THE REAL ESTATE MARKET IN ROMANIA IN THE MARKET APPROACH

Cristina Mihaela Onica
cristina_onica@yahoo.com
"Dunărea de Jos University" of Galati, Romania
Mariana Iorga
iorga_n_mariana@yahoo.com
"Dunărea de Jos University" of Galati, Romania
Anişoara Cojocaru Chiriac
chiriac524@gmail.com
"Transilvania University" of Braşov, Romania

A real estate market is a group of companies or people that are in contact, aimed at conducting real estate transactions. The market participants may be represented by buyers, sellers, tenants, owners, debtors and creditors, entrepreneurs, managers, investors and intermediaries. The concepts of anticipation and change, with the principles of supply and demand, substitution, balance and external conditions are extremely important in the market approach. An appraiser takes into account all these principles and simulateneously tries to consider all relevant conditions for the problem appraisal, so that they could reflect reality and the local market conditions.

Keywords: real estate market, appraiser, substitution, balance, supply and demand

JEL Classification: M41, G33, C39

1. Introduction

Every market of a certain type of real estate property may be divided into smaller markets named *submarkets*. They can be further divided according to the buyers' preferences as follows: cheap, moderate or luxury properties.

The interpretation of real estate markets as well as their identification is an analytical process. So as to be able to answer questions related to the real estate markets and submarkets, the appraisers must analyze the utility and the scarcity of real estate properties, as well as the desire and the purchasing power of those who wish to buy property rights.

The market analysis aims at establishing whether there is an adequate market compliance for a property with a specific use, or there is market evidence for a certain use in the future.

The main premise of the techniques used by the market approach is that the market value of the real estate property is directly linked to the competitive prices of comparables.

Through the market approach, the market value is estimated by comparing the appraised real estate property with similar properties that have recently been sold, or with similar properties which are offered for sale.

The market approach is applicable to all types of real estate properties, when there are sufficient recent transactions, with reliable information that may denote the characteristics of value or the market trends.

If there is not sufficient information available, one may use information related to offers of comparable properties available on the market. The current offers used must be known, as well as analyzed by the appraiser.

2. Real estate markets

Market is „a specially designed place where people trade retail goods, particularly food and agricultural products". But everyday life proves us that this definition includes only partially the meaning of the term „market". Thus, the real estate market may be defined as the space where the demand and supply of real estate properties meet.

According to the Romanian legislation in force, the administrative provisions (particularly the normative ones but some individual as well) must be substantiated by right and in law, otherwise they are nullified. Although the law literature brings into question other individual administrative acts as

well, acts that should not be motivated (e.g. the driving license), however, the same doctrine recalls the cases where, undoubtedly, these acts must be justified, as it may happen with an order of the Minister.[63]

Various decisions are taken daily on the real estate market, like for instance: decisions related to land allocation for various real estate destinations – farms, houses, offices, factories, shops, schools, hotels, soccer pitches, parking lots etc., the number and types of buildings to be constructed, the trading process for buildings and land a.o.

The real estate property transactions distinguish themselves by the fact they are not carried on one market only. We could say the real estate market manifests itself as two different markets: the market for physical spaces and the market of financial assets.

From various reasons, the property buyers and sellers interact in various areas, aiming at various types of real estate properties. Thus, real estate markets can be divided into categories according to the differences between properties and their attractiveness for various participants on the market. The markets for various categories of real estate properties are also divided into submarkets, the latter being established according to the preferences of buyers and sellers.

3. Characteristics of the real estate market

Unlike other markets of goods and services that are more efficient, the real estate markets have different characteristics. The efficiency of a market is based on the behaviour of both buyers and sellers, as well as on the characteristics of the traded products. Within such a market (an efficient market) both goods and services are homogeneous, that is they may be immediately interchanged.

The Efficient market has the following characteristics:

- The existence of a great number of buyers and sellers – thus, a free and competitive market is created, and at the same time, none of the participants are likely to have a market share high enough to directly influence the price.

