

EVOLUTION OF THE REAL ESTATE MARKET BASED ON THE CONSTRUCTIONS CATEGORIES AND UNDER THE IMPACT OF COSTS

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ABSTRACT

In this paper we have proposed to do an analysis of the evolution of the real estate market in Romania, both in terms of building orientation classes, as well as the related price developments. Also, we will analyse the influence of constructions industry - on the real estate segment, the overall economic growth of the country. The information based on which have drawn the report are those offered by INS, articles, documentaries direct of the real estate construction market. The objective of the essay is to provide a source of information based on which companies in the real estate sector and developers of large residential complexes to use, certainly in the medium-term development strategies. At the same time, we want to emphasize social function in the real estate construction industry.

KEYWORDS: *strategy, real estate, developers, construction, residential complex*

JEL CLASSIFICATION: *F4*

1. INTRODUCTION

Construction real estate industry had over the years, especially in the period 2005-2009, a significant influence on growth in GDP. After 2009, when the boom in the real estate field has been extinguished, this area of activity has influenced the negative evolution of GDP. The situation has improved, starting in 2012 when had been noticed a continuing growth. 2015 debuted with a return in force both in construction sector evolution, as well as in real estate transactions. Thus, the gross domestic product of the construction has reached the amount of 5.7 billion lei (series) and 11.48 billion lei (adjusted series) in the first quarter of this year, when it was recorded a total GDP of 174.85 billion lei in current prices. Construction took an interest in the growth of national GDP with 0.2% in the first quarter of 2015, and the contribution to the formation of construction in GDP was 4,1%.

The growth before the same interval of the last year was 1.1% (range) and 5.3% (adjusted series). At the same time, GDP in real estate transactions, calculated as gross series, stood up to 31.5 billion lei, up to 1.2% before the first quarter of 2014. Although in the second quarter of this year, the construction sector registered a decrease of 0.3% volume and 1.9% as price, this sector's influence on growth in GDP was 0.2%, and the contribution to GDP formation was 4.3% in the third quarter, as it shows the data published by the National Institute of statistics.

In quarter II 2015, GDP in real estate transactions, calculated that the seasonally adjusted series and depending on the number of working days, amounted to 16.47 billion lei, increasing with 3.1% and 1.1% volume compared to the first quarter of this year. In the real estate business, the construction of a dwelling have a well-defined social nature which must be taken into account, among other economic indicators, when determining a project's efficiency in the field. A primary residence is a necessity and a prerequisite in assessment of quality of life. As a result, any Government needs to give due importance to the development of the sector of housing construction and operation of the real estate market.

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2. CONCEPTUAL AND LEGISLATIVE FRAMEWORK REGARDING REAL ESTATE

This paper based on the topic evolution of the real estate domain in Romania in the international context, tries to present some achievements in the last decades in this area, but also some general and theoretical ideas, to point to some specific aspects of this activity and also trends of this activity. Some statistics provided by Eurostat will be used for working methodology regarding both their evolution, as well as for predicting trends and analysis (forecasting) correlation between them.

2.1. The current state of knowledge and the fundamentals of real estate perspective

Real estate is an area very important in the economy of a country, having an important role to play, both from the economic point of view, but above all social. This concept arises since ancient times when the first buildings with residential destination were called "domus". These were traditional houses used by the Romanian family, located in the urban area, and had numerous rectangular rooms with special purpose for the members of the family to use. They were comfortable (they had water, heating) and wide spaces for recreation and leisure (pestylum, hortus). They were decorated with statues, mosaics, fountains. Later, this concept was developed, now being known as "the House". Though very old, in last decades, the concept of "House" has a growing importance due to the development of society, both in terms of quantity and technology, but also regarding the raw materials used in their construction. As a result, the development of this area has given a sense of both social and economic. Besides its complexity in terms of divers activities involved, also involves a big complexity concerning the types of materials, energies, technologies, etc. used.

