

The Evolution of Real Estate Markets in Romania

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Abstract

The evolution and development of the notion of real estate, respectively real estate, makes us define them as a set of tangible elements that include the land; all the elements that are its natural components - springs, trees, minerals, etc.; as well as all the elements that are added by people - buildings and all facilities.

The paper, through the approached topic, aims to present the trend of real estate investments, both upstream and downstream, this includes both suppliers / developers and customers.

Key words: real estate, ground, evolution

J.E.L. classification: M31

1. Introduction

In addition, all permanent attachments of buildings and facilities, such as sewage, water, electrical and heating installations, are considered to be part of real estate; as well as their built-in components, such as electrical panels, water and gas meters, elevators. In summary, *real estate includes all the elements located in the basement and above its ground.*

2. Theoretical background

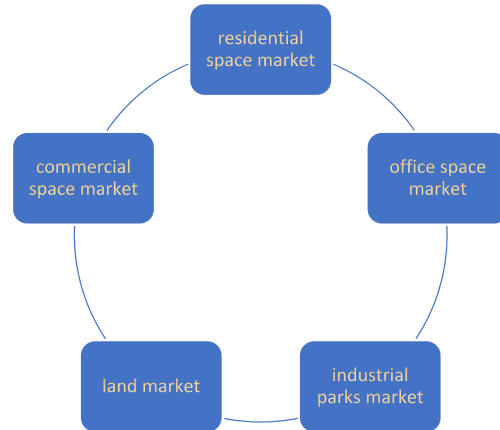
From a theoretical point of view, according to specialists, the real estate market is a support in the evolution of other markets, but it also develops or stagnates depending on the evolution of other markets. We are sometimes talking about an overlap or an interpenetration of the existing markets. Theoretical aspects of the literature were the basis of the research

3. Research methodology

The limitation to working with levels models in valuation analyses, according to the study conducted from external sources.

The wide spread of these actions and the strong influence of the real estate market on the economy as a whole and in particular, requires a minimum knowledge of the real estate economy, both at the level of individual as a citizen and at the level of entrepreneurship to achieve a successful business. Complexity of processes, principles and mechanisms - purchase and sale of real estate, insurance and property disputes, taxation, leasing of property, incorporation of real estate and redistribution of real estate shares, implementation of investment projects and guaranteed loans, etc. - led to the development of a field in economics, real estate economics and implicitly, as we showed in the first chapter and marketing of real estate services.

Figure no. 1. Investment transaction market



Source: Author's own contribution

The real estate market represents the totality of transactions that involve property or use rights over lands and buildings (Romanian Competition Council, 2009, Investigation Report for the analysis of the real estate market and services related to real estate transactions; Bucharest)

By real estate transaction we mean the transfer of a right, usually of ownership or use, from a third party to another, a transfer that can be permanent or temporary, accompanied by a compensation, usually money. The value of the transaction is dictated, as in any market by the interaction between supply and demand, but we will notice that the real estate market has some special features compared to other markets, features that we are required to mention from the beginning, to better understand well the complex and slightly different mechanism found here.

First of all, we emphasize the specific character of the *real estate*, namely it is “fixed”, the transfer of the use or ownership of the good does not imply its actual transport. On the other hand, each traded real estate differs from the others by: construction, positioning, composition, related infrastructure - access to means of transport, schools, churches, etc. The real estate market is a complex of well-cohesive and sometimes intertwined structures. I have divided this market into segments - the residential space market, the office space market, the commercial space market, the land market, the industrial parks market, the investment transactions market - which I will analyze separately, thus enhancing the value of each. In Romania, the real estate market had a rather strange evolution after the years of communism. Remaining with an important dowry of constructions in the '90s, the real estate market was manifested only by the ownership of citizens with houses especially apartments, small exchanges between them as well as by transactions with large industrial constructions by their privatization, all taking place almost uncontrollably through various kinds of speculation. The situation created being preceding the deindustrialization of the country and its transformation into a consumer market. At the beginning of the 2000s, the real estate market began to coagulate, with the sale of old apartments, the late start of new constructions and the reallocation of large industrial constructions to the economic system in various aspects - modernization of spaces, demolition and putting land in the real estate circuit, etc. the first industrial parks appear. It reaches in 2007, the most important evolution of the real estate market in Romania, supported by an increase in new constructions in all areas: residential, offices, buildings for production, shopping complexes with impressive areas, industrial parks. The economic crisis is stopping this momentum and has the consequence of stopping many projects and a free fall of the market. Slowly after 2012 the market begins to recover, supported by the economic recovery, state-supported programs - such as Prima Casa, the attraction of European funds - helps to develop tourism through the construction of new accommodation and leisure, the development of production units through new constructions and the modernization of existing ones, to the development of agriculture in particular by building new animal husbandry bases and subsequently processing agricultural products.

