

Romanian real estate field - investments and responsibility

Popa Ana, Mitu Narcis Eduard

Faculty of Economy and Business Administration,

University of Craiova, Romania

e-mail: anapopa2005@yahoo.com e-mail: narcised@yahoo.com

Abstract

The real estate field has become one of the fastest growing investment sectors at national and global level as well. This article analyzed the Romanian real estate market which represents an emergent market. Romanian real estate investments brought high revenues to the investors, but in the same time, it was not registered, in the same proportion, a coupling to the real estate's trends in order to generate positive influences at the local and macroeconomic level. The real estate market is under the effects of the speculation and under the responsibility of the authorities, because the habitat area problem has generated a strong pressure. If compared with other European developing countries, the Romanian real estate field isn't organized like a real estate industry. Taking into consideration the tendency of transactions increasing and, especially, rapid growth of the prices, it must be underlined the gathering of specific risk for cyclic evolutions of the real market. This paper generally argues the relation between the investors' target to increase faster and higher their fortune, on one hand, and the numerous economic, financial, social, ecological, political influences, on the other hand. The research methodology takes into consideration also the empirical issues (Kiyosaki R.T., 2007) and the rigorous theoretical analysis (Reed J.T., 2005).

Keywords: Romania, real estate, market, investments, responsibility.

Introduction

Before the Second World War, Romania had a similar practice to all European states regarding the transactions on real estate.

After 1947, the real estate market decreased to unimportant levels, especially after the process of nationalization from industry, trade, building, properties. Practically, almost 40 years, till 1989, the real estate referred only to few transaction of residential buildings (but without the afferent lands, which were considered state property) and very few changes of property concerning the agriculture lands from unco-operativized areas, without any kind of evaluations or negotiations, therefore without any market rules. The statistics regarding this period can hardly be reconstituted.

An authentic real estate market reappeared and truly developed after 1990, but it must be mentioned that the transactions overrun the rhythm of legal settlements. Even nowadays it is continued the improvement of the legal frame, through a series of settlements regarding the reconstruction of the property ownership, the plans of local urbanism, the buildings authorization, taxation, inclusively the settlement of real estate property evaluations following the best

European and international practices (Popa A. and Giurcã Vasilescu L., 2005).

This paper analyzed a new vision about the real estate field, named that a real estate industry. In Europe the real estate field it is organized more like a real estate industry (Real Value in Europe, 2005). Additionally, in the developed countries, the last three decades have been characterized by fast changes regarding the economic, political, social and environmental fields. For Romania, it is essential to gain a vision of society in the future, and in this analysis, the real estate problems are a very important issue.

The analysis of the Romanian real estate field follows the same European trends for real estate industry as including four main components: construction, investment, real estate financing and real estate services.

Romanian real estate financing and services have not yet a performance if compared with other European developing countries.

Another problem, the Romanian real estate market is under the effects of the speculation and under the responsibility of the authorities.

1. A new role of the real estate

1.1. The real estate field, the property investment and development decisions

The last three decades have been characterized by accelerated change spurred on by following **economic, political and social problems** (King Sturge, European Real Estate Scenario):

- the globalization process;
- the opening-up of the markets, through deregulation, privatization and liberalization;
- the emergence of new technologies;
- the growth of financial markets;
- more recently, the enlargement of the European Union.

From the economic point of view, the markets globalization and business operations of capital and investment flows, hyper-competition and rapid technological progress, have a great impact on the international labor - increasing job flexibility and precariousness, skills obsolescence and unemployment - with important effects on the lifestyles and the social conditions.

Once the most significant forces likely to shape the nature and condition of society in the future have been identified, a number of issues and trends must be considered that affect the shape of the world in which **property investment and development decisions** can be made.

1. Land is a scarce resource and a strategic asset for mankind and it is gaining increasing value.

2. In the same time, the **habitat area** has many problems. Many percent of the forest and agricultural area converted to homes and businesses places after 1990.

3. The last time, there is a new pressure: the civilization is face to face with the biggest problem - **the climate change**.

The main question concern the world leaders: will sustainable development fade from the political agenda or will there be a move to reconcilable long-term development with environmental goals? United Nations tried to response to these questions. Starting with 1976, the United Nation elaborated a strategy vision coordinated by the United Nation Human Settlements Programme, for short UN-HABITAT. This strategic vision has been further refined, giving more attention to the knowledge management, the financing of housing and human settlements and, particularly, to strategic partnerships (UN-HABITAT annual report 2005).

