THE EVOLUTION OF REAL ESTATE MARKETS IN THE EUROPEAN COUNTRIES AND IN ROMANIA

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ABSTRACT
The instability in the Euro zone keeps in standby the investors' expectations regarding financing, constructions and sales on the real estate market. Despite all this, markets in every country behave differently and several of them have already shown positive signs for 2012. The real estate market in Romania is frozen due to the imbalance between the buyers' budgets and the high prices required by the sellers.
In fact, paradoxically, given the global economic and financial depression and the tightening of the loaning conditions, the owners of the apartments are more and more unabated in the negotiating process, or, moreover, they even significantly increased the prices during the past months.
This study undertakes to show the real estate market in 2012 in various European countries, with more emphasis on Romania, and to draw the forecast of 2013. In order to reach these goals, we will use a quality analysis method, the survey and data grouping and comparison respectively. The main outcome of the research will be shown at the end of the study under the chapter regarding results and discussions, meaning the conclusions for end of 2012 and the forecast for 2013 in European countries facing various stages of the economic depression.

KEYWORD: *real estate market, forecast, negotiation, transactions, capital market*

JEL CLASSIFICATION: *L83, O18, Q56, R11, M15*

1. INTRODUCTION

The instability in the Euro zone keeps in standby position the investors' expectations regarding financing, constructions and sales on the real estate market. Despite all this, markets in every country behave in a different way and several of them have already shown positive signs for 2012.
The indicator of investments in real estate assets developed by Ernst & Young at an European level underlines the great differences from one country to another between investors' attitudes, goals and priorities. Although approach differences between full-grown and emerging markets are natural (Robu et al., 2003), the present year astonishes us by extremely different perspectives of investors from countries like Germany, Sweden and Switzerland.

2. PRESENTATION OF EXPERTISE LITERATURE

The international expertise literature in the field of real estate markets is well represented. Appraisal Institute in the United States of America has recently published the book "The Appraisal of Real estate", 13th edition, which was translated into Romanian in 2011, "Appraising Residential

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Properties", 4th edition (2007), general studies regarding the real estate market. In 2010, UBC Real Estate Division publishes "Green Value: Valuing Sustainable Commercial Buildings" with applicability to a world confronting serious pollution problems. (Robu .& Anica-Popa, 2007). In Romanian expertise literature, it is known the publications edited under the direct supervision of ANEVAR (The National Association of Assessors in Romania), IROVAL - Romanian Institute for Research in Valuations and of specialists in the real estate markets field: S. Stan, D.P. Tiberiu, I. Bena, C. Panait, C. Schiopu etc. The studies of the Analysis and Evaluation team within Tthe Bucharest University of Economic Studies, presently coordinated by university teacher PhD. V. Robu and I. Anghel etc.

3. PRESENTATION OF THE RESEARCH METHODOLOGY

This study analyses the real estate market in 2012 in various European countries, with a main stress on Romania and the forecast for 2013. In order to reach these goals, we will use the quality analysis methods, the survey and data grouping and comparison respectively. The main results of the research will be shown at the end of this study, under the chapter regarding results and discussions, meaning the conclusions for end of 2012 and the forecast for 2013 in European countries facing various stages of over-coming the economic depression. The indicator of investments in the real estate assets is developed by Ernst & Young based on a survey taken in December 2011 together with Economist Intelligence Unit. The report released at the beginning of this year shows the expectations and opinions of 534 investors in the real estate sector from 12 (twelve) European countries (Germany, France, Luxembourg, Poland, Switzerland, UK, Spain, Netherlands, Russia, Austria, Sweden, Belgium).

4. RESULTS AND DISCUSSIONS

At the beginning of 2012, the forecast for the real estate market had the following coordinates as shown under Figure no. 1:

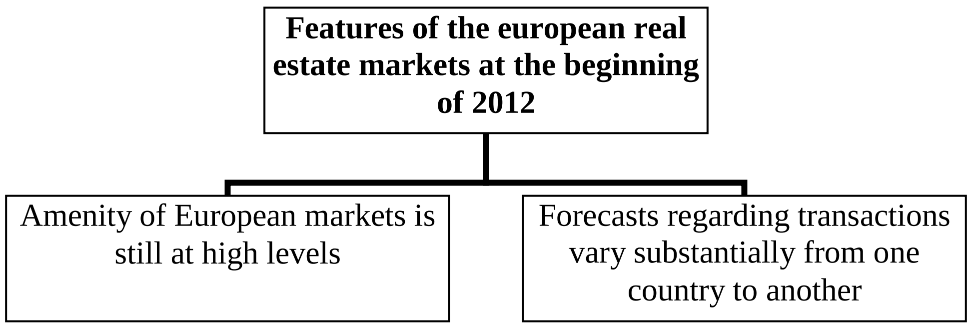

Figure 1. Features of the European real estate markets at the beginning of 2012
Source: adapted from Robu, (2007), p.136