4. Findings

After 2015, the growth of the real estate market becomes more and more sustained, reaching a well-defined market with new rules of the game. Next, I will present each of the segments of the real estate market separately through an evolutionary analysis and a presentation of the situation that has been reached at the moment. To better understand this I will start by dealing with the construction situation, the basic product present on the real estate market.

The situation and the role of their constructions in the real estate market gear is observed that the way of realizing the constructions directly influences the real estate market both from the point of view of its dynamics and from the point of view of the prices practiced on it. For starters, I will go on a theoretical analysis of what construction economics means, so trying a definition we could say that „ The construction market is the space where demand and supply are manifested in relation to the traded object specific to this market and can take the form of the following types of works: general and special constructions for buildings and civil engineering works”. It must be borne in mind that the concept of *construction* encompasses both buildings and civil engineering works.

The construction sector operates in several main market segments, such as: civil engineering, rehabilitation and maintenance of buildings and works, residential buildings, non-residential buildings, specialized services, etc.

As in any field and on the construction market, the trading price of specific products and services is established when the demand meets the supply, however, having significant influences due to other factors such as: the evolution of construction materials prices; the evolution of the price of land and constructions on the real estate market; the evolution of the salary on the labor market and especially on the field; policies specifically required by law; financial-banking circumstances; economic prospects at national and international level, etc.

The construction sector has as main beneficiary the real estate market, which by definition carries out transactions with property or use rights for land and buildings. However, there are major differences between the two markets, one of the most relevant of which is that the construction market creates added value, while the real estate market does not achieve this "added value", transactions on this market having a speculative character in to a large extent and involves seriously limited resources. At the same time, these two markets have major interdependencies, clearly dictated by construction - one realizes them, the other trades them. These interdependencies are manifested in prices; at the level of the type and type of the traded object and of course at the level of the respective demand and supply that manifests itself in each of the two markets. That is, part of the demand on the construction market is found in part of the supply on the real estate market - because we can divide the beneficiaries of construction works into two categories: on the one hand those who will use for personal use the goods obtained from construction works. purchased constructions and on the other hand those who will become bidders on the real estate market, hoping to obtain profits by selling or renting the constructions made / rehabilitated and purchased on the construction market. We can conclude that in the conditions of the manifestation of a growing demand on the construction market we will observe an ascending offer on the real estate market. So, there is a clear relationship between the demand in the real estate market and the supply in the construction market and between the demand in the construction market and the supply in the real estate market and even between the price evolutions in the two markets.

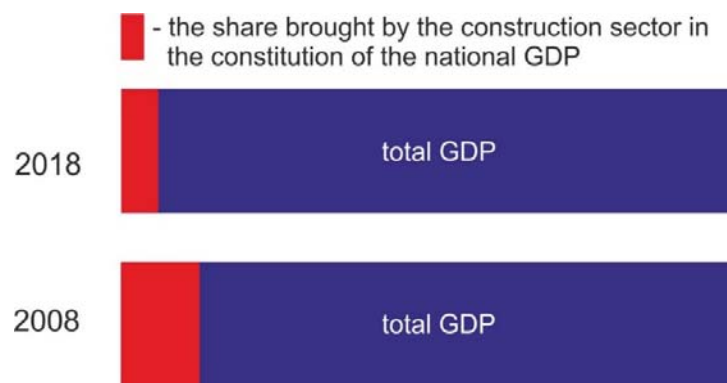
The evolution of the demand on the construction market, generated by the real estate market is due to several factors: the growing need for real estate with the final destination of renting to third parties (especially office buildings and commercial spaces concentrated in shopping complexes); in the case of public interest objectives, it is manifested by the development of new investments that correspond to the current requirements; Another feature of the demand generated by the real estate market is the development of products with a high degree of complexity, etc.

