COMPARATIVE STUDY ON THE DYNAMICS OF REAL ESTATE MARKET PRICE OF APARTMENTS IN TÂRGU MUREŞ

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ABSTRACT

The study presents an analysis of the causes which have contributed to the decline in real estate. There will be an analysis of housing market price dynamics of the apartments, with specific reference to the housing market in Tg Mureş, at the begining of the crisis compared with the current prices.

Keywords: housing market, price dynamics, demand and supply, real estate cycle, sales and rentals

1. Introduction

The real estate market, meeting place of demand and supply of properties, was characterized by late 2008 by a permanent price increase, by substantial profits in the short term, obtained through purchase and resale activities, speculation, brokerage, commissions, marketing, property development, dynamism and outstanding financial results for all parties involved. Being a highly profitable activity, sustained by the illusion of continous growth in prices, made the most players in the market, unawarre by the following corrections of the system. A whole scheme, a financial game with no real basis, that ultimately malfunctioned, causing the breakage of the real estate bubble in late 2008, the year that showed to the world that both countries and individuals can not borrow forever. Any healthy economic development is based on a balance between loans and savings, balance that has not been seriously taken into consideration before the crisis, mainly due to the fact that the mirage of substantial and rapid gains was very attractive.

2. Property market analysis

The first direct effect on real estate prices in Romania was seen in the summer of 2008 when there was a stagnation of growth. Signals about a possible correction and decline in the housing market have existed since 2007, but they were visible only in western countries, with no direct influence at that time on the property market in Romania. Later on, taking into consideration the Romania's economic dependence of foreign capital, the effects were felt in November, when foreign investors (commercial banks and property developers) have withdrawn or suspended the capital investments in Romania, in order to cover the financial losses from their homelands.

This period of economic boom ended in September - October 2008, when the real estate market entered in another phase, changing all the characteristics, owing to a fall in credit, what characterizes the current period, which may have only one effect: a drop in demand and hence the market price. We mentioned the exact steps, the initial decrease in demand and then the prices, although a decrease in demand does not necessarily mean a price drop. Reduced demand may not significantly affect market prices, if it occurs simultaneously with a proportional decrease in supply. But on the real estate market from Tg Mures and Romania, the negative effect on the market was very strong because of two key factors: the credit crisis which negatively affected the demand, and the high supply in the housing market, supply which was formed both by old properties, built before 1990 but also by new construction projects, which were due for completion in 2008-2009, this causes having one effect: the sharp decline in property prices.

In the first part of the graph in Figure 1, can be seen, a period of growth, the expansion phase of the real estate cycle, the economic boom period during the years 2004 to 2008, characterized by increasing demand and building development.