All the real estate activities actors meet in that environment (Davey K.J., 1993):

- those who develop new areas and regenerate old areas (from industrial land to ports;
- those who build;
- those who sell;
- those who finance;
- those who manage;
- those who enhance the return of real estate.

In this order, one needs to consider the field of real estate not only the more traditional and core activities of development, construction, sale and maintenance of property, but also a number of collateral and more recently developed activities like financing of real estate development, property management and real estate consulting, at the national and international level.

1.2. The real estate industry in Romania

The real estate industry is defined as including four main components: construction, investment, real estate financing and real estate services; the real estate services include: development, property management, advisory (consulting and valuation) and intermediation.

More precisely, from the economic point of view, the real estate industry can be defined as the whole series of services and activities that add value to property and land (Real Value in Europe, 2005).

Clearly, data on Gross Value Added and the employment show the size and growth of the construction and the real estate services for the developing countries.

Separately, the investment activity is measured in terms of total value for property acquisitions in a given year and the total value of property holdings by investors clearly distinguishing it from the value of owner occupied property.

Actually, regarding the Romanian real estate field, the analysis show:

- the integration in the European Union of Romania and the process of large economic opening put a series of problems regarding the specific terminology of real estate segments and mechanisms;

-on the Romanian real estate market, selling and purchase transactions take place, but, based on the real estate property, different transactions and contracts have appeared, starting with the real estate property made through investment and construction activities, and through selling and purchase, rental mortgage, refinancing, insurance, and leasing contracts along with the existence of the property;

-sellers and buyers are the main players of the real estate market transactions, but besides them, there are many other participants: real estate agents, evaluators, investors, consultants, lawyers, entrepreneurs, banking institutions, insurance companies, leasing companies, local and national authorities; each of them has definitely a certain part, which is hard to define as long there are a lot of interferences and appeals among the players on the real estate market.

The analysis of the Romanian real estate industry follows the same European trends.

I. Construction: the number of small construction companies is accelerant increasing and the number of employees is important of the labor market.

II. Investment is by individuals, private and public companies, institutions and real estate investment vehicles and the real estate investment market has registered considerable expansion since 1990.

III. Real estate finance has developed many activities like residential mortgage lending to families, debt finance and equity finance to investors and developers. Also many banks have a role in asset management activity, fund management, life insurance and development financiers.

IV. Romanina real estate services have not registered a performance yet - if it is compared with other European developing countries. In these countries the real estate services have a remarkable performance if this is compared with other sectors (agriculture, manufacturing, public sector). Concretely, Romania needs more competences about:

- *development* - it compasses all the activities from the purchase of a plot of land, to marketing of the finished buildings; the developer's business is to co-ordinate various activities: feasibility studies, demolition and sire clearance where required, engineering project, construction and marketing;
- *property management* includes: ordinary maintenance works, which consist of those small repairs needed to maintain property in good condition; administration of the property as an economic asset (cleaning, collection of rents, taxation, security etc.). In recent years, specialized real estate asset management has developed; the purpose of asset management is to maximize the economic performance of an individual property or of a property portfolio in order to provide the highest return to the property investor.
- *advisory, consulting and valuation* represent other important activities and they have become more international;
- *intermediation* includes the brokers or agents and the clients could give to them a mandate to acquire or sell the property; these agents advise on market conditions, negotiate the deal, market the property and ensure the successful completion of the deal.

From another point of view, we consider that in Romania, the real estate industry is at the beginning and has some specific features:

- the Romanian real estate market had and still has supplementary risks, in comparison with other countries, because it is confronted with relative quick changes necessary for the improvement of the legal frame, through a series of reglementation regarding: the land, the reconstruction of the property right, the local urbanism plans, the construction authorization, the taxes, including the reglementation of the real estate properties evaluation along with the best European and International proceedings;
- in the last years, it is noticed an obvious implication of the authorities for tax legislation and for creation the real estate institutions, after a period of *wild* transactions;
- in Romania it was not reached the perception of the real estate importance and of the real estate market transactions, from the population view, from the community and the authorities view, as well from the education view;
- investment and financing activities have been characterized by accelerated change and volatility; but, on the background of the general economic improvement, the main Romanian banks manifested in the last years their interest for the development of the mortgage market;
- property management is a new and free field for many real estate categories and for authorities,
- intermediation has many problems; the real estate agents have registered a birth rate as high as the death rate; in the same time, many agents have not a specialized background;
- the houses market represents the most developed and regulated segment of the Romanian real estate market; in the same time, the problems of houses have very complex correlations, have numerous social, economic, juridical, political, ecological, national aspects.

