ROMANIA REAL ESTATE MARKET ANALYSIS & CHINESE REAL ESTATE MARKET STRATEGY ANALYSIS

Mrs. CHAI FENG XIA, PhD. Candidate
Academy of Economic Studies Bucharest, Romania
Joybird387@hotmail.com

Abstract
Romania and China both were communist country, after the politilcal change, economy and other social aspects all changed a lot. Regaring the real estate field, nowadays there are big differnence compare with chinese market strategy and Romania market. The comparision is aimed to know better how busniss going on each country and which strategy is more advanced and adpatable.Through the demand and suplier and price evolution analysis, we can see the differnence. In order to know better strategy differences.

Keywords: real estate, demand , supplier, strategy, price evolution

JEL Classification: R30, R31, R32

1. Introduction
Romania and China both were communist country, after the politilcal change, economy and other social aspects all changed a lot. Regaring the real estate field, nowadays there are big differnence compare with chinese market strategy and Romania market. The comparision is aimed to know better how busniss going on each country and which strategy is more advanced and adpatable.

1.1 Romania and economy overview.
Romania is an EU country, located at the intersection of Central and Southeastern Europe. Romania has as neighbors Hungary and Serbia to the west, Ukraine and Moldova to the northeast and east, and Bulgaria to the south (as per the figure 1 below)

Figure 1: Romania geographical situation

Romania is the 8th largest country of the European Union considering the surface, and has the 7th largest population of the European Union with almost 21 million citizens;

ECONOMIC CLIMATE

➤ Romania has the most dynamic European GDP evolution (+3,5% in 2013 vs. 2012) – the biggest economic growth in EU

➤ Among European Union countries Romania has one of the lowest unemployment rate recorded in 2013 (5.65%)-position 8 in front of UK, France, Italy etc.

➤ Inflation rate was at the end of 2013, 1.6% one of the lowest in CEE

➤ Romania ranks 3rd in the EU by the lowest income tax charged, which is 16%. The first positions are held by Bulgaria with 10% and Lithuania with a 15%

➤ Romania ranks 3rd in the world by Internet data speed download. With an average download speed of 52.8 Mbps, it is outranked only by Hong Kong and Singapore

➤ Bucharest – is the capital of Romania and the largest city– the 6th largest city in the EU. It is located in the southeast of the country and has almost 3 mil inhabitants together with the surrounding metropolitan area

➤ Bucharest attracts most of the foreign investments that accounted 25% of the country's GDP in 2012

> ➢ GDP/capital In Bucharest is with 240% higher than the country average

INVESTMENT CLIMATE

> ➢ Foreign direct investments to Romania amounted EUR 2.7 billion in 2013, the highest level in the last four years, according to data from Romania's Central Bank BNR
> ➢ The investment funds that are actively monitoring Romania are currently interested in residential buildings, office spaces, shopping centers, hotels
> ➢ Moody's improved recently the Baa3 rating outlook of Romania from negative to stable, anticipating that the positive evolution of macroeconomic indicators in 2013 will continue, while economic growth and funding risks have decreased due to the recovery in the euro area, (Mediafax-news agency)
>
> Table 1: forecast for Romania GDP

	2011	**2012**	**2013**	**2014**	**2015**
GDP % (yoy)	+ 2,3	+ 0,6	+ 3,5	+ 2,3	+ 2,5

Source from ZF newspaper-Banking Financial Analysts (Raiffeisen & BCR ERSTE BANK)

2. Bucharest residential market Over view
2.1 The demand analysis

In the last five years the residential market of Bucharest has known a spectacular development in the sense of a balancing of the accelerated demand for residential units in new developments for new apartments or old, already built apartments.

The main factors generating this evolution were:

• decreased risk appetite of the banking system, generating harsher financing conditions for residential buyers.
• capping and often decrease of income per household (salary, freelance professions, rents, dividends, copy rights), due to the deterioration of the economic environment.
• lacking trust of the buyers for the acquisition of a new home or the extension of living spaces, due to the high level of unpredictability concerning the financing of the acquisition and the subsequent medium and long term support of the costs involved.