Amenity of European markets is still high: over 90% of the investors interviewed in Germany, Sweden and Austria consider that their countries are attractive for real estate investments. In fact, the amenity of the real estate market is evaluated positively by the local investors in most of the 12 European countries taking part in the survey. However, we have to underline the fact that emerging markets, such as Russia and Poland, are quoted at high levels as far as investments amenity is concerned. Forecasts regarding transactions vary substantially from one country to another – investors' expectations seriously differ from one country to another (Robu et al., 2003). While 55% of the investors expect a recursion of the transaction volumes in Germany, France and Luxembourg, the situation is directly opposite in Belgium and Switzerland where 60% of the investors do not foresee encouraging evolutions in 2012. These substantial disparities between investors' perspectives demonstrate the considerable differences existing between markets in every country and the need to develop investment strategies on a local level, and not regional.

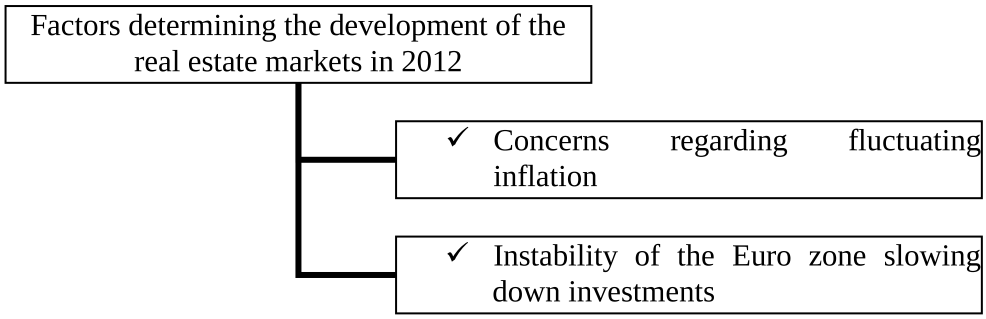

Figure 2. Factors determining the development of the real estate markets in 2012
Source: adapted from Pratt, S. (2008), p.138

Concerns regarding fluctuating inflation: about two thirds of the respondents agree that inflation pressure will influence investments in real estate assets (Stan et al., 2007). The main reason consists of investors' expectation regarding the updating of the prices for real estate assets to the inflation rate, which might stimulate demand and the investors' appetite. Instability in the Euro zone has slowed down investments: 72% of the interviewed investors estimate that the continuation of the debt crisis in the Euro zone will have a negative impact on the investments in real estate assets (Stan & Anghel, 2007). Although there are variations even in this case, the general opinion remains unchanged and difficulties in the Euro zone continue to be perceived as a discouraging factor.

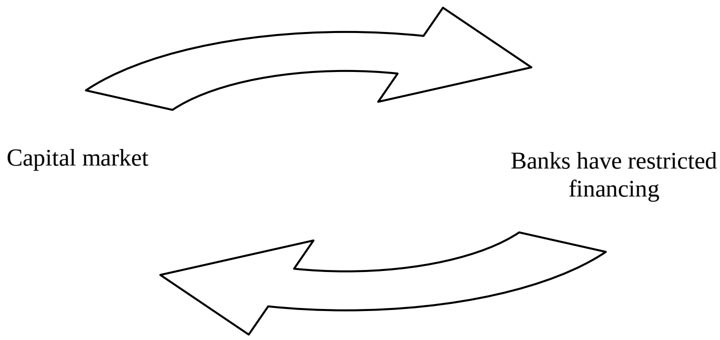

Figure no. 3. Investment financing on the real estate market
Source: adapted from Stan (2007), p.83

As far investment financing on the real estate market is concerned, special attention has been given to the capital market: 42% of the investors taking part in the Ernst & Young research were expecting capital markets to become more attractive for real estate investments in 2012. Still, disparities are sufficiently pronounced even in this direction; for instance, unlike 16% of the German investors, 60% of the Spanish investors have considered that the capital market will provide enough financing solutions for real estate assets.
Banks will restrict financing in certain situations: difficulties on the bank markets have resulted into abdication of giving loans for certain categories of assets, amongst which real estate assets as well.
Half of the respondents think that this trend will stretch all the way to the end of 2012 and even beginning of 2013, while banks will continue to reduce the loans on mortgage.

Where is Romania situated given the present context?
Given the depression that has affected the market during the past years, the number of new offices and production/storing locations has been limited in 2012. As per Business Monitor International and other market sources, this will be the year of starting new office building projects.
The average duration for finalizing such projects varies from 24 to 36 months. Yet, during this time, market will settle down as the slight increase in demand will absorb some of the available offer.
In Bucharest, there are expectations regarding the increase with 8% to 10% of rents for premium properties. Rents on other real estate sectors will remain unchanged or they will drop depending on the quality of the project and the dynamics between the existing offer and the demand that appears to be volatile.