The interdependence between the two markets can also be observed on the residential segment of the real estate market. With the economic crisis, the portfolio investors disappeared, leaving changes due to the real estate crisis having a direct influence on the construction market. With the onset of the crisis, portfolio investors in the residential market have disappeared and with them a

large part of the speculative demand generated by them, leaving room for individuals who want increased comfort by asking for suitable housing. This type of demand has a direct influence on the construction market, being during the crisis the only engine of growth in the construction market despite the fact that they have influenced, in a negative way, the profit margins of developers and builders, but ensuring to them the exit gate. Programs, initiated by the state through which it guarantees a part of the mortgage loan, such as Prima Casa, have maintained this trend despite their limitations and shortcomings.

The construction field represents one of the sectors of the Romanian economy taken into account in the calculation of the Gross Domestic Product (GDP), being among the first 5 sectors as an importance of the share. Over the years, the contribution of the construction sector to GDP has fluctuated more or less dramatically, so if after the revolution it had a relatively low share in 2008, as a result of a dramatic increase in value added created by the construction sector, the share in GDP reaches a high level of about 12.7%, a level that unfortunately decreases gradually reaching in 2018 a level of only 6% (Figure no. 2). This gap does not mean that the construction sector has gone worse (after a decline dictated by the economic crisis, until 2012, it recovers spectacularly reaching increasing sales by 2018) but the influence of other sectors: continuous increase in consumption; the emergence of new sectors with major incidence - IT field, etc.

Figure no. 2. Share of the construction sector in GDP, at the level of two reference years



Source: National Institute of Statistics

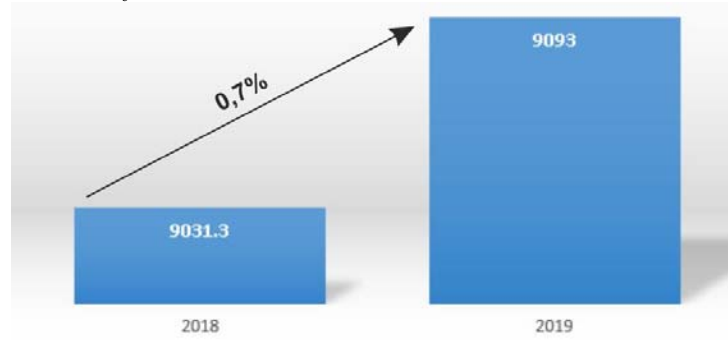
The situation presented above refers strictly to the contribution of the construction sector, excluding the real estate market. Analysing the later we will see that it had a different behaviour, namely if in 2008 it had a share in GDP of about 7.4%, it grows by about one percent in 2018, reaching a share of 8.3% of GDP.

In recent years, as we have shown in the analysis of the real estate market, the construction market has had a positive evolution, supported by both residential and non-residential constructions. The interest of foreign and domestic investors, the requirements for buildings with high comfort, lending conditions, changing the mentality of beneficiaries, state policies are the main factors influencing both markets, otherwise very well twinned. Presenting in these lines the interdependencies between the construction market and the real estate market, the way of elaborating *the object of* most real estate transactions as well as the relations between supply and demand and how they manifest in the two markets, allows us much easier to analyse and present in continue to segment the real estate market. It is known that housing is one of the basic needs of man, and access to it is an important factor in maintaining and improving the quality of life, thus presenting itself as a basic pillar of society.

At the same time, it can be observed that in all studies on real estate markets, the most important contribution is made by the market of residential spaces or homes. This market, if it is not always manipulated by the values at stake, then it certainly does so by the volume of constructions. So always remains one of the standards that characterize the standard of living of a country. At the end of 2019, according to INS (National Institute of Statistics <https://insse.ro/>),

the residential real estate market in Romania included over 9 million homes, figure no. 3, which are under a positive trend in recent years, comprising approximately 24.5 million rooms, with an average of 2.7 rooms per home and a total living area of over 430 million m², with an average area per house of 46.7 sqm. In the capital, the total number of homes is about 800 thousand, divided into almost 2 million rooms and with a total living area of over 30 million m².