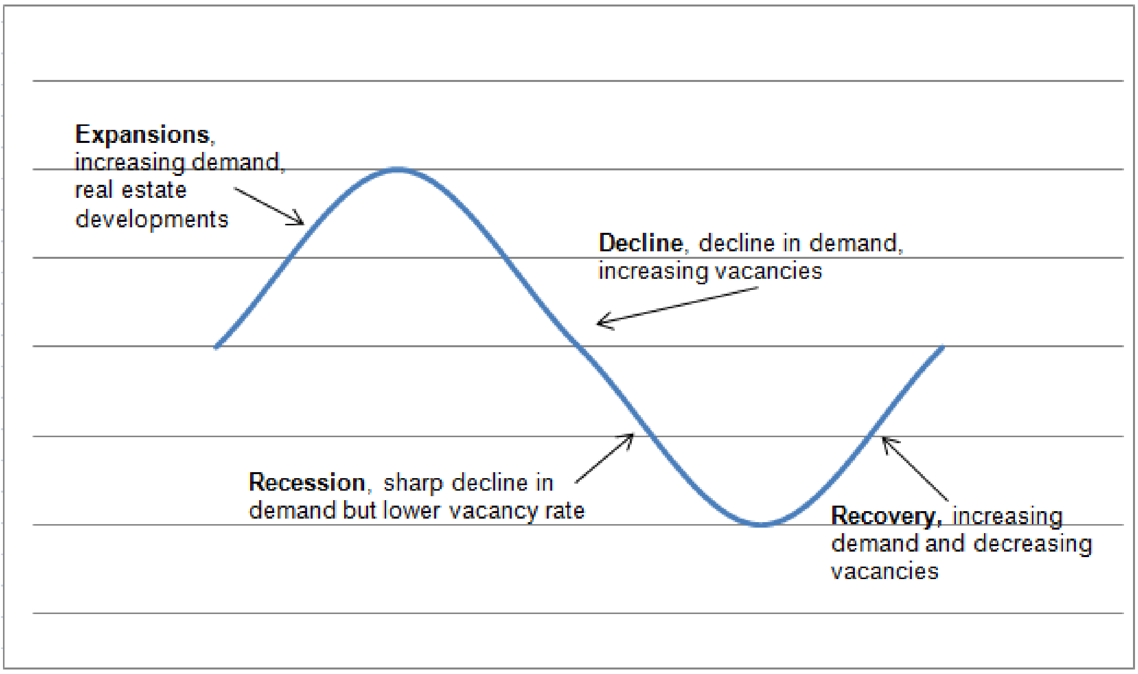

Fig. 1 – Real estate cycle

Afterwards we are entering in the decrease period of the real estate market, which includes two phases: a phase of decline and a phase of recession in the real estate cycle. It is important to distinguish between the two stages of decrease, in order to correctly identify on what point of the chart we are now and why not, to predict the moment of recovery.

Thus, following the expansion period, the first trend was the decline in demand along with increasing the vacancy. As a result, buyers still maintained their interest in the investments / acquisitions, but their optimism was much more reserved, they have become more skeptical, based on the new information and rumors of declining housing market, and they were no longer willing to offer any requested price by the seller, although the seller still maintained the same prices, behaviours which led to lower occupancy and units sold. These characteristics of the market were visible in late 2008 - early 2009, a period of decline, the decline stage.

The third stage of decline, the period in which we are today, is the **phase of recession.** The main characteristic of this phase is obvious: the sharp decline in real estate prices. The second characteristic of the recession phase is lower vacancy rate. This characteristic is very important because this is the first sign of recovery. Currently, we are a long way from this intermediate stage, as can be seen from the number of units offered for rent and unoccupied.

The last step is the **recovery,** when demand begins to increase and the degree of vacancy starts dropping. From our point of view, the chances of this happening soon are very low, taking into account the general housing market datas that are composed by four factors, forces, that influence the real estate property value (the social, economic, governmental and environmental or physical). We will refer only to the first three of them because they generally apply to the entire real estate market in Romania.

Thus, social factors or forces: from a demographic point of view, Romania's population is in a continuing trend of aging, a trend that shows no signs of change. Specifically, the population of Romania in the first half of 2010 decreased by 30,253 persons, while the decline was 34,825 persons for the whole year 2009 (source National Institute of Statistics). Romania's population decreased in June 2010 with 1891 people, five times more than the same month last year - 371 people (Report of the National Institute of Statistics (INS) in the "Population and demographic phenomena, the number of marriages is declining, number of divorces is increasing and young population (main prospective buyers of real estate) go to work or migrate abroad and settled there permanently.

Economic factors or forces: lower wages, lower purchasing power, rising unemployment, credit conditions and demanding economic insecurity are the main forces that act negatively on the price of the property market.

Government forces: except the First House programme, which has only a temporary effect, freezing the real economic problems, a program that acts on the effects of the problem and not on the causes, a programme that is not a sollution of the issues but just a measure of delaying the problems, so far, we can not see a clearly applicable governmental program, capable to act on the cause of the economic problems.