Within real estate markets, few buyers and sellers can act on a certain price range but also on a restricted location. The high value of real estate properties demands for a great purchasing power. Therefore, the real estate markets are extremely sensitive to certain factors, such as: changes in wages, income stability and the number of available jobs.

- Prices are relatively uniform, stable and low – in most cases these are major criteria in taking a buying or selling decision.

Prices are relatively high on the real estate markets and the buying decisions are influenced by the type of finance offered, the amount of credit that could be obtained, interests on loan, advance payment, repayment period.

- Self-regulation – at present there are not many government restrictions that could influence free and open competition.

Real estate transactions are influenced by the presence of several government and local regulations, because real estate markets are not self-regulating.

- Supply and demand are never out of balance – through the effects of competition, the market tends towards equilibrium.

The supply and demand of real estate properties also tend towards equilibrium, but it is not achieved, as there is always a gap between them.

- The buyers and sellers are fully informed – any piece of information about the market, its activity, auctions, offers and sales is available on the spot.

Buyers and sellers are not so well informed, as they do not buy or sell frequently. As well, the information on the prices of certain real estate is not available immediately, for various reasons.

- Organized market mechanism – it is easy for the sellers to enter the market as an answer to the evolution of the demand.

Because of rapid changes in the size and structure of population, the demand on real estate markets may be volatile.

- Goods are ready for consumption, delivered immediately and easy to carry.

The real estate property is represented by product which has a long life, as well as a great value, but also a low degree of liquidity. This is not easily sold, as it involves great amounts of money and the funding cannot be obtained immediately.

Therefore, *the real estate markets are not efficient***,** because there is no product standardization, and no necessary time for its production. It is difficult to predict the behavior of such

[63] Mihailescu Madalina-Elena, Can a national secretary working for a public institution, subordinate to the Romanian Government, be considered a civil servant? Revista de Studii Juridice, Iasi, Edit Lumen, nr. 3-4/2014, an IX.

markets. In this case, the appraisers must concentrate their attention on the motivation, the attitudes and the interaction of the participants in the market.

Assuming that it is only a strictly literal interpretation of the term 'position', a fundamental law principle tells us that any ambiguous clause leading to the interpretation of an act or a contract shall be construed in favor (and not at the expense of A.N.) of the one it refers to, this is why we believe that, here, the meaning of position must be interpreted as submitted by Law no. 188/1999.[64]

Real estate markets are different, being created by certain necessities, desires, motivations, location and age of the participants on the market, but also by the property type, location, design and urban restrictions.

Thus, there are five types of real estate markets, each corresponding to a category of real estate property:

- residential (individual houses for one family and duplexes, blocks of flats, terraced houses)
- commercial (office and administrative buildings, shopping centers, hotels and motels, shops)
- industrial (factories, warehouses, research-development institute buildings)
- special (properties with a unique design or construction limiting the use only to its original purpose, for instance schools, public buildings, airports, conference halls, entertainment parks, golf courses, cemeteries, churches, etc.).

4. Analysis of the real estate market

At first sight, the principles used to analyze a real estate market may seem simple, but both techniques and procedures applied by the analysts may be extremely complex.

In conducting a thorough analysis of the fundamental demand prediction, an appraiser must obtain and order comprehensive data, and to apply a correct logic for the prognosis. In order to elaborate a prognosis of the fundamental demand, the appraiser must take into account the perceptions of the participants in the market and evaluate to what extent the current tendencies shall continue in the future.

The analysts examine specific data from the market. Population, labor use, as well as incomes are used as indicators of the demand in a certain area.

Also, data referring to the available space at present, areas under construction or first-draft stage are indicators of a competitive offer. On comparing the demand to the competitive offer the present situation shall be identified, and the prospect of balance or unbalance.