- If we the period of time between 2008 - 2010 we see that the demand fall is only one of conjuncture and was generated especially by economic factors.
- The demand for residential units has been on an upward trend for over 40 years worldwide, European and National level, with local focus on Bucharest and other large cities.
- This evolution at the level of Bucharest was due to several factors, such as:

  Economic factors influencing the constant growth of demand:
  - The increase of net income of potential buyers
  - Diversification of the income sources of potential buyers
  - Increase of new created jobs numbers
  - Increase of investments made in the area Bucharest - Ilfov, into fields returning a high added value (IT, R&D)

  Social factors affecting the increase of demand:

  - The shaping of an increasing social category, consisting of persons considered to belong to the middle class, according to European and international standards
  - The necessity to live in homogeneous communities
  - The necessity to improve quality of life
  - Higher educational level of the population segment of 25-45 years

Demographic factors affecting the increase of demand:

- Increase of the number of births in the age segment between 25 and 45 years
- Strong migration of the population segment between 25 and 45, from areas with low economic potential, to urban and suburban areas near Bucharest

The Demand - Typology and manifestation

The demand in the residential segment was expressed, sustained and materialized in transactions starting with the '90s, when the only apartments available for sale were the ones located in the area of Primaverii and with a double surface in comparison with medium class apartments built in the industrialization period or apartments built in the districts of Bucharest which were raised in the communist period, or old apartments in the city centre.

As buyers became more educated and capital concentration was registered with a larger number of customers, the demand increased but until the year 2000 - when the accelerated development of the area Herastrau – Sos. Nordului began - this demand did nothing but put pressure on the market,

which leads in turn to a spectacular increase in transaction prices while the quality of the products remained unchanged.

In parallel, based on the constant demand for quality products and the lack of offers, a large number of customers chose to build their own homes, most of which are located in the area of Snagov Lake or in the premises near this area.

In the last 15 years, the excessive demand for residential units and the increasing financial potential of the buyers lead to a number of areas or developments classified as premium, being transformed into luxury areas. This is how Corbeanca emerged in the 90s as a luxury area but was reclassified as premium at the beginning of the year 2000.

All of these phenomena were characteristic for an immature and un-segmented market, especially due to a constantly increasing demand, at times even aggressive demand (1990-1995 and 2005-2008)

Nowadays it is rather hard to create the profile of the residential consumer in Romania. This difficulty increases when we analyze the profile of buyers of the premium and medium segment, because the motivation as well as the expression and satisfaction of the need for residential units remain hard to quantify on an immature market.

We classify home-buyers according to the most important characteristics: motivation, market presence, aim of acquisition, financial power, education and appetite for acquisition/investments for the residential market.

According to reason of the acquisition:
- Buyers as users
- Buyers as investors
- Buyers as "collectors"

According to market presence:
- Permanent buyers (collectors, speculators)
- Accidental buyers (users, new rich buyers, emotional buyers)
- According to the aim of the acquisition:
- Rational buyers (speculators, investors)
- Emotional buyers (new rich, final users)

According to financial power:
- Large contractors (speculators, collectors, investors, users)
- Owners or partners in renowned offices of free professions
- Top managers, heirs/ independent persons

2.2 The Supply Analysis

Evolutions of Apartments Delivery & Lunches (units/year)
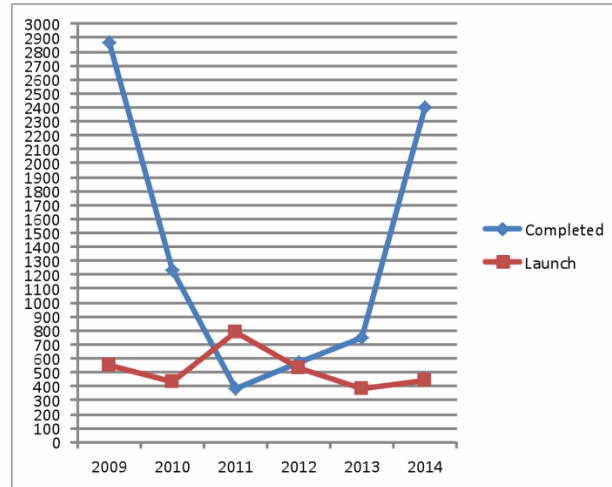
From the point of view of quality, most of the delivered units are classified in the medium segment, followed by the premium segment and then by the luxury.

However, due to the dimension of the segment and the low level of the market risk for the luxury segment, the proportion of deliveries was the highest, reaching 58%, in comparison with the medium segment, where it was only 9,2% (due to an unrealistic enthusiasm of the launch of new projects and also due to an over-evaluated demand).