Table 1 Evolution of rents and net capabilities in 2012 in Romania

	Evolution of rents in 2012	**Evolution of net capability in 2012**
Offices sector		
Bucharest	8-10%	5-7%
Braşov	0.015%	5-10%
Cluj-Napoca	3%	5-10%
Retail sector		
Bucharest	8-10%	5-7%
Braşov	2%	5-10%
Cluj-Napoca	3%	5-10%
Industrial sector		
Bucharest	8-10%	5-7%
Braşov	2%	5-10%
Cluj-Napoca	3%	5-10%

Source: adapted from Business Monitor International (2012), pg.5

While customers have been waiting for some time for a substantial drop down in price of the dwellings, more and more home owners hope that they will get fabulous amounts of money by selling dwellings in buildings from the 70's – 80'swhich has resulted into an average price increase of dwellings by 10-15% compared to the first part of the year. It is more and more often that home owners demand exaggerated amounts of money compared to the real value of dwellings.
On the other hand, the market is also full of opportunities, meaning cheaper apartments sold by owners in haste, due to the circumstances. However, these properties are quickly sold; these bargains are not easy to find so only customers working close with a professional real estate consultant may succeed in buying such a property.
As per Radu Zilisteanu, prices of old apartments in Romania have dropped down by a few percents, while the closure of the "Prima Casa" (First House) program will accentuate even more this decline. He estimates a correction of a few percentages of the prices for old apartments. If the "First House" (Prima Casa) project will come to an end, the number of transactions will diminish which will make the prices drop down even more, according to the specialist.
As far as the real estate market is concerned, variations of prices will have only "1 digit" in the near future, as it happened during the past three years. Lately, we got used to mild descending slope, of only a few percents. In comparison to 2011, 2012 has not been different as far as economic bases that influence prices on the real estate market are concerned, except for one single aspect, that is: the national bank has restricted the access to real estate loans on mortgage in foreign currency.
Taking into account that the real estate market is highly identified with foreign currency (prices are shown in Euro), and the fact that interests for Euro loans are still lower than the ones of the LEI loans, many people would be tempted to take loans in Euro, which results into a drop of the solvable demand in 2012 compared to 2011, the specialist says. According to the rules of the

National Bank of Romania, Romanian citizens that get their income in lei and wish to take a real estate loan in Euro currency will be forced to come up with a down payment of at least 25% of the property value.
Average prices required by owners for old apartments with three or four rooms have dropped while the value of studios and 2 rooms apartments remained the same, as per the monthly real estate monitoring report, anunturiparticulari.ro.
The average price requested by the owners for a studio has a constant value, therefore one can speak of a market freeze in this area during the first trimester of 2012.
A similar situation has been noticed in the sector of 2 rooms apartments where the level of the average prices is the same.
Differences between the last months of 2012 are only of a few hundred Euros, which set the average price of a 2 rooms apartment around the amount of 57,200 Euro. A year ago, owners of this type of apartment were requesting an average price of about 58,800 Euro, 3% more than nowadays.
Explanations of the negative trend of the real estate market in Romania during the second half of 2012.
The real estate market in Romania has kept on a negative trend from the second half of 2012 to today. The main reasons are:

- ✓ Economic environment remains turbulent both on a local and European level
- ✓ Banks in Romania do not have sufficient funds to finance many real estate loans
- ✓ Cash continues to be expensive
- ✓ Purchasing power continues to be weak
- ✓ Mentality and legal frame remain stable. (Stan, S.& Anghel, I., 2007)

5. **CONCLUSIONS**

The conclusions of the present study derive from the research made over the twelve European countries, well developed countries from an economic standpoint and over Romania, which stands as representative for countries that have been seriously affected by the economic depression over the 3-4 years.
Given the depression conditions, the most sensitive barometer is market itself generally speaking, which records all the negative aspects of the economic, social and political fields, similarly to the stock market.
The present study leads to the following conclusions:

- ✓ The factors that have influenced the evolution of the real estate markets in 2012 are: the fluctuating inflation and the instability in the Euro zone that has slowed down investments;
- ✓ The features of the European real estate markets at the beginning of 2012 are related on one hand to the amenity of the European markets which continues to be high and the forecasts regarding transactions vary substantially from one country to another;
- ✓ The financing of investments on the real estate market is influenced by the capital market and the banks that have restricted financing;
- ✓ In Romania, the real estate market in has stayed on a negative trend in the second half of 2012 due to the turbulent economic conditions, to banks not having enough financial resources to finance and the weak purchasing power.

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