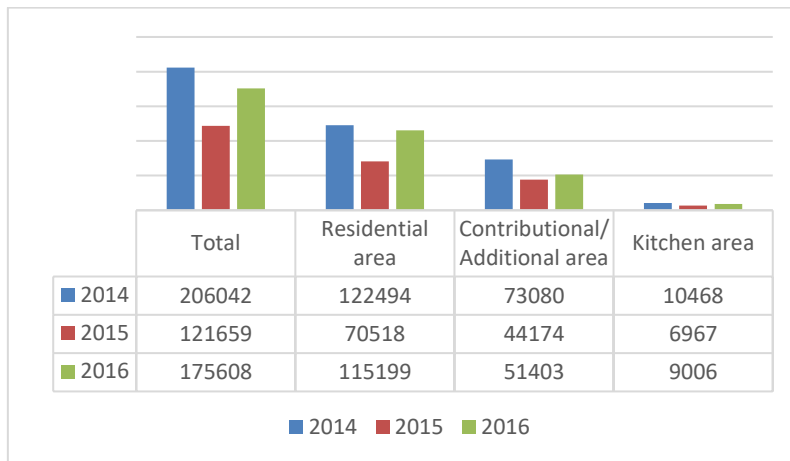


Fig. 11. Usable area of new dwellings in Varna province (sq.m.)
 Source: NSI and the author's calculations

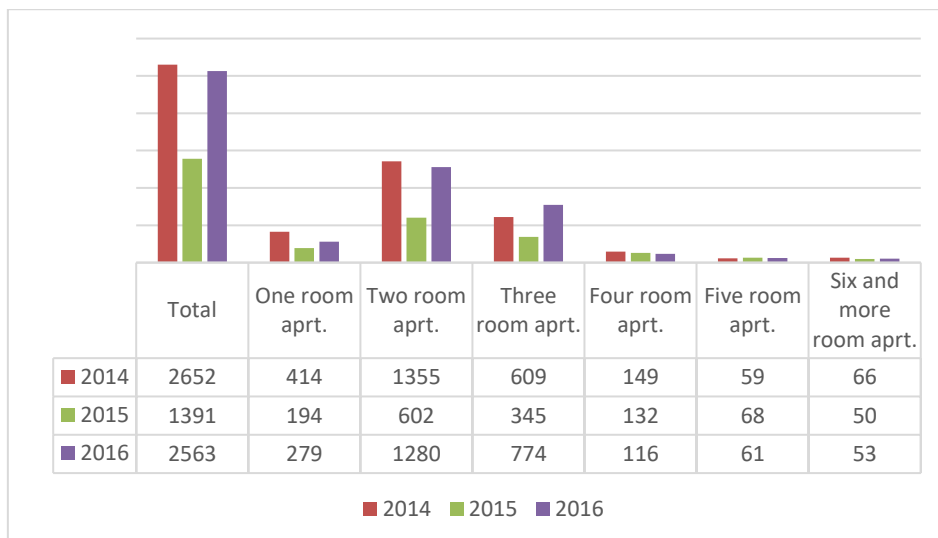


Fig. 12. New dwellings brought into use in Varna province (by the number of rooms)
 Source: NSI and the author's calculations

2. CONCLUSIONS AND SUMMARIES

On the base of the presented analytical information, related to the residential property market in the city of Varna (for the 2014 – 2017 period), we can make the following key conclusions and summaries:

- There is a trend of constant growth of the average market prices of dwellings (according to data related to offers and realised deals);
- According to official statistical information gathered from Bulgaria's National Statistical Institute, the annual average growth of dwelling prices in the city of Varna is around 10%;
- The growth of average residential market prices is higher than that of rental rates.
- There is a trend of increase in the number of existing dwellings with two and three-room housing units being predominant.
- There is a growth in real estate sales, as well as a rise in legal and contractual mortgages;
- There is an increase in interest towards banking financial institution products which is connected to the significantly reduced interest rates for credits to natural and legal persons;
- The expectations of property developers are positive when you take into account the increase of granted construction permits for new dwellings as well as the number of residences and their total built-up area.
- the most preferred type of new dwelling is concrete and steel while the one least likely to be brought into use is the prefabricated sort.
- The new residences brought into use are predominantly two and three-room ones, followed by units with one room.

CONCLUSION

Varna's dwelling property market is in a state of significant dynamic development. The results of the study support that claim entirely. A positive trend can be seen in all of the primary market indicators: the average residential market prices, indexes of dwelling prices, number of existing dwellings, housing sales, deals with legal and contractual mortgages, construction activity regarding new dwellings, residential buildings brought into use and their housing units. The reasons for the current market's condition may vary but the most important ones are: reduced levels of interests on deposits to natural and legal persons in banking financial institutions, capital protection from inflationary processes, significant real estate investment security, low rate of building depreciation, opportunities for generating revenue from investments in real estate plus capital revenue of said investments.

NOTES

1. Not including data from holiday parks
2. Average rental prices for dwellings in Varna city display a 5% growth for the Q1 2015 – Q3/Q4 2017 period.

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