2.2. The legislative framework and the organizations

The Directive 17/2014/EU of the European Parliament and of the Council of 4 February 2014 concerning credit agreements offered to consumers for residential real estate and the amending of Directives 2006/48/EC and the 2013/36/EU Regulation (EU) No. 1093/2010 represents a properly harmonized framework at Union level in several areas, regarding the differences between credit agreements generated, in particular, of national and regional differences on the residential real estate market. This Directive shall develop an internal market more transparent, efficient and competitive, through credit agreements consistent, flexible and fair for real estate, promotes sustainable practices and loan financial inclusion and ensures a high level of consumer protection.

Real estate European standard (EN 15733-services of Real Estate Agents-Requirements for the provision of services real estate agents) serves consumer protection throughout Europe and to the improvement of services provided by real estate agents. European standardization of real estate agents services contains rules for relationships between brokers and their clients. This standard regulates the content of the contracts, information will be received by the agent from the client, as well as general obligations between the parties. In total, 31 countries have contributed to the achievement of European standards for real estate services. Under the leadership of the European Committee for Standardization (CEN) worked specialists from national institutes for standardization and representatives of national associations of real estate agents. Realtors are not obliged to adopt the standard. CEN National Standardization Institute cannot do that to become mandatory EN 15733. But if a real estate agent and standard States that adopt it guides its work after client 15733, NES will know clearly what rights does.

The housing legislation is an intensely debated topic on the Romanian market. But nothing more, with all the effort of different associations, and with all the effort of major international companies operating in Romania, this chapter is not a priority for the Romanian Government.

In civilized countries, there is the concept of continuing professional education, regardless of profession.

This notion has been introduced in Romania, especially in the last decade, but not for all areas. Although there are strong voices from the real estate market who constantly argue that access to a profession, including the real estate agent must be made on the basis of trainings and certification forms, things remained in draft stage, for an indefinite period.

Rulers of other European countries were more open to the concept, they understood the importance of regulating the real estate market and acted as such. And we are talking here of countries with no real estate experience, not the skillful States in this respect. But, say real estate consultants with seniority in the industry, no there wasn't easy fighting.

Law No. 7/1996, republished in 2013, the law on cadaster and real estate advertising, republished in the Official Gazette nr. 83 of 7 February 2013.

Law No. 152/1998 on the establishment of the National Agency for Dwellings, reissued 2009, republished in the Official Gazette, part I no. November 2, 2009 744

EGO 33/2011 for the modification and completion of the art. 1 of Ordinance 60/2009 on some measures in order to implement the program, as well as the first home for the adoption of measures in order to continue the program's First House;

Emergency Ordinance of Government No. 81/2011 on some measures of organization of the National Agency of Cadaster and Real Estate Advertising, as well as the modification of legal acts published in the Official Gazette of Romania, part I, 789 23 November 2012;

Ordinance 95/2011 on some measures for the implementation of the national program concerning support of constructing houses and personal property.

2.3. Why real estate

Starting from the concept of the real estate market, real estate is a special case, which has been developed in Romania, especially in the last 150 years. The categories of assets that underlie the concept of domain property are: houses with spaces and related facilities, offices, with electrical equipment, IT and telecommunications and related monitoring and control instruments, etc. Basically, real estate represents everything that is built for the modern man.

Any building which is executed becomes the responsibility of the manufacturer for the natural environment. The importance of this concept has grown in parallel with the rate of development of constructions of all kinds. In this way, human development requires the development of the real estate sector, housing and work space, in fact, defining the meaning of human existence and deployment. There are many national and multinational companies that have as a real estate development concern and achieving a viable real estate markets. Examples in this case are: Resident S.R.L Support, West Development, Raw Space Residence, Impact Developer & Contractor, Apollo Residence Pana 2, Viva Residence, DeSilva, Paula Saez, Construct Aproxex, Adama Group, Urban Invest S.R.L, Stop Invest, Construct, spearheads the Green Trend, SC Anchor Real Estate Development LLC, the company that assigns separate information areas for clients or regarding real estate in their communication strategy. In general, the concept of domain property is part of what we call eco-efficiency concept, which is a part of what we call as well, sustainable development (Olaru, 2012). Nowadays, these notions are not and should not be ignored nor economy or social environment, because of their impact on the quality of life.