Figure no. 3. Situation of households



Source: Author's own contribution

Table no. 1. The housing stock and some derived indicators, by development regions

Specification	Housing - number -	Rooms - number -	Surface - m ² -	Rooms on a flat	Living space	
				- number -	On a room	On a house
					- m ² -	- m ² -
Total Country	9,092,963	24,858,411	434,017,196	2.7	17.5	47.7
North East	1,468,801	3,961,854	66,934,641	2.7	16.9	45.6
South East	1,135,882	3,304,263	53,923,509	2.9	16.3	47.5
South-Muntenia	1,368,779	4,027,437	62,838,801	2.9	15.6	45.9
Southwest Oltenia	959,236	2,766,805	43,105,932	2.9	15.6	44.9
West	845,243	2,261,460	43,235,030	2.7	19.1	51.2
Northwest	1,185,336	3,053,048	58,200,454	2.6	19.1	49.1
Center	1,059,764	2,688,651	51,727,072	2.5	19.2	18.8
Bucharest-Ilfov	1,069,922	2,794,893	54,051,757	2.6	19.3	50.5

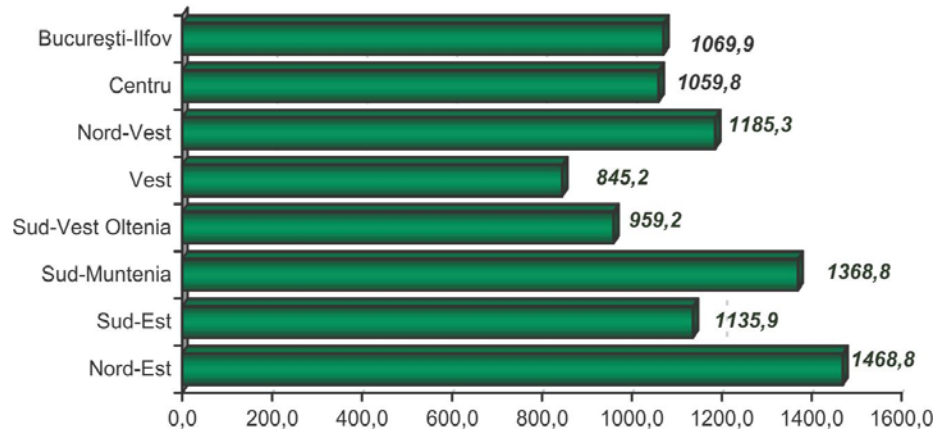
Source: National Institute of Statistics

The statistical proportions present at national level are quite symmetrical at the level of Bucharest. Thus, approximately 10% of Romania's population lives in the capital where 10% of the national housing fund is found. In the analysis of recent years we will see that the western part of the country begins to compete with Bucharest in some chapters, so we will see that in terms of average living area per home, the western part occupies the first place with an area of 51.2 square meters, seconded by Bucharest - Ilfov with 50.5 sqm habitable per dwelling, a report that changes when analysing the living area per room, where the Bucharest-Ilfov area has an area of 19.3 sqm / room while the West is an area of 19.1 sqm living space per room, from these points of view Oltenia area is the worst.

What does this data actually show us? A national rebalancing of the housing situation, dominated until 2015 by Bucharest. I would attribute this rebalancing to economic investments in several areas of the country (you can see an explosion in municipalities such as Cluj Napoca, Timisoara and even Oradea or Arad); of the increase of the population incomes (one of the most eloquent is that of the workers in the IT industry, which we find in these cities) but also of the change of the perception of the young inhabitants on the space in which they want to live. western markets - found both in media or online presentations and by the ideas brought by those who work or have worked abroad and lived in such constructions).

A zonal situation, at country level, of the distribution of housing is presented in Figure no. 4 (2019, Housing Fund. <https://insse.ro/>)

Figure no. 4. Distribution of the housing fund, by development regions, on December 31, 2019
-mii housing -