After they have analyzed the offer and demand, the appraisers must study the probable alternative uses and estimate the values associated to this use. They take into account the physical, legal and location characteristics of the analyzed property and finally reach a conclusion regarding its best use.

In establishing a specific real estate market, the appraiser examines certain factors such as:

1. The type of property (residential, commercial, office);
2. Characteristics of the property, such as:

a. occupancy (one or several tenants);
b. customer base – the most likely users;
c. quality of the construction (type of building);
d. project. and improvements.

1. Area of the market – geographically defined (a market may be local, regional, national or international, urban or rural, may correspond to a certain neighborhood or vicinity in a town);
2. Available similar properties/ comparables (equally attractive properties, in competition with those analyzed within the market area);
3. Additional properties (other properties or types of real estate properties that are additional to what has been analyzed).

Thus, the market segment includes the analyzed real estate property as well as the competitive and additional real estate properties.

5. Principles of assessment

The market determines the price of properties. The prices are the result of negotiations between buyers and sellers. Buyers represent the market demand, while the properties offered for

[64] Mihailescu Madalina-Elena, Can a national secretary working for a public institution, subordinate to the Romanian Government, be considered a civil servant? Revista de Studii Juridice, Iasi, Edit Lumen, nr. 3-4/2014, an IX

selling represent the offer. When the demand for a certain type of property is high, the prices tend to rise otherwise the prices tend to fall. In order to estimate de demand, the appraisers must take into account the number of potential users of a certain type of real estate property, their purchasing power, their tastes and preferences. On analyzing an offer, the appraisers shall consider as unsold or free the existing properties, as well as the properties under construction, transformation or those which are to be built. The changes that may occur in these elements can determine the variation of prices of the assessed property or the comparables.[65]

Used in the market approach, the principle of substitution indicates that the value of a property tends to be given by the potential price for the purchasing of a similar property, in terms of utility and attractiveness. This principle implies that the accuracy of the market approach may be diminished if there are no substitution properties within the market.

The offer and demand always tend towards equilibrium on the market, but, absolute equilibrium is not achieved, but it is in a permanent change. Due to changes of demography, of purchasing power, as well as of consumers' tastes and preferences, the demand varies a lot throughout time. The appraisers must track the market imbalance, but also the property imbalance, as they could force the market to impose different prices for other comparable properties.

6. The procedure and techniques used by the market approach

The stages of the basic procedure in applying the market approach are the following:

1. Market research – to get information about transactions of real estate properties that are comparable to the assessed property;
2. Checking information – the confirmation that the data obtained reflect reality and the transactions were objective;
3. Choosing relevant criteria to compare and elaborate a comparative analysis on each criterion;
4. Comparing the comparable properties to the assessed one – by using elements of comparison;
5. Analysis of the results of the assessment and the choice of an indication on the definite value or a range of values.

The selling prices of the comparable properties reflect several factors that influence more or less the value of the assessed property. In order to determine the relative influence of these factors, qualitative and quantitative techniques are used.

1. Quantitative techniques:

- analysis of data pairs,
- analysis of secondary data,
- statistical analysis,
- cost analysis.

2. Qualitative techniques:

- analysis of relative comparisons,
- analysis of tendencies,
- ranking analysis,
- personal interviews.

The main comparison elements that must be considered in the market approach are the following:

1. Property rights conveyance
2. Funding conditions – cash equivalents
3. Selling conditions – reflect the motivation of the participants in the transaction
4. Necessary expenses right after the purchase
5. Market conditions
6. Location
7. Physical characteristics
8. Economic characteristics
9. Utility (the right to access water, legislation, flood prone areas, etc.)

[65] Grosman M., Evaluarea rezultatelor activităii dec marketing în baza implimentării sistemului de indicatori manageriali, Revista „Studii economice", ULIM, nr. 3-4 decembrie 2012

10. Components of value of non-real estate importance (for instance the Goodwill, movables, franchises, trademarks).

7. Case Study

We present the assessment of piece of land located within city limits in Galati, with a 2,000.00 sqm, with road access and utlilities (power, water on site and gas to the gate) determining the market value by the method of direct comparison.