2.4. State of knowledge in the field of real estate matters

We cannot talk about real estate knowledge stage without mentioning some facts about the stage growth of knowledge in sustainable development. Why? Because the real estate business, as mentioned above, an intrinsic part of what we call sustainable development and eco-efficiency. This topic has been launched since the 1990s, and the time that has elapsed has proven that it maintains its importance and timeliness. The doctrine in this field includes many works about sustainable development and about the development in this direction, one example being Moffatt, who published in 1996 about sustainable development, namely: principles, policies, and analysis work

that attracts great interest for this activity. In Romania is to remember the studies made by Medrega (2009), Voicu and Voicu (2006).

Another example may be the study published by Olaru, Radu and Banacu (2012) regarding the link between eco-efficiency and environmental performance, the study focuses on the indicators for this activity. Turning directly to the real estate business, the academy also provided some papers on this topic. One of them, and with a large volume of information, is the fiscal management of the real estate domain in Romania, extent, strengths and weaknesses, published by Ionita, Banacu and Stoica (2004). The study refers to features from Romania, a statistics and operational approach, stating the Romanian industry issues real estate.

However, international approach is broader. It is important to note that, in addition to some specialty papers, we retain your attention, also have a few books on the subject. An example can be real estate, Smith, Susan J., and Beverley A. Searle, eds., in the monograph *The Blackwell companion to the economics of housing: The housing wealth of nations, in 2010*, this profile, the role and relevance of luxury housing; mismanagement of the mortgage debt, and potential pitfalls of hedging. Key topics include: housing price bubble and crash; connections between luxury housing, macroeconomics and well-being of home-occupiers; reducing the risks of investment credit and housing. Also, Bloom, George f., Weimer, Arthur M., Fisher, Jeffrey D., *Real Estate*, New York, John Wiley Sons 1982 & offers a decision-oriented approach that emphasizes concepts. Examine the physical aspects, legal and economic trends, highlighting the economic, political, governmental and environmental issues at the national, regional and local levels. Explores some of the practical aspects of decision making in construction and land development, brokerage, property management and finance.

3. FORECASTS ON THE EVOLUTION OF REAL ESTATE CONSTRUCTION IN THE PERIOD 2016-2019

To try out a real estate construction forecast next year, it is necessary to make an analysis of the current situation in the economy, with the knowledge of existing potential and to estimate its evolution based on economic indicators, housing demand, wages, unemployment rate, real estate, market requirements and purchase power of the population and the lending policy of the banks. The evolution of this situation we will bind and developments taking place in the European Union. Promising growth prospects over the medium term, the low level of government debt and fiscal deficit reduction are decisive factors which ensured Romania 'Baa3' rating, with the prospect of stable, it said in an analysis conducted by the financial rating agency Moody's. According to this agency, the rating assigned to Romania is supported by high score which benefits from chapter solidity. Thus, although government debt reached 39.9% of GDP in 2014, is still at the same level as that of countries that benefit from a similar rating. In addition, the soundness of the tax benefit from the reduction in the budget deficit from 1.5% of GDP in 2014, compared to 8.9% of GDP in 2009. The Agency Moody's experts estimated that the fiscal deficit will remain stable at 1.5% of GDP in 2015 and will get a share of less than 3% in the year 2016, whereas the actions of the Government to reduce taxes and wage growth will be offset by measures taken in the chapter.