Following this analysis, the three general forces, the conclusion is one: the downward trend in real estate prices will continue to maintain, the exact period is difficult to estimate.

In what follows, we will examine some specific issues related to the property market in Tirgu Mures, we will present the dynamic of prices on the residential property market of the apartments at the beginning of the crisis compared with the current prices.

3. **The apartments real estate market (sales)** It is generally observed a decrease in the prices of the apartments in 2010 by 35% - 40% in EUR currency, compared with the second quarter of 2008 (during which apartment prices have peaked in the housing market). This decrease is smaller in RON, the drop in romanian currency in 2010 compared with the second quarter of 2008, being about 25% - 30%, given the average rate of 2008 EUR (3.6827) and average EUR rate of 2010 (4.2099, according to BNR).

As can be seen in Fig. 2; Fig. 3, Fig. 4; and Fig. 5, in 2008, apartment prices have maintained their upward trend until the second quarter, inclusive. In the third quarter of 2008, there was a stagnation in prices followed by a sharp decline in 2009, with a tendency to stagnate in the second quarter of 2010, but on the same downward trend.

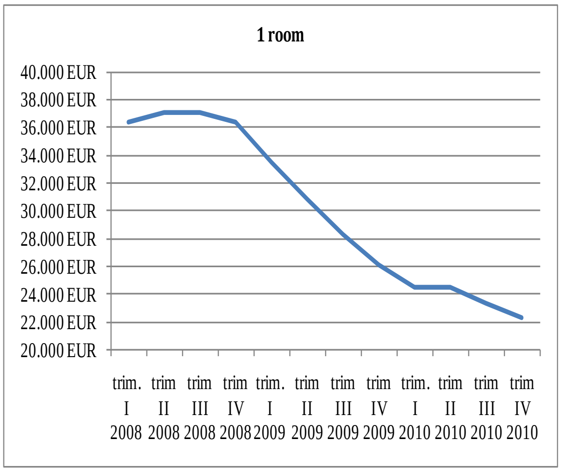

Fig. 2 – Dynamics of prices for apartments with 1 room

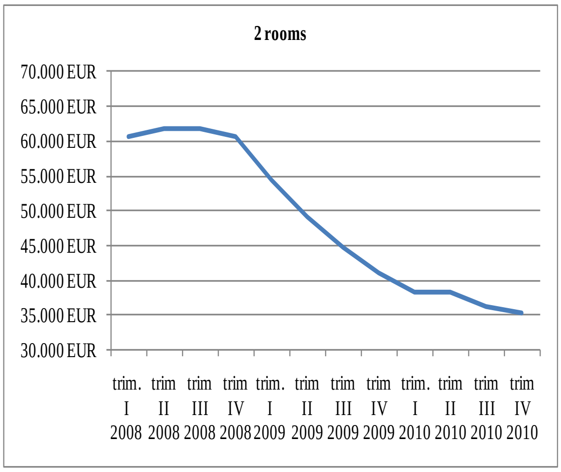

Fig. 3 – Dynamics of prices for apartments with 2 rooms

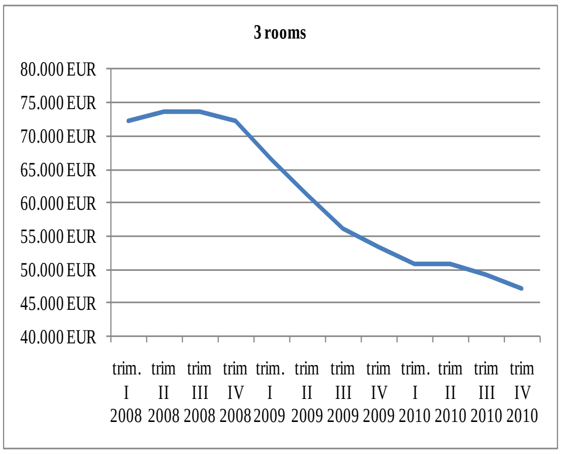

Fig. 4 – Dynamics of prices for apartments with 3 rooms

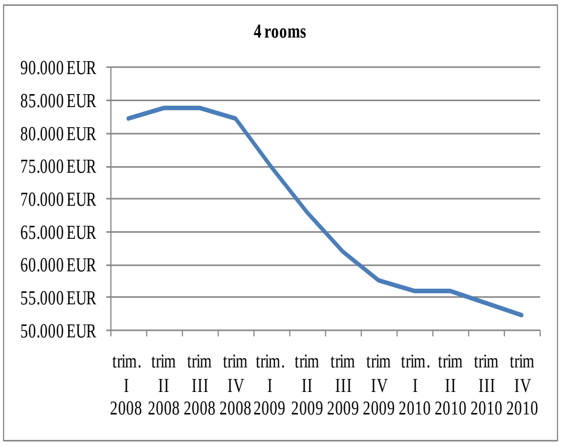

Fig. 5 – Dynamics of prices for apartments with 4 rooms.

The graph in fig. 6 presents by comparison the prices of apartments confort I, with average finishings, from Tudor Vladimirescu, Dâmbu Pietros, 7 Noiembrie, Aleea Carpaţi, Unirii neighborhoods, the most common types of apartments traded in Tg Mures.

