EVOLUTION OF THE ROMANIAN RESIDENTIAL MARKET 
AFTER OUTBREAK OF THE CURRENT ECONOMIC AND FINANCIAL CRISIS

Şteliac Nela
Lecturer Ph.D., "Babeş-Bolyai" University, Cluj-Napoca, Faculty Of Economics And Business Administration

e-mail: steliacn@yahoo.com, nela.steliac@econ.ubbcluj.ro

Abstract

The residential market is one of the market sectors seriously affected by the current economic and financial crisis. This is mirrored both in the fall of real estate trading prices and in the decreased number of transactions and cutback of newly built constructions. This trend is applicable to the entire spectrum of the residential market (luxury properties and homes destined to average-income customers). Romania is no exception from this European and world-wide state of affairs. This paper aims to briefly outline the trends on the Romanian residential market in the aftermath of the current crisis.

Key words: residential market, evolution, prices, home constructions, First Home.

JEL Classification: E31, L74, O18, R31

Introduction

The residential market constitutes an extremely important segment of the real estate market. The period 1990-2011 ensured the increase of the Romanian property fund to more than 8.5 millions units, among which more than 800,000 were put into service, 390,000 of which in rural areas. In 2011, the property – population ratio was about 2.3 new homes/1000 inhabitants [12]. The boom year on the Romanian residential market was 2008, which registered the greatest sales of real property units. The statistical data of the past 5 years highlights the decline of the residential market. Nevertheless, not only the Romanian market was seriously affected, but all the other countries caught in the turmoil of the current financial crisis. The purchasing power of the population dropped fairly low during these crisis years, as shown by the decreasing trend of the real estate purchase prices, as well as of value of mortgage loans.

This paper attempts to perform a radiograph of the Romanian residential market. The paper contains data regarding the evolution of the new homes put into service, of the real estate trading prices, of the First Home scheme and of the luxury residential segment. For this purpose we used a series of statistical data from the institutions involved in the assessment of the main markers of this market, and statistical data published in the Romanian mass-media.

1. A short literature review

Many articles have been written about the U.S. and other countries real estate market situation, before and after housing boom. In several papers, the collapse of U.S. housing market was considered the trigger of the crisis [1], [4], [6]. The role of real estate market in triggering the current economic crisis is recognized by the most experts. “The U.S. subprime crisis has demonstrated that the burst of the speculative bubbles on a large real estate market could trigger a crisis with global effects” [2, p.6]. After the housing boom, “the question that economists are heatedly debating is how much of the increase in housing prices was due to economic fundamentals and how much was due to a bubble-a rise in price due to irrational exuberance about future price appreciation” [1, p.209].

Studying the prices issue of real estate market, Girouard has identified five main reasons for the house price bubbles: low interest rates; development of new and innovative financial products; extremely favorable tax treatment of debt-financed, owner-occupied housing; short supply of urban land in attractive areas; more purchases of houses and condominiums for speculative purposes or as rental properties [3].

For Romania, it is considered that, despite NBR’s prudent monetary policy, the main factors of increasing real estate prices were the following: high inflows of foreign capital directed towards the real estate markets; high competition between private banks; pro-cyclical fiscal policies and the “irrational exuberance” of the population [2]. “The first direct effect on real estate prices in Romania was seen in the summer of 2008 when there was a stagnation of growth” [7, p. 254].
2. New constructions

The residential market is not limited to the old buildings for sale. A key role in the analysis of the residential market belongs to the newly built homes. In fact, the evolution of these constructions may provide an important signal for the evolution of the entire economy. A favourable trend in the level of home construction may underline the revival of a country’s economy, whereas a negative trend may signal an economic contraction. Romania, seriously affected by the current economic and financial crisis, is no exception to this rule. Similarly to most of the European states, our country also registered a significant decrease of completed homes. Both the state and the population allocated lesser funds to this sector; the state, from lack of budgetary resources, and the population from lack of financial means and fear for the future.