2. The investments and the responsibility on the Romanian real estate field

2. 1. The real estate market analysis in Romania

The real estate market is a very important market in the developed states, taking into consideration the fact that the real property is an essential part of the wealth (Brown G.R., 2000).

Nowadays, the Romanian real estate market refers to the following categories:

- lands;
- residential buildings (individual houses, block of flat apartments);
- non residential buildings (retail and wholesale buildings, offices, hotels);
- industrial buildings and warehouses;
- agricultures assets (farmsteads, orchards, pastures, forests);
- special or rarely traded (properties with unique design or those with pre-established utilization in the initial aim: schools, public

buildings, airports, conference halls, entertainment parks, golf courses, graveyards, prayers houses etc).

For Romania, the dominant tradition of real estate and property research has been empiricist and retrospective.

Many aspects seem to confirm the idea of the real estate <guru> that the real estate is tens and hundreds of times better than other investments (Kiyosaki, 2005). For example, after 8 months from the Romania's integration to the EU, the dwellings are with 10-15% more expensive than their prices at the end of the last year. The increase of the prices will continue because the offer will be overtaken by the demand. While in the Western European countries, most advantageous net profit is 7.5%- 8%, in Romania the percent rises till 13%-14%. The real estate investors from the period 1990-2000 got a profit higher than 25%-30%, the gain being determined by the increase of the real estate prices. At present, it results that an investment could be recovered from the rent for 7-8 years (Colliers, 2007).

But in the same time, from the point of view of the rigorous theoretical world analysis, considerable effort has been done in analyzing time series data, and performing ever more elaborate calculations, in order to guide current decision-making. Much of the work is derived from other financial markets, and though of improving quality as a comparative and reflective exercise, it can easily overlook many deeper questions, especially those about the future (Ratcliffe John, 2005).

Because the Romanian real estate evolutions on the period 1990-2007 overrun the rhythm of legal settlements, the statistics and the models regarding this field can hardly be applied.

Theoretically, the researchers base their forecast on five main structural trends taking place in every country: Population Demographics; Future of Family; Employment Mobility; Population Migration; Investment Opportunity.

In Romania, if they are compared with other European countries, the trends are the same (Colliers 2007):

- In 2050, is estimated a demographic decrease of 19.11 percent in comparison with 2000 and the population with the age over 60 year will represent 34.2 percent from total population, in comparison with 18.8 percent in 2000. But it is also increasing the demand for second homes by this group.
- An increase in those wishing to live alone and many young adults seeking to move out of the family home as quickly as possible to share with friends. That it will continue to push the demand for more homes.
- Employment Mobility is also driving the demand for second homes.
- Population Migration: about 2 millions Romanian people work in EU area and they want a dwelling at their work place but continue to own dwellings in Romania despite the fact that there is a demand for new dwellings, as a real estate investment from their foreign revenues.
- The buy-to-let market in Romania: better returns and capital gains are still providing good investment opportunities.

Result: The increase of the prices will continue because the offer will be overtaken by the demand and the Romanian real estate market will have many investment opportunities.

Actually, the real estate market from Romania registers many aspects and tendencies (IROVAL,2005):

- the existence (in 2004) of 8,1 millions locative units, the majority of them being in the private property (over 90%), but for 10,6% of these spaces we can talk about "crowded living" in the sense that in the same room live more than 2 persons;
- there is a segment of population which migrate from the block of flats apartments (which will be sold) to the modest houses;
- it appeared and increased a market of new constructions of "one family" houses, with yards and others fittings out (garages, pools, gardens), with prices around 1500 Euro per square meter;
- it appeared and increased a market of non residential buildings, especially retail and wholesale buildings and offices; because the house inventory increased, we can observe a reduction in rent prices to 12% for 2008, in Bucharest this number representing around 16-18 euro per square meter.
- the number and the value of the land transactions, some of them being true business with lands increased, too; the resale of the lands can be achieved 100-300% profits, in one and half year; the price was in 2006 around 1000 euro per hectare;
- the volume of mortgages is increasing in Romania; although it represents just 1% from the GDP, this has great potential, taking higher even in the new emerging states (8% in Poland) and much higher in the European Union (over 40%), while in US it was 79% in 2002;
- the information (publicity information from the real estate agents, mass media information) from the all of the real estates types shows a clear tendency of quick growth prices (on average, the increase is yearly 10%), with pro and against arguments.