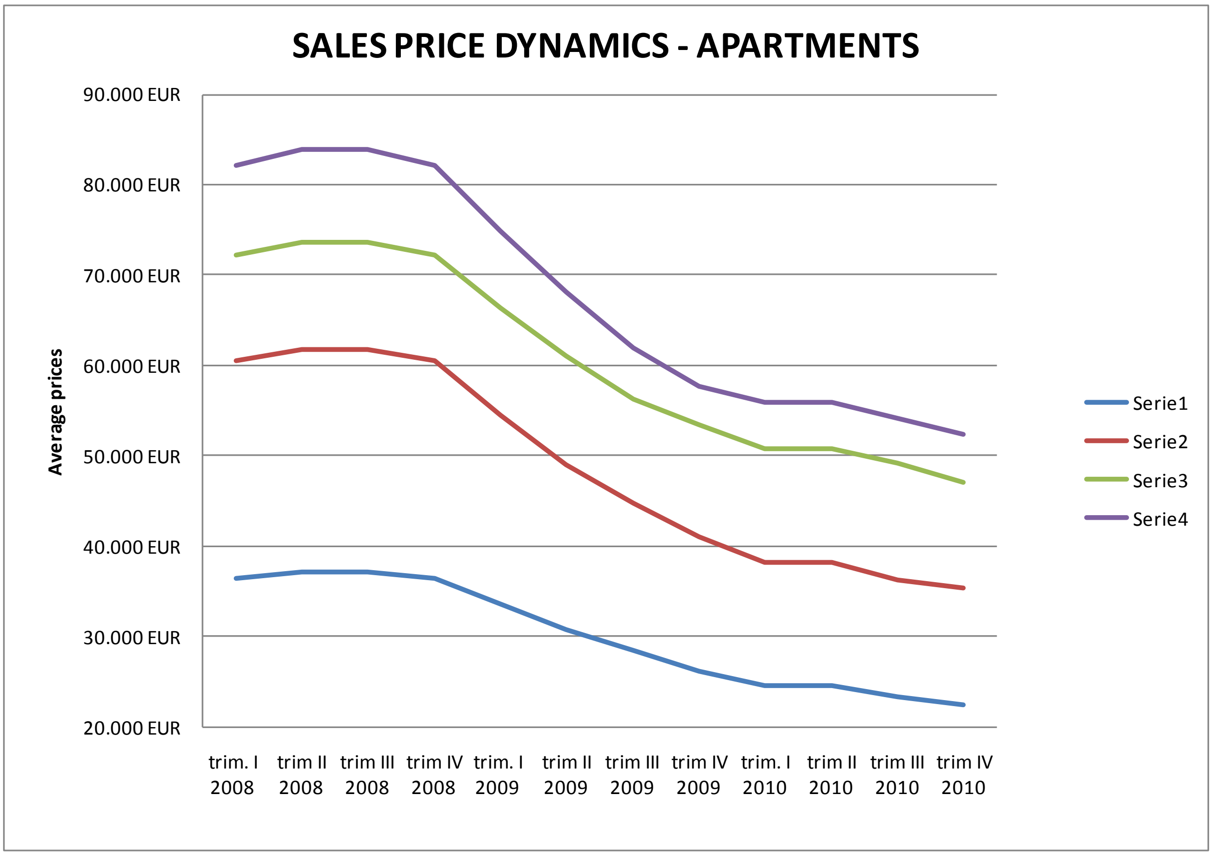

Figure 6: Dynamics of prices for different types of apartments

4. The rental markert

Market rental price growth dynamic has been different from sale prices growth dynamic. An increase in rental prices was noticed until the fourth quarter of 2008, with a significant increase during the third quarter - fourth quarter, in contrast with the early surge in sales price reductions.

This sudden increase in rents was due to an increase in the number of requests for rental of that period. The dynamics of the number of requests from that period can be explained by the decreasing number of purchase requests.

In response, the decreasing number of requests for purchase of flats has caused an increase in rental requests, leading to an increase in rental prices. So, the rental market reached the highest values in the fourth quarter of 2008 and not in the second quarter as sales prices did.

This increase, however, was a temporary one, speculative, due to a favorable context (growing demand for rental due to decreased number of requests for purchase), but an unsustainable growth, due to reduced income and purchasing power of population, decline that makes itself felt especially in 2009-2010.

Starting with the end of the fourth quarter of 2008, the beginning of the first quarter of 2009, rental prices began to decline reaching in the fourth quarter of 2010 to values (EUR currency) by about 15% less for studios and apartments with one room, 20% and 30% for 2 and 3 rooms apartments. This decrease, however, is less in RON currency, in 2010 compared with the fourth quarter of 2008, being about 4-5% for studios and 1 room apartments and 10% and 20% for apartments with 2 and 3 rooms, given the average rate of 2008 EUR (3.6827) and average rate of 2010 EUR (4.2099).

Figure 7: Dynamics of rental prices

5. Conclusions and perspectives

We consider that the property market in 2011 will continue to decline, currently there are no real signs of recovery or changes of the current course.