ERSTE Group has conducted earlier this year a survey concerning the current situation of the Romanian economy. The poll shows that 32% of respondents consider the economic situation of Romania as, at present, a good one. In regard to expectations, in terms of the evolution of the economy until the end of 2015, an rate of 57%, experts expect a significant growth-more than 3%, and only 7% provide a drop-off, and 36% of them provide a stagnation.

In our analysis we have used the main factors which can influence the evolution of our economy until the year 2019.

Thus, we consider that a prime factor, which will have a positive impact on the construction of housing, is tax diversion that occurred in our country. Reference interest rate decrease of NBR to

1.75% per year (since 7 May) brought favorable changes in lending policies of commercial banks, they are currently giving loans to purchase housing in conditions much more favorable towards the immediate period of economic and financial crisis in the period 2008-2010. Regarding the evolution of short-term interest in the study of ERSTE, half of financial experts have appreciated as they will remain steady in the next few years, while 4% see an increase in interest, and 45 percent foresee a decline and more of them. Also a range of facilities for the purchase of a House by young families, determined by the Government and supported by banks as it is, the first "House Program" also, and will have a favorable impact on growth in demand for housing.

Another factor that will stimulate demand for housing is considerably the application, since this year, the Government's decision *to increase the salaries* of civil servants with a consistent percentage of 25% and up to 70% over the next two years. This factor will increase buying power of the population, including young people who founded families, which will make possible the purchase of a larger number. Add to this factor and incentive policy loans to purchase houses with areas larger than those held at a time and just for owning several homes.

Joblessness will continue the trend of dropping, registering rates of 6.6% in 2015 and 6.4% in 2016, standing, thus, under the European average. At the same time, inflation rate, estimated at 0.2 percent this year, will increase, of up to 0.9% in the year 2016, and expected to remain at levels at least until the year 2019.

This promising situation prompted on 64% of financial experts polled by the ERSTE group, earlier this year, to appreciate that Romania currently has a stimulatory economic and financial situation for a significant growth in the construction sector. In the same way, the estimates of the National Commission for Prognosis for the period 2015-2019 shows that in our country, the construction sector's share in gross domestic product will grow in the next period with approximately 0.4% per year, reaching between 2016 and 2017 at 6.2%, because in the year 2019 to represent a larger share of 6.8% of GDP.

It should also be mentioned and other factors for which Romania is attractive: we are the second largest country in Eastern Europe, we have educated work force and is still cheap, Romania is becoming a regional hub in sectors IT and BPO (business process outsourcing), which generate a significant demand for Office space, etc.

And the European Commission estimates an upsurge of Romanian economy based on more growth of private consumption and investment sector to be filled. According to ECB data, GDP growth will be higher in 2015 than estimates at the beginning of the year, reaching approx. 3.5%, then a trend lower in the year 2016, up from 3.4 percent. In addition, the European Commission estimates that throughout the EU will be a economic recovery based on simultaneous support of several factors. Between them the oil prices that will keep fairly slow, stable world economic growth, the euro which continued to depreciate, and economic policies in the EU are favorable and positive impact on each member countries.

The European Union as a whole, GDP growth is estimated at 1.8% this year and the 2.1% in 2016. Inflation follows the same trend as in Romania, recording minimum values in 2015 (0.1%) and the increase in the year 2016 (1.5%). Unemployment is dropping and at the European level, he is estimating to reach in 2015 at 9.6 and 9.2% in 2016. In terms of quantitative monetary easing, applied by the European Central Bank has a relaxing effect of fiscal policy that will support, in turn, economic growth. In time, should give results as well, further structural reforms and investment plan for Europe. All these factors will strengthen the real estate market in Romania, which is already perceived as a market that offers high yields in a relatively stable economic environment.

4. THE EVOLUTION OF THE CONSTRUCTION WORKS APPLIED TO THE REAL ESTATE CATEGORIES

In the first seven months of this year, the volume of works for buildings housing increased 41.8% (number) compared to the same interval last year, according to data published by the National Institute of Statistics.