The real estate market modernized and expanded alongside with all the other segments of modern markets, thus it is permanently checked and analyzed on many levels: local, regional, national, and even international (Reed John, 2007).

2.2. The risks behind the real estate boom

If we observe various macroeconomic variables in a pre-boom, boom and post-boom phase (Detken C., Smets F., 2003), the evolutions of the Romanian real estate market drive toward the conclusion that this is found at the boundary among the phase of pre boom and boom, taking into consideration the trend of increasing transactions and, especially, the rapid growth of the prices. It must be underlined the gathering of specific risk for cyclic evolutions of the real market.

The analyses based on the urban real estate market, especially the one from Bucharest, show a boom in the residential area, supported by the mortgages increase (www.bnro.ro).

The transactions with lands are, afterwards, affected by the transition state of the economy and by the unclear juridical situation of many areas included in the land found of Romania.

The out of town land which is not bought with the purpose of getting an agricultural production, tends to an increasing evaluation. A representative of Agriculture Ministry appreciate that only 20-30% from the buyers use it for agriculture, so the remainder ones buy lands around the towns and resorts in order to get them to the towns' lands.

These grounds are designed for residential building; even some of the investors take into consideration the no-agriculture or tourism constructions.

The conclusion is that the land price has a quick growth tendency.

Although it doesn't exists an institution to check and to present officially the evolutions of the real estate market at the national level and on diverse local markets, the real estate specialists and some Romanian officials underline the numerous risks of the Romanian market, as follows:

- an atypical evolution in a transition period, with stabilized transactions at a low level, in comparison with Europe, but with a high price increase and without any relation between the general development level and the standing level of the n prices and without a relation between the developmental general level or the standing level of houses and the market value; with other words, there is an unnatural report low quality - high price;
- the price was increasing under the influence of the money market; first, the sellers have changed the valuation from DM -German mark- to US dollar, after 2003 from dollar to Euro, when the unique currency has an appreciation against dollar, and finally to RON (new Romanian money), especially when this currency had an appreciation against Euro;
- a such increase defied the fact that the principal indicators of the market are the report of force between market supply and demand and the financing capacity, but these indicators didn't modified essentially to justify the prices increase;
- the manifestation of a demand increase underlined by a lack of a supply for new constructions and especially by a lack of a true mortgage market in the first years of transition, so a change of the force report on the real estate market could get to a such demand increase of the demand, so we can appreciate that it was got to the "seller market" stage, when the sellers establish the prices and the sales.
- the disorder created through the incontrollable appearance of a very high number of real estate agents, many of them without any training in this field, which started the un loyal competition, so the same property appears in the offer of many real estate agents, thus affecting the market information;
- the lack of a publicity and transparency on the transactions and on the real prices for different local markets.

3. Conclusions

The evolution from the Romanian real field is an atypical evolution period in a transition period, with many legislative or practice gaps and without any relationship between the real estate world theory and national practice.

First, Romanian people and authorities need to find out much more about housing, land and property in the public and private sectors. At same time, more and more is vital for Romania to practice and get experience on the new real estate industry. Additionally, the integration in the European Union and the process of wide economic opening put a series of problems regarding the relation between the Romanian property and the global real estate industry.

The experience of the Romanian market shows that there are only few beginning signs in legislation regarding the necessity of training and certifying the competences of acting generally on the real estate field and especially on the real estate industry.

Romania will need especially to have a real estate society with the mission to encourage communication, co-operation, and co-ordination regarding real estate research and education based on a world-wide family real estate societies (the International Real Estate Society - IRES, the European Real Estate Society - ERES, the American Real Estate Society, the Pacific Rim Real Estate Society, the Asian Real Estate Society, the African Real Estate Society, the Latin American Real Estate Society and the newly emerging Middle Eastern Real Estate Society and others national institutions).