In the following we will present a brief overview of residential constructions in the past 5 years.

The data in the table below point to a continuous decrease in the number of housing units given in service. By residential areas, most of them were completed in rural areas, with an annual weight above 50%. Of the total number of completed homes, more than 90% were financed from private resources. Moreover, with the exception of 2009, the classification by financing sources shows a reduction in the weight of completed homes financed from budgetary funds, from 6.9% in 2008 to 4.3% in 2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>Completed homes</th>
<th>Urban area</th>
<th>Rural area</th>
<th>From public funds</th>
<th>From private funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Units</td>
<td>%</td>
<td>Units</td>
<td>%</td>
<td>Units</td>
</tr>
<tr>
<td>2008</td>
<td>64,414</td>
<td>30,665</td>
<td>47.6</td>
<td>33,749</td>
<td>52.4</td>
</tr>
<tr>
<td>2009</td>
<td>61,101</td>
<td>30,308</td>
<td>49.6</td>
<td>30,793</td>
<td>50.4</td>
</tr>
<tr>
<td>2010</td>
<td>48,812</td>
<td>23,292</td>
<td>47.7</td>
<td>25,520</td>
<td>52.3</td>
</tr>
<tr>
<td>2011</td>
<td>44,456</td>
<td>19,390</td>
<td>43.6</td>
<td>25,066</td>
<td>56.4</td>
</tr>
<tr>
<td>2012</td>
<td>26,654</td>
<td>11,539</td>
<td>45.3</td>
<td>15,115</td>
<td>54.7</td>
</tr>
</tbody>
</table>

Source: INSSE Data, * data related to period 1.1-30.IX.2012

The years of crisis impacted greatly on housing constructions. As such, until 2011 inclusively, there was a decreasing trend in the segment of completed newly-built homes, both overall and by residential areas and financing sources. Nevertheless, the shortage of data for the 4th quarter of 2012 prevents us from advancing the same conclusions for the current period.

In terms of residential areas, the data below shows that the greatest decrease in the number of home constructions, by 36.77%, was registered in the urban environment in 2011. The volume of housing constructions in rural areas dropped by 8.6% in 2009, more than in the case of urban areas. The decreasing ratio for rural and urban areas was approximately the same in 2010, whereas in 2011, the decrease in the number of homes given into service in cities (-36.77%) exceeded the decrease percentage registered in rural areas (-25.73%). Similarly, in terms of financing sources, it is noted that the public funds for housing increased in 2009 and dropped dramatically during the following years (approx. 49%). In regard of this situation, it must be pointed out that 2009 is the debut of the national programme sustained by the government, called the “First Home”, which is behind the 27.63% increase in the number of homes financed from budgetary resources earmarked for this economic sector. The highest level of funds was allocated in the first phase of the programme, roughly of 1 billion Euros.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fully Completed Homes</th>
<th>Urban Area</th>
<th>Rural Area</th>
<th>From Public Funds</th>
<th>From Private Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% as comp. to 2008</td>
<td>%± as compared to 2008</td>
<td>% as comp. to 2008</td>
<td>%± as compared to 2008</td>
<td>% as comp. to 2008</td>
</tr>
<tr>
<td>2009</td>
<td>94.85</td>
<td>-5.14</td>
<td>98.83</td>
<td>-1.17</td>
<td>91.24</td>
</tr>
<tr>
<td>2010</td>
<td>75.78</td>
<td>-22.42</td>
<td>75.96</td>
<td>-24.04</td>
<td>75.62</td>
</tr>
<tr>
<td>2011</td>
<td>69.01</td>
<td>-30.99</td>
<td>62.23</td>
<td>-36.77</td>
<td>74.27</td>
</tr>
<tr>
<td>2012</td>
<td>72.83</td>
<td>-27.17</td>
<td>61.35</td>
<td>-38.65</td>
<td>84.96</td>
</tr>
</tbody>
</table>