On the structure of the elements, the highest pace of growth had *residential projects*. Thus, if we refer to July 2014 front of July of the year 2013, the volume of construction works in residential buildings (number) increased by 20.5%, while in the period from 1 January to 31 July 2015, compared with between 1 January and 31 July 2014, the volume of these works was increased by 39.2%-adjusted series, depending on the number of working days and seasonality. This situation is the result of the better living condition created by the developers (large apartments in buildings with many amenities, such as shops, swimming pools, parking, playground for children, safety guard, etc.) and low price offered by this type of housing. Developers also offer some facilities at payment for the apartment and on demand with the required furniture etc.

The volume of construction works at new buildings increased by 0.4% in 2014, and those with *non-residential* only 2.2%, but it appreciates that the pace will increase in the coming years based on the application of the real estate market even more significant for this category of buildings.

Also in 2014, the volume of construction works (series) from *engineering and construction to non-residential buildings* fell 25.9%, respectively by 0.2%.

Repair works were recorded and a decrease of 20.0% and *maintenance works and current repairs* of 11,5%.

This year, we realized, though, that one of the biggest growth segments of real estate is that of repair works, with 12.3%. We estimate that at the end of the analysis period (2019), the largest growth will be new construction segment, about 7.1% in 2019. We base our forecast on demand this inclination, which is remarkable since, for this category of flats, in fact, the same time understandable if we consider the retention of buyers for homes already very old and with a high degree of wear and tear, in blocks built after over 45 years of age, as well as the facilities offered by new complexes that we have mentioned. Also, construction engineering will register an annual growth between 5.8% and 7.5%, 2016-2019, and residential construction boom will be reduced to half, from an increase of 9% in 2015 to 4.5% in 2019. Residential construction industry will register a smaller increase compared with the period 2014-2015, respectively 6 percent in the year 2019.

One area of real estate construction has experienced a positive trend in our country is that of the retail area. Eurostat data, places Romania between the first countries in Europe, in the highest consumer both in food and non-food, are confirmed in the dynamics of trade. In this context, it should be mentioned for the year 2015 were constructed new supermarkets by larger companies operating in our country-Kaufland, Lidl, Metro, etc. Only in the year 2015 opened in Bucharest Kaufland four supermarkets. A report from the year 2014 of DTZ Echinox, looks like groups, LPP (Reserved), Debenhams, Marks Spencer, Pepco Panorama II, CCC, have major plans for Romania in the near future.

The Romanian real estate market, analysts perceive will become attractive and institutional funds which, at present, there are no assets to us. In the same direction, as officials consider DTZ equities markets will evolve a lot in 2015 new buyers being interested in real estate assets locally, including secondary assets.

5. THE EVOLUTION OF PRICES FOR REAL ESTATE CONSTRUCTIONS

In exposure from this chapter we oriented on the real estate market in the region of Bucharest-Ilfov. The year 2015 is to be themselves the best for the residential market in Bucharest in the period after the crisis in the period 2008-2010. It is estimated that the number of housing units that will be

completed in the capital and surrounding areas will be over 11,000 units, according to a study submitted by Agerpres. In September, the average price of apartments available for sale nationwide (new and old) increased by 1.5%, from euro 950 per square foot in late august useful until 964 euro per square meter. The latter value is higher than 5.7% recorded in the previous 12 months of 912 euros per square meter, according to imobiliare.ro.

Purchasing a home in the present, in this region, it is over three times more quickly than in the period of economic boom, according to a study prepared by Coldwell Banker Affiliates of Romania regarding the residential market after the first three quarters of 2010. Thus, taking into account the prices per square foot, average net salary and exchange rate of leu/euro, currently it is necessary a period of approx. 10.8 years for purchasing a new apartment with two bedrooms and an area of 50 square meters, compared with helpful 32.8 years in 2008", they mention in the study. In connection with the evolution of real estate prices, after seniority in 2014 on the old apartments, it was found that the requested prices are a little higher towards new apartments from outlying areas. The proximity of the means of transport and the payment facilities are elements that increase the price of these flats. For new apartments in Bucharest, prices were generally stable in the year 2014 and know a little increase in 2015.