Table no. 7 Determining the market value

Comparing elements	Topic	Comparable 1	Comparable 2	Comparable 3
Ad/date		Natural person	Natural person	Natural person
		February 2010	February 2010	February 2010
Selling price (euro/sqm)	?	45	45	45
Conveyed property right	CPR	CPR	CPR	CPR
Correction		0.00%	0.00%	0.00%
Corrected price	?	45	45	45
Funding conditions	On the market	On the market	On the market	On the market
Correction		0.00%	0.00%	0.00%
Corrected price	?	45	45	45
Selling conditions	normal	normal	normal	normal
Correction		-5.00%	-5.00%	-5.00%
Corrected price	?	43	43	43
Market conditions	Balancing trend	Balancing trend	Balancing trend	Balancing trend
Correction		0.00%	0.00%	0.00%
Corrected price	?	43	43	43
Location	Belt highway	Belt highway Opposite St. Lazar cemetery	Belt highway Opposite St. Lazar cemetery	Belt highway behind Golden Platin
Correction		0.00%	0.00%	0.00%
Corrected price	?	43	43	43
Transport ways	Asphalt road	Asphalt road	Not managed road	Not managed road
Correction		0.00%	10.00%	10.00%
Corrected price		43	47	47
Land surface - sqm	2,000	1,700	900	3,450
Correction		0.00%	0.00%	10.00%
Corrected price	?	43	47	52
Vicinities	St. Lazar cemetery companies	Opposite St. Lazar cemetery companies	Free areas companies	Free areas companies
Correction		0.00%	0.00%	0.00%
Corrected price	?	43	47	52
Utilities	Power inside water, gas at the gate	power, water, Gas at the gate	power, water, Gas at 100 m	Power inside water, gas at the gate
Correction		2.57%	6.21%	1.50%
Corrected price	?	44	50	53
Front/Depth ratio	favorable	unfavorable	extremely favorable	extremely favorable
Correction		5.00%	-5.00%	-5.00%
Corrected price	?	46	47	50
Shape of the land	regular	regular	regular	regular

Comparing elements	Topic	Comparable 1	Comparable 2	Comparable 3
Correction		0%	0%	0%
Corrected price		**46**	47	50
Total corrections		5.54	11.94	14.63
		0.12	0.27	0.33
Estimated value EURO	**92,082**			
Exchange rate	4.1049			
Expected value LEI	**377,988**			

Comparable 1: belt highway, opposite St. Lazăr cemetery, 1.700 sqm, open 15 m, all utilities at the gate, 45 EURO/sqm, negotiable.

Comparable 2: belt highway, opposite St. Lazăr cemetery, 900 mp, two openings, all utilities at 100 m, the access road not managed, 45 EURO/sqm negotiable.

Comparable 3: belt high way, behind Golden Platin, 3,450 sqm, opening of 45,00 m, power inside, water and gas at the gate, access road not managed, 45 EURO/ sqm negotiable.

Corrections shall be applied for:

Selling conditions

Transport possibilities

Land surface

Utilities

Front/depth ratio, the appraiser considered the following:

- 5% approximated the negotiation margin on the market
- 10% for the quality of ways of transport
- 10% larger surfaces more difficult to sell
- according to the public utilities (electricity, water, gas) and technical possibilities of the area, the corrections were applied
- -5%; 5% for land dimensions and proportions.

8. Conclusions

In order to obtain an estimation of the market value, the appraiser must identify and analyze at the same time the markets or market which influence the assessed real estate property.

The market analysis is the process of identifying and studying the market of a certain good or service. The appraisers use market analysis so as to be able to determine if there is conformity with an existing property, or if there are the prerequisites for a future market conformation.