Source: INSSE data, processed by the author
Note: * calculations performed in view of the statistical data of the first three quarters of 2008

In terms of development regions, the situation of new home constructions is as follows:
The North of the country is in the lead with regard to newly-built homes, with a total of 38.2% in 2008, respectively 36.6% in 2011. The greatest weights correspond to the development regions: the North-West and North-East. A possible explanation for this situation is that a great part of the inhabitants of these areas work overseas. Nevertheless, except for 2012, for which period data are not complete, during the years lapsed from the outbreak of the crisis, the most significant percentage decrease of completed homes, of -46.89% is registered in the North-West area. Referring to the same year, 2012, the lowest percentage decrease, of -7.29%, is noted in the South-Muntenia region. This very region also registers certain percentage increases both for 2009 (+10.28%) and 2010 (+1.32). Such positive changes, together with those occurred in the North-East and South-East regions, are mainly due to the real estate boom [13].

As a weight in the total number of completed homes, bottom of the list is, with an exception in 2010, the South-West Oltenia, with 6.32% in 2008, respectively 6.15% in 2011. Also last year, in the country’s largest cities, the average trading prices were the following:

### Table no. 4

<table>
<thead>
<tr>
<th>Cities</th>
<th>Average prices/sqm</th>
<th>Decrease compared to 2008</th>
<th>Price differences between new and old apartments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucuresti</td>
<td>961 Euro</td>
<td>-7%</td>
<td>180 Euro</td>
</tr>
<tr>
<td>Cluj-Napoca</td>
<td>959 Euro</td>
<td>-43%</td>
<td>25 Euro</td>
</tr>
<tr>
<td>Timisoara</td>
<td>875 Euro</td>
<td>-38%</td>
<td>39 Euro</td>
</tr>
<tr>
<td>Iasi</td>
<td>837 Euro</td>
<td>-44%</td>
<td>108 Euro</td>
</tr>
</tbody>
</table>

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As a weight in the total number of completed homes, bottom of the list is, with an exception in 2010, the South-West Oltenia, with 6.32% in 2008, respectively 6.15% in 2011.

### 3. Real estate trading prices

According to the survey conducted by the portal globalpropertyguide.com in 2012, Romania ranks 5th with regard to the fall in real estate prices in Europe, by 10.07%. The first ranked is Ireland, which registered a decrease of -13.17% in the real estate prices in the period from January to September. It was followed in the same order by: Greece (-12.47%), Spain (-11.87%) and Holland (-11.43%) [11].

Returning to Romania, the past 5 years showed dramatic falls in housing purchase prices. In this respect, statistical data point to an alert downward rhythm in the period 2009-2010. The following two years are marked by a less dramatic price fall. According to the data provided by the platform Analiza imobiliare, at the end of last year, the nationwide fall of apartment prices was by approximately 52% as compare to March 2008, which was considered the real estate boom [13].

Also last year, in the country’s largest cities, the average trading prices were the following:
According to the table above, as it should be expected, on top of the list of highest trading prices is the capital of the country. Moreover, it registers the greatest price difference between old and new apartments. With regard to this difference, Bucharest is followed in order by Brasov and Iasi. If we refer to the most spectacular price decreases, than Iasi ranks first both for new and old apartments. At the opposite pole is yet again Bucharest, with only 7% decrease in the trading prices for old homes as compared to 2008, respectively Timisoara with 29% in the case of purchase-sale prices for new homes.

The crisis allowed for a natural settlement of the real estate prices which exploded in the period preceding 2008. The economic instability, the difficult access to real estate loans, the lack of finances required to purchase an apartment/house, the uncertainty of the job, the fear for the future etc. entailed the contraction of the residential market both in terms of new constructions and transactions of old buildings. The cutback in the real estate demand triggered a natural adjustment of the offer, which resulted in a reduction in the investment levels made by real estate developers on this segment of the real estate market.