The area of the site, significantly influence the prices and therefore are different sectors of Bucharest. According to data from the latest market report of Romania, prices on NAI sqm of housing complex Alexandria, sector 5, are the lowest, being of 650-750 EUR/sq.m.

Projects on the outskirts of the city and the surroundings fit in the ceiling price of 60000 euros set by the program, "The First House". The southern area of Bucharest remained in first place in terms of the level of prices, but it compensates with the large number of units completed and sold. Also on the price stabilization fund projects addressed to middle and upper middle segment increased as share in terms of number of units completed and sold. In contrast, the northern area of Bucharest continues to maintain first place in the high level of prices. We estimate that in coming years and the highest prices will be recorded at the residential estates that will be constructed in this area.

Prices required by landlords in areas of Central, semi central and Northern capital have risen, on average, with 2.61% in first half of 2010 compared to the first half of last year. Apartment category number of rooms average price recorded in September of the year 2015 was at those with a 1,005 E/sq m, down 0.9% compared to September 2014, at the bedroom of 1,105E/sqm, increasing by 0.9% compared to September 2014 and with three rooms of 1,203 s/SM up 3.7% to September 2014.

- How is the price of real estate

Sale price of a House can be a decisive factor for attracting or waiver for buyers. Setting a fair price may determine the realization of real estate tender in a relatively short period, while discourages and overvaluing suited most clients determined to buy. In actual practice, most sellers tend to over evaluate their property what increases lag between extremes (e.g., the cheapest Studio in Bucharest, with an area of 15 square meters, is located in the little rock area and has a price of EUR 9500, while the most expensive residential area in Central and has a price of 80000 euros). A long exposure of a profoundly affect its properties.

In setting the sale price you must follow a number of steps, among which are: correct positioning of the property market; the focus of a real estate professional presentations by working with a real estate agency; arrangement as more enjoyable. In connection with the arrangement, we mean, the image space, air quality, etc., essential aspects that influence the process of selling a property, including transaction and, consequently, the price sought initially.

So in order to establish the correct price and reducing the sale period is recommended as seller to apply a real estate agency. When a real estate agent makes the debt, corresponding to the Agency's mission, only to work in our client's best interest, can optimize the transaction and terminate at a better price and in a shorter time.

6. CONCLUSIONS

Although in some areas of Bucharest (South zone, for example) prices were low and it could create the impression of reaching a turnover reduced by the large number of units completed and sold this approach is ruled out. Instead, in other areas of Bucharest (North and Northeast) continue to maintain a high level of prices, and sales do not know further, estimating it as in the coming years the highest prices will be recorded at the residential estates to be built in these areas. We can talk, in this situation of buyers and their preferences, not the marketing policy of sealers.

Amid increased price stabilization as share in terms of number of units completed and sold houses addressed middle and upper middle segment, which reflects, to some extent, the power of those who want to purchase a home.

In terms of choosing the House they want to buy depending on the asking price, we see that the future buyer wants increasingly more electronic information sources or to an intermediary specialized in this area, trade it to access a price/quality as good.

Over-valuing suited some housing does not mean and getting a good return on their sale, this discouraging him most times even with potential buyers from the financial point of view. In determining the price you have to keep account of more economic criteria (price of the area in which is located the House offered for sale, the transaction period), social (renovating or upgrading housing, access to other features of the area in which it is built), but also of the way in which the transaction is performed (the correct positioning of the property market; the focus a real estate professional presentations by working with a real estate agency).

It remains to reach buyers of real estate offers and to analyze, to put in balance with economic-financial results the necessity of purchasing these spaces needed them.

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