The market approach is also known in the field of real estate property as *direct comparison*. This is the procedure through which the market value of the assessed property is obtained by comparing it to similar properties identified on the market after it has been previously analyzed.

The comparative analysis within the market approach is based on the similarities and differences between properties and the transactions that influence value.

The comparative analysis techniques used by the market approach are extremely important in the assessment process. Most of the times, elements such as estimations of rent, costs, depreciations and other value parameters are analyzed in the market approach in order to identify corrections that must be applied on selling prices of comparable properties.

References

1. *Bleoju G., Capatana A., Collaborative innovation through adjusting strategic intelligence capabilities on software market, Network Intelligence Studies, 2014;*
2. *Bleoju G., Capatana A., The specific valorisation of competitive intelligence profiling on the software industry, The Proceedings of the 15th European Conference on Knowledge Management - ECKM 2014;*
3. *Constantin Pestișanu, Cristina Burlacu, Corneliu Șchiopu, Construcții, clădiri și alte construcții inginerești, Colectia Biblioteca ANEVAR;*
4. *Corneliu Șchiopu, Constructii – Sisteme și subsisteme constructive, IROVAL București 2012;*
5. *Corneliu Șchiopu, Costuri de reconstrucție – costuri de înlocuire. Clădiri cu structuri pe cadre, anexe gospodărești, structuri mixte și construcții speciale, IROVAL București 2014;*
6. *Jianu I., Evaluarea, prezentarea și analiza performanței întreprinderii - O abordare din prisma Standardelor Internaționale de Raportare Financiară, Editura CECCAR, București, 2007;*

7. *Grosman M., Evaluarea rezultatelor activitătii dec marketing în baza implimentării sistemului de indicatori manageriali, Revista „Studii economice", ULIM, nr. 3-4 decembrie 2012*
8. *Iancu D., Managerial leadership from the perspective of environment organizational sports, international conference of scientific paper afases 2012 Brasov, 24-26 May 2012;*
9. *Iancu D., Educational management, a new paradigm in social development, international conference of scientific paper afases 2012 Brasov, 24-26 May 2012;*
10. *Isai V., Aspects regarding the accounting of reexport and lohn operations, The Annals of Dunarea de Jos University. Fascicle I. Economics and Applied Informatics, 2004, ISSN 1584-0409*
11. *Isai V., Particularities of the managerial accounting in the companies of import and export, The Annals of Dunarea de Jos University. Fascicle I. Economics and Applied Informatics, 2003, ISSN 1584-0409*
12. *Isai V., Radu R.I., Rusu R., The biological assets and the crop production – acknowledgement and evaluation possibilities in the agricultural holdings accountancy from Romania, 23rd IBIMA Conference, Valencia, Spain, 2014.*
13. *Militaru Ghe., Managementul producției și al operațiunilor, Editura All, 2008;*
14. *Mihăilescu M.E., Sanctiuni contraventionale, Aspecte de drept material în dreptul românesc și comparat, unic autor, Editura Hamangiu, București, România, 2013, ISBN 978-606-678-666-9;*
15. *Mihăilescu M.E., Câteva considerații pe marginea sancțiunii contravenționale a desființării lucrărilor și aducerii lucrărilor în faza inițială", "Curierul judiciar" nr. 3/ 2011, ISSN 1582-7526, Edit ALL Beck.*
16. *Mihailescu M.E., Can a national secretary working for a public institution, subordinate to the Romanian Government, be considered a civil servant? Revista de Studii Juridice, Iasi, Edit Lumen, nr. 3-4/2014, an IX, revista recunoscuta in baza de date internationale (BDI, CEEOL)*
17. *Nicolescu O., Verboncu I., Metodologii manageriale, Editia nouă, Editura Universitară, București, 2008;*
18. *Petrescu S., Analiză și diagnostic financiar-contabil. Ghid teoretico-aplicativ, Editia a III-a, revizuită și actualizată, Editura CECCAR, București, 2010;*