

ECONOMIC CRISIS AND REAL ESTATE PROPERTIES VALUES

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Abstract: *The economic crisis has produced recoil to real estates market from Romania. Methods for estimating the value of real estate are interrelated in order to evaluate. Estimated market values fell by 50% from 2005-2008. Construction works stalled, banks have become landlords that try to recover loans and financial institutions foresee an eventual relaunch in this domain in the third or fourth quarter of this year.*

Keywords: *impact, real estate appraisals, value*

1. Introduction

The urbanization of regions in Romania is different, so is the degree of economic development.

Along with the capital and Ilfov county area, the most urbanized and developed regions are in the western and central Romania. In eastern and southern part there are powerful urban centers, but predominantly with rural population. In these regions are extensive areas of plains and plateaus, farming activity is the predominant activity.

Small and medium-sized urban centers with activities mostly mono-industrial have felt more acutely the economic crisis.

By the beginning of 2008 the real estate market in Romania was already "very stable" and the real estate businesses were ascending too.

The first sign of the real estate crisis was the disappearance of speculative investors. Real estate developers have noticed this phenomenon and have not purchased land in peripheral areas of cities. One of the consequences of this aspect has been the reduced demand and implicitly the decrease of land prices.

In Arad for a plot of 19 ha with 500 m span, located near the airport, the owner asks for a price of 5 euro/sqm, given that for a similar plot of 5 hectares were paid 9 euro/sqm in 2007.

2. Additions

2.1. Real estate market

After a period of aggressive acquisitions in the cities of Romania beginning with the autumn of 2008 the number of transactions decreased, prices going down sharply.

If in 2007 in the residential neighbourhood located between Felix Spa and Oradea, 1 sqm of land could be sold for up to 80-100 euro for parcels of 500-800 sqm, today for the same plots are priced between 35-40 euro / sqm and sold for 25-30 euro / sqm.

The hope for real estate market to boost again is related to the general development of the Romanian economy.

Residential sector was profoundly affected by the crisis: continued decline in real estate prices in all segments, reducing the number of transactions.

In a first phase it was ascertained that the bank loans financing were blocked, decrease of speculative investments funds and significant diminution of projects already launched.

During 2009 and 2010, real estate developers have launched small scaled projects, financed by their proper funds. Entrepreneurs that depended on bank loan and were in the early stages of the building project have generally stopped their works.

Prices of new homes decreased in 2010 by an average of 35-40% according to financial analysts. Prices of old apartments also decreased by about 30-50%. A three bedroom apartment, built in 1985, located on Blvd. Decebal near Scala confectionary from Oradea was sold in 2007 for about 65-70,000 euros. In 2011 a similar apartment could be purchased for 50-55,000 euros and in 2012, the price for such an apartment was 35-45,000 euros.

A two bedroom apartment in the same area that had a market value of 45,000 euro in 2007, today it can be purchased for a price between 27-30,000 euros.

Customer uncertainty regarding future income, stricter financing conditions imposed by banks determined the diminution of the number of customers eligible for a mortgage contract.

The price for houses has decreased and the portfolios value of bank guarantees has also depreciated, causing turmoil in the real estate market.

Due to the inability of homeowners to pay the bank rates for the contacted loans, there appeared a new type of transaction. It is about the real estate transactions put on sale by bank executors in order to recover the debts accumulated by not paying the debt installment to the banks.

In such cases the sale price of real estate is much more below market value, some of these properties being traded at prices of 25-30% of the market value in 2010 and up to 40-45% in 2012.

The real estate market is unstable and is difficult to estimate what will be the future development.

On a national scale, in the second half of 2013, average trading price of old apartments was about 684 euro / sqm, a sharp decrease of 41% compared to the beginning of the crisis.

The most expensive new apartments are still in Bucharest, where the price in the second half of 2013 was 957 euro / sqm.

If Romania's economy shows no signs of revival, the downward tendency in prices will probably continue for an average period of time.

The largest decreases were registered in the value of old apartments.

In the past two years there was a decline of 2-2.5% in 2013, being considered the most stable year after the beginning of the crisis.

The economic context is difficult, and in addition, the law imposes an obligation to obtain certificates issued by energy auditors at the time of the transaction.

Also, there is a big difference between the prices demanded by the owners and the actual ending value of the transaction.

For investors in the real estate industry there are moments of uncertainty due to the Romanian economic situation and projects on emerging real estate markets in Europe.

The situation in several Romanian cities according to "Real Estate Market Analysis" developed by company DARIAN DRS SA is presented as follows:

Table 1. Real Estate Market Analysis (source: DARIAN DRS SA)

OLD APARTMENTS				
City	Average price, euro/sqm		Price evolution, %	
	2012	2011	2012-2011	2012-2008
Cluj-Napoca	959	977	-1,8	-43
Braşov	814	860	-5,3	-41
Timișoara	875	889	-1,6	-38
Arad	637	654	-2,6	-42
Oradea	826	821	0,6	-20
Baia Mare	505	522	-3,3	-40
București	961	984	-2,3	-57
Constanța	837	857	-2,3	-42
NEW APARTAMENTS				
City	Average price, euro/mp		Price evolution, %	
	2012	2011	2012-2011	2012-2008
Cluj-Napoca	984	988	-0,4	-30
Braşov	931	971	-4,1	-35
Timișoara	914	906	0,9	-29
Oradea	839	837	0,2	-22
Baia Mare	563	573	-1,7	-51
București	1.141	1.203	-5,2	-44
Constanța	845	891	-5,2	-37

According to this study we found out that there are cities where the price of apartments has not decreased between 2011-2012.

The information received may be subjective and may be affected by factors that can not guarantee complete accuracy of the information referring to the transactions done.

2.2. Land market for constructions

The land market was the most affected segment of the real estate market by the economic crisis.

Interest in land fell sharply at the inception of the economic crisis. Consequently owners decreased prices by up to 60-70%, but even in these circumstances the lack of demand - potential investors, transactions are very scarce.

Only some small plots are sold, generally the demand is coming from families who intend to build a house.

According to analysts of the real estate market, demand for plots with small area decreased in 2010 by approx. 20% and for plots with larger area by approx. 80%.

3. Conclusions

Generally, in Oradea people are looking for small areas up to 500 square meters, with prices ranging between 6,000 and 8,000 euros and access to utilities.

It is estimated that on land market for construction in 2014 there will not be significant changes compared to 2013.

In times of crisis, landlords prefer to rent if they do not receive the price demanded and in addition they have the option to start a business on the respective piece of land.

Plots are rented for temporary activities such as materials storage, organizing exhibitions.

Multinational companies are leasing land in areas surrounding big cities for commercial activities, office space, storage. Buildings erected on this land are made with the lowest costs and are generally lightweight construction.

Renting land is advantageous in terms of costs which are lower than the purchase price, in terms of mobility – the possibility to change the zone or the rented surface.

A rebound from the economic crisis would have a positive impact on the real estate market, but this depends directly on the economic decisions.

When there will be money in the economy, the land market will revive too, namely the real estate market in general.

“Money circulate when banks give loans and when people start buying. And the world begins to spend when the economy of a country is stable, even if it is stable in a bad moment, it's important to be stable” Mihalis Tratakis - SBS Group manager.

4. References

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