Source: National Institute of Statistics

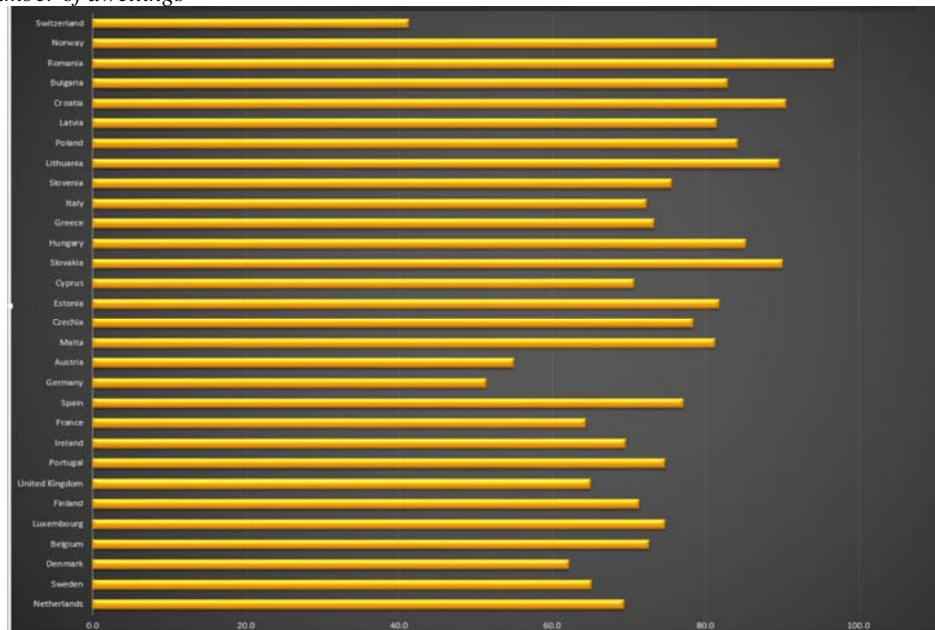
What we can say is that the vast majority of these homes were built before 1989, when the pace of urban development was much more pronounced due to industrial development, and demographic change was supported by special regulations (prohibition of abortions, bans on emigration, etc.). After the revolution, by repealing these regulations we have witnessed and still witness a decrease in the population of Romania, reaching from over 23 million before '89 to just over 19 million in 2019, which also contributes to housing needs.

In the early 1990s, most of these dwellings passed from state ownership to private ownership, causing approximately 98% of the country's housing stock to be owned by the population today.

In the first approximately 10 years after the 1989 Revolution, the construction of new homes experienced a period of stagnation, with the total number of homes being added annually only those already under construction. After the 2000s, the phenomenon of real estate development appeared in Romania as an effect of the increase of prices on the residential market and the timid start of the construction of new homes. These things together with the completion of the transition process from the centrally planned economy to the market economy and Romania's accession to the European Union have amplified the parameters of the real estate market and have led to a substantial increase in new construction in recent years.

In 2017, Romania ranked 1st in the EU, with a rate of 96.8 % (EUROSTAT, 2018) as a percentage of owner-occupied housing in total housing, followed by countries in the former communist bloc such as Bulgaria, Hungary, Poland, with countries with a developed economy such as Germany (51.4 %), France is after half of the ranking that is concluded by Switzerland. This situation is due both to the phenomenon of mass ownership of the population in the early 1990s (in the former communist countries), and due to the negative natural increase of the population in the last 20, which we also have in those countries, but also by socio- cultural (situation in Latin countries). The geographical / country distribution of the share of owner-occupied dwellings in the total dwellings is shown in Figure 5 (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing_statistics/ro).

Figure no. 5. Geographical distribution of the weight of dwellings, occupied by owners in the total number of dwellings



Source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing_statistics/ro

The factors listed above are indicators that provide important information about the will of the people in some countries for *ownership* housing against *hiring* them. Taking into account Romania, the following aspects are relevant: the previous regime, in the process of industrialization, also produced many houses, which it made available, in different forms, to those who worked in factories and who woke up after the 1990s "owners with proper documents" of them; we must not forget that villages were built even during communism, and young people who came to the city were encouraged to take a leap, which betrays our Latin character and the name of "having something of our own", socio-cultural factor important in the tendency to become owners and we will find it in the next aspect, namely the opening of borders after 1990, the de-industrialization of Romania and the pursuit of money makes a large part of the population go to work abroad, especially in Western Europe, things that have led to a negative birth rate, reflected in the need for fewer homes. This last aspect, i.e. labour mobility, is paradoxically transposed in our country, after a few decades (years in which those who work abroad raise capital) and seconded by the sense of ownership, in redefining the real estate market by starting it on a trend positive, fuelled by rising land and real estate prices, as well as the need to build new buildings (here I would add an interesting aspect, namely that the statistics do not include "so-called modernizations" of old houses, which in most cases actually meant a construction new - clearly favoured at one point by ambiguous legislation and lack of reaction from the authorities).

This sense of ownership made those who worked abroad for decades become owners there. In conclusion, Romanians with a special sense of ownership prefer to live in their own buildings to the detriment of those rented - figure 6.

However, it should not be forgotten that the issues presented have a significant impact on the structure of the real estate market and the risks to which it is exposed. Thus, it has been observed, at European Union level, that states with high occupancy rates by landlords induce higher risks, while those with lower rates have lower risks. If we look a little at the market we will see that paradoxically, a country like Germany (one of the strongest European economies) is considered one of the cheapest (in terms of income) and most stable real estate markets in the world precisely because more than half of the population lives in rented houses and apartments. In the period of economic adjustment, after the recession, the hypothesis of additional risks generated by a high rate of owner-occupied housing was actually confirmed, so high-rate states suffered massive price corrections while Germany and the Nordic states maintained a relative stability of property prices.