Table no. 5

<table>
<thead>
<tr>
<th>Cities</th>
<th>Old apartments</th>
<th>New apartments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Decrease in 2010</td>
<td>Decrease in 2010</td>
</tr>
<tr>
<td></td>
<td>comp. to 2008</td>
<td>comp. to 2009</td>
</tr>
<tr>
<td>Bucuresti</td>
<td>-55.2%</td>
<td>-13.5%</td>
</tr>
<tr>
<td>Cluj-Napoca</td>
<td>-36.3%</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Timisoara</td>
<td>-35.2%</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Iasi</td>
<td>-36.3%</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Brasov</td>
<td>-33.6%</td>
<td>-8.4%</td>
</tr>
<tr>
<td>Constanta</td>
<td>-30.6%</td>
<td>-10.1%</td>
</tr>
</tbody>
</table>

According to the above data, the lowest decrease in the sale-purchase prices of apartments registered in the first two years of crisis is noted in Constanta for old apartments and in Brasov for new apartments. In opposition, the most significant price decrease is noted in the capital, by more than 55% for old apartments, respectively in Iasi, by 40.2%.

In the period of economic boom, the chief engine for the growth of the residential market was the explosion of mortgage/real estate loans. The evolution of the economic activity in post-2008 Romania also affected in a negative way the amounts borrowed by the people from banks in order to purchase a home. As such, if in the first year of the “First Home” programme the average value for a mortgage security was of Euro 41,574, in the following two years it dropped to Euro 40,133, respectively Euro 39,115 [13]. Moreover, it should be noted that from the total mortgage loans, the greatest weight belongs to those contracted through the First Home national programme. It is estimated that in the period from June 2009 to December 2012, approximately 80,000 mortgage loans were granted under this scheme.

According to the data of the National Agency for Cadastre and Real Estate Registration (NACRER), 119,226 real properties were mortgaged in 2009, 134,874 in 2010, 170,772 real properties in 2011 and 132,349 in 2012. The number of mortgage agreements was nevertheless lower than the number of real estate transactions operated during the entire surveyed period. For example, in 2008 Romanians contracted approximately 158,000 mortgage loans, whereas 484,765 transactions were operated [21]. According to the NACRER data, in 2011 and 2012, the number of real estate sales/purchases was of 646,112, respectively 706,338.

4. The first home programme
The “First Home” programme debuted in 2009, and was designed to come in support of all persons who wish to purchase a home for the first time, and who have not yet contracted a mortgage loan. The programme is based on securities provided by the state, through the National Loan Guarantee Fund for Small and Medium-sized Enterprises (NLGFSME) to an extent of 95% of the purchase price stated in the promissory sale and purchase agreement, in case of:
- completed buildings destined for sale, including those built and given into service through the programmes operated by A.N.I.;
- not-completed buildings, in various stages of progress, to be put for sale after completion, including those built under the programmes operated by A.N.L.;
- new buildings, to be put for sale after completion, including those built under the programmes operated by A.N.L.;

The guarantees provided by NLGFSME are valid during the entire financing period, they are granted in the currency of the loan (Euro and Lei) but paid in national currency, at the NBR (National Bank of Romania) exchange rate applicable on the date of payment [18].

In fact, this programme was aimed to boost the residential constructions sector, seriously affected by the current economic and financial crisis.

According to the NLGFSME data, from the beginning of this programme until present, approx. 81,000 guarantees were granted, in the amount of about 3.17 billion Euros. By years, the status of the guarantees made available via this programme is as follows:

**Table no. 6**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of guarantees</th>
<th>Average amount of guarantee (Euro)</th>
<th>Total amount of guarantees (Mil. Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>18,554</td>
<td>41,574</td>
<td>771.4</td>
</tr>
<tr>
<td>2010</td>
<td>16,414</td>
<td>40,143</td>
<td>658.9</td>
</tr>
<tr>
<td>2011</td>
<td>20,148*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>26,000*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td><strong>81.116</strong></td>
<td>-</td>
<td><strong>3,179</strong></td>
</tr>
</tbody>
</table>


Unfortunately, no official data was available for years 2011 and 2012 regarding the average guarantee amount, nor the total amount of the guarantees. Still, the Romanian media refers to an amount of roughly 1 billion Euros as the total amount of NLGFSME guarantees in 2012 [14].