However we have noticed that the difference between the units announced and the ones built was considerably reduced, so that in the time frame between 2011 and 2013 there was practically no difference.
 However, starting with the 4th quarter of 2013, announcements of new projects started to increase again in number, due to the increasing enthusiasm of developers/ investors for the residential market.

 It does seem that this time the enthusiasm expressed is not without basis, since it is accompanied by much more realistic economic background: macro-economic indicators improved substantially, a certain optimistic view returned to the financial and real estate markets.

Lunch vs Completed Apartments (units/type)
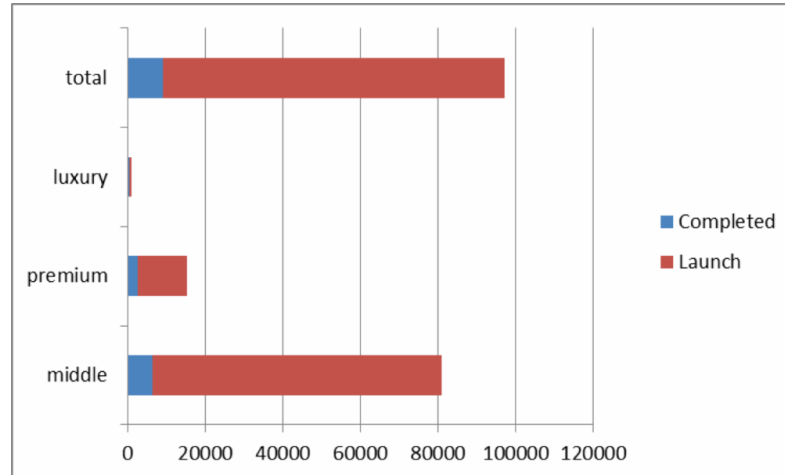
The luxury segment has seen a relatively constant evolution from the point of view of the offer, the main reasons being:
- Increased caution of specialized developers of such products means that the offer for such products was constantly low
- The value of demand for this type of products is much lower
- Bucharest is rather condensed from the point of view of real estate development, which means that the areas considered to be luxury areas are very limited and the land available for development of such areas is limited as well.
Luxury as a concept it means a reduced building or residential unit density among many other things, and a reduced number of multi-family residential unit flats.
Luxury means generous space to both living areas and sleep areas.

It may even seem hilarious but many of the characteristics related to luxury and premium products of Bucharest are considered minimal standards for products classified as medium on markets where real estate development has a rich and long history (London, Paris, Rome) or not a very rich but a long history (Vienna, Prague, Budapest), especially as concerns the residential comfort and the quality of the execution.
For term definition and in order to understand the detailed market elements in depth, we have identified the main technical and/ or ambiance characteristics differentiating the products of the three major segments: luxury, premium, medium.

Most of the supplies in China are normal and traditional residential apartments; there are not many light spots and special, new creativities design in the local residential market. Because of high rate of return in investment in real estate market in China, there are more and more real estate companies going into residential market even some industries companies are opening their residential apartments or branches. It looks as a new industry in China, it is very important to build a famous brand in real estate market for attracting customers. The real estate market in China need some public praise real estate company with their famous brand and good after sales service and good facilities services to be the leader in the market. The supply situation is the market is lack of high quality residential and sub districts.

2.3 Price Evolution
The evolution of prices per residential segment was directly affected by the evolution of capital accumulation transposed into the evolution of expressed and satisfied demand, based on the transactions concluded. A constant particularity of the last 2 decades, the demand for the luxury segment was not conditioned by external financing of the acquisition, and even more, every time cash was available, the demand was expressed and satisfied almost at once, which translated directly in an increase of prices.
 For the premium and medium segments the prices evolved relatively similar, because the segmentation of products was not very clear.
 The evolution of the sales price for properties of the luxury and premium segment was constantly increasing,
 The analysis considered mainly the sales price for apartments situated in multi-family buildings, because these are the critical mass which can be monitored, registered and analyzed with only a small error.
 Villa type estate transactions could be monitored but there were no conclusions possible because the number of such transactions was only 1436 /year, related to a period of 11 years and this transactions number is too low for analysis and to create trends. The monitoring included transactions in Bucharest but also in areas near Bucharest.

Romania market Price Evolution for Luxury, Premium and Medium Segment vs GDP