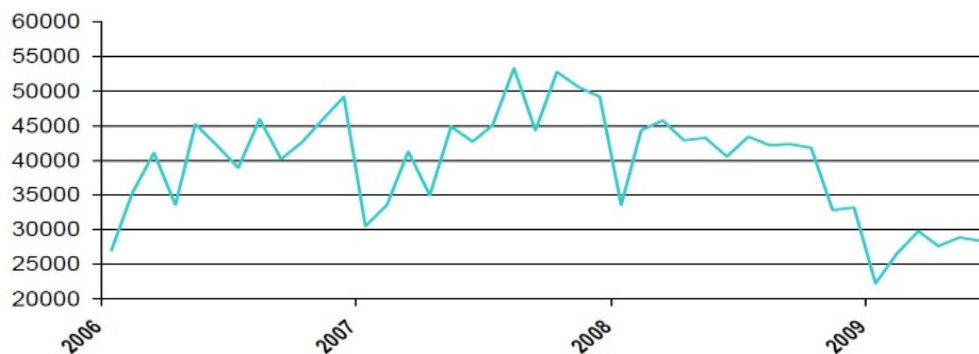
Figure no. 6. Property versus rent in Romania



Source: Author's own contribution

For a long time on the Romanian market there was no official real estate index calculated on the basis of trading values, there are instead several such indicators calculated mainly by private or state bodies, based on displayed prices, an important indication of market evolution being clearly provided by liquidity (number of transactions), a strong element correlated with prices, we can observe how the analysis of the real estate market in Romania was made, until 2006-2009, the period considered as a period of economic recovery after the recession.

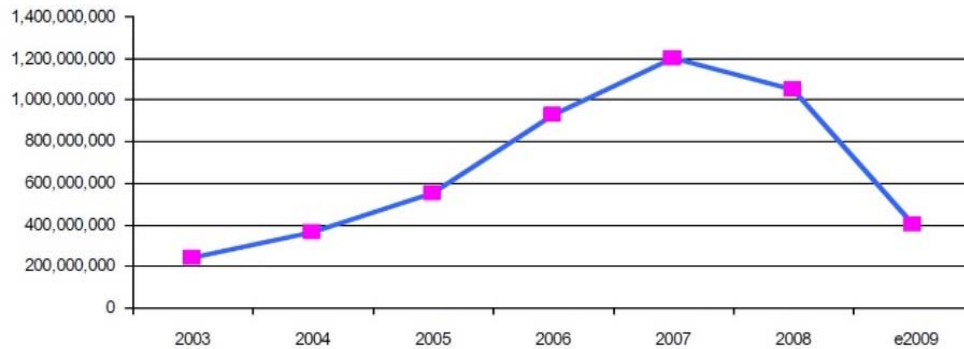
Figure no. 7. The monthly evolution of the number of real estate transactions (January 2006-June 2009)



Source: National Institute of Statistics

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Figure no. 8. The evolution of taxes paid to the state as a result of real estate transactions 2003-2009 (estimate)



Source: National Institute of Statistics

As can be seen from the graph of the monthly evolution of the number of transactions - figure 7, the market liquidity has a cyclical dynamics, the winter periods being characterized by decreasing transactions. During the analysed period, the summer and autumn of 2007 show the highest number of transactions, exceeding 53,000 in August and 52,000 in October. At the other end of the spectrum is the beginning of 2009 when the monthly number of transactions fell for the first time in the last 3 years below 25,000. The decrease of prices on the real estate market most probably started in the middle of 2008 (the year considered in Romania as the peak year of the economic recession), fact demonstrated by the dynamics of monthly transactions, as well as by the evolution of the total value of taxes collected by the state. real estate transactions. The taxes collected by the state decreased in 2008 by almost 150 million lei compared to the previous year, after registering a doubling in the period 2006-2007. In the first half of 2009, their value fell by more than 60% compared to the same period of the previous year due to severe economic contraction - figure 8.

5. Conclusion

After a period in which the common element of market analysis was the difficult context generated by the influences of the economic crisis, in 2013 an improvement in the fundamentals of the real estate market was highlighted. (2009, Romanian Competitors Council; Investigation report for the analysis of the real estate market and services related to real estate transactions; Bucharest)

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