The increase in the number of mortgage guarantees granted by the state may be explained by the state employees’ salaries being brought to the initial level, the country’s economic revival perspectives, and the real estate prices retaking their normal course.

Also, it should be pointed out that from the total loans granted so far for home acquisitions, only 1.5% were denominated in lei, and the rest in Euro, which denotes the low attractiveness of the domestic currency for this type of loans. The main options of the mortgage loans beneficiaries under this programme were as follows: 52% opted to purchase two-room homes, 27% three-room and 13% one-room properties. The main part of the guarantees was granted in the capital city, (29.2%), in Cluj-Napoca city (6.9%) and in Ilfov County (6.8%). Until now, the non-performance of the programme has been quite low. Only 0.1% of the loans granted went into payment default [9].

5. The luxury residential market

This segment addresses in particular high-income Romanian or foreign customers. It is an interesting segment of the residential market due to the high trading prices of luxury homes. Their market value ranges from several thousand Euros to million Euros.

Sure enough, according to expectations, the greatest weight of the high-end residential market is concentrated in the capital city, which hosts the highest number of customers. The country richest live here, but also the majority of diplomatic officials and executives of large multinationals and even banks. Price reduction in this area of the residential market is in certain cases significant. Suffice it to show a few examples to prove the case. As such, in 2011 for example [15], the greatest decreases in the purchase prices were noted in:
- Constanta – 1.2 million Euro decrease, representing 40% of the initial price, for a property of 699 sqm useful surface;
- Bucharest – decreases ranging between 250 – 450 thousand Euros, that is between 21%-50% of the initial price, for properties of 174-434 sqm useful surface;
- Cluj-Napoca city - 200 thousand Euros decrease, representing approx. 24% of the initial price;
- Timisoara – 45 thousand Euros decrease for an apartment, representing approx. 18% of the initial asking price;

In 2012 [8], the following price reductions occurred in the large cities of the country:
- in Bucharest – decreases ranging between 0.71 – 2 million Euros for luxury properties of 180-2,200 sqm useful surface;
- in Brasov, the greatest reduction was of 295 thousand Euros, for a property with a useful area of 165 sqm and land of 430 sqm;
- in Cluj-Napoca, 110 thousand Euros reduction for a property with a useful area of 720 sqm and land of 600 sqm;
- in Constanta – 200 thousand Euros reduction for a 300 sqm property and 156 sqm of land;
- in Timisoara – 500 thousand Euros reduction for a mansion of 600 sqm;
- in Iasi – Euro 60,000 for 200 sqm of useful surface and 2,000 sqm of land.

The large real estate developers in this sector also felt the crisis effects. Many of them could not sell the newly-built housing constructions they had on stock.

This blockage in the sales of luxury housing was nevertheless offset by the high leasing level of such high-end properties, by a series of diplomats, bankers, business men, notaries, lawyers, officers of large multinationals etc. The monthly rental amount starts from Euro 3,300 and may even reach approx. Euro 20,000 [10].

6. Conclusions

The residential market followed close the dynamics of the current times; it was characterised by a reduction in the number of newly built homes and real estate transactions, by a significant reduction in the trading prices of properties in general, and of those destined to high- and medium-income customers in particular.

A governmental attempt to reclaim the home construction sector was materialised in the “First Home” national programme. Its operation translated in an increased number of mortgage loans, of whose cumulated value exceeded three billion Euros.

For the immediate future, the same downward trend can be foreseen in real estate prices, but the decrease will be relatively modest.

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