The accumulation of some specific risks regarding the cyclical evolutions of the real estate market is very important (Case K.E., Shiller R.J., 2004). The European Central Bank analyzed the recent problems from the US real estate market in order to identify the eventual influences on the European market. (www.ecb.int).

The solution is in the responsibility of the all of real estate field actors. More precisely, the problems which have caused the modifications in the Romanian real estate market include:

- emergency of a specialized education, because the education is perhaps the most important aspect in the process of raising professional standards and competence;
- growth in the number specialized exhibitions; proliferation of the professional bodies which could contribute to the raise of the professionalism level;
- a new role for our home and habitat areas;
- the answer to the question regarding how should the property community prepare itself to face a future of uncertainty and complexity.

References

- Brown G.R., 2000, Real Estate Investment-A capital Market Approach, FT Prentice Hall, EPI.
- Case K.E., Shiller R.J., 2004, Is there a bubble in the housing market?, Cowles Foundation paper nr.1089, New Haven, Connecticut.
- Detken C., Smets F., 2003, Asset price boom and monetary policy, <http://www.hnb.hr/dub-konf/10-konferencija-radovi/detken>, 6-65
- Davey K.J.,1993, Elements of Urban Management, The International Bank for Reconstruction and Development/The World Bank, Washington DC.
- Fama, E. F. and K. R. French, 1998, Value Versus Growth: The International Evidence. Journal of Finance.
- Kiyosaki R.T., 2007, Tata bogat, tata sarac, Educatie financiara in familie (the original title - Rich Dad, Poor Dad, 1998), Editura Curtea Veche, Bucuresti, 120-143.

- Kiyosaki R.T., 2005, Real Estate Riches, Editura Curtea Veche, Bucuresti.
- Popa A. and Giurcã Vasilescu L., 2005, Romanian real estate and mortgage market, Real Estate Research and Education, Conference to Metropolitan Research Institute, Budapest, February 18-25,2005 (<http://www.mri.hu/WSrere.htm>)
- Ratcliffe John, 2005, Scenario Building: A suitable method for startegic property plannning, <http://www.dit.ie/DIT/built/futuresacademy/>
- Reed J.T., 2007, Reed on real estate investment information <http://www.johntreed.com/rateseminars.html>
- * * * Colliers 2007- stiri si articole publicate pe Wall-Street, 2007. <http://firme.wall-street.ro/informatii/1/Colliers.html>
- * * * King Sturge, European Real Estate Scenario: Nirvana or Nemesis, <http://www.dit.ie/DIT/built/futuresacademy/publications/docs/European-Real-Estate-Scenarios.pdf>,1-42
- * * * Joint Center for Housing Studies, 2003, The State of the Nation's Housing Market, Cambridge, Mass: Harvard University.
- * * * IROVAL,2005,Institutul Român de Cercetări în Evaluare, Evaluarea proprietății imobiliare, Colecția Biblioteca ANEVAR, București.
- * * * Real Value in Europe,2005, European Real Estate Industry, Report 2005, Scenari Immobiliari, Instituto Independente di studii et ricerche, <http://www.odx.it/ENPublic/>
- * * * UN-HABITAT annual report 2005, Responding to the challenges of an urbanizing, http://ww2.unhabitat.org/documents/UN-HABITAT_AR_2005.pdf
- * * * <http://www.bnro.ro>-Banca Natioala a Romaniei-communicate de presa.

Ana POPA: professor University of Craiova, Faculty of Economy and Business Administration, Department of Finance, PhD (Academia de Studii Economice Bucharest, Department of Economy). She is author of many books and articles in Romanian and English on investment, financial management. Research interests: economic and financial investments, foreign direct investments, SMEs, real estate, valuation of the investment projects, regional development, globalization, European integration. e-mail: anapopa2005@yahoo.com.

Narcis Eduard MITU Assist professor University of Craiova, Faculty of Economy and Business Administration, Department of Finance, PhD (University of Craiova, Department of Economy). He is author of many books and articles in Romanian and English on corporate finance and insurances. Research interests: corporate finances, insurances, financial management, regional development, globalization, European integration. e-mail: narcised@yahoo.com.