Although the housing market is now declining, leading market participants manifest an attitude of relative calm, gradually adapting to new market conditions, most of them expecting to a further decline on a short and medium term but without abrupt changes in the configuration of the market.

Doing a comparison of the current situation with the events that led to the crisis in 2008, we must note that a new shock on the real estate market is likely in 2011, whose effects would be at least as strong as in 2008.

Thus, changes in commodity prices, particularly food and energy, reminds us of the previous period. Increasing commodity prices are due to transfers of capitals from investment funds and bond markets to food and energy markets. Few months before the crisis started in 2008, the commodity prices dynamics was similar to the current situation, in this case, the increase in commodity was due to the transfers of capitals from the mortgage market and related markets.

Now it is the same crisis of confidence, this time in financial markets (and in states' ability, as economic entities, to pay the amounts of money borrowed by issuing bonds), in the months before the crisis was in the housing market.

In conclusion, the real estate market remains uncertain, the participants should act with utmost caution, both investors, property developers and individuals who contract a long term mortgage.

We believe that the current relatively low level of interest in the international market, imposed by central banks, can not be maintained over time because of increasing inflation rate, which in turn is generated by monetary issue with no coverage, which is necessary to cover budget deficits. A high inflation will force central banks to impose a higher reference rate, which will increase the cost of lending by commercial banks, cost that will be borne ultimately by the final consumer, ie, the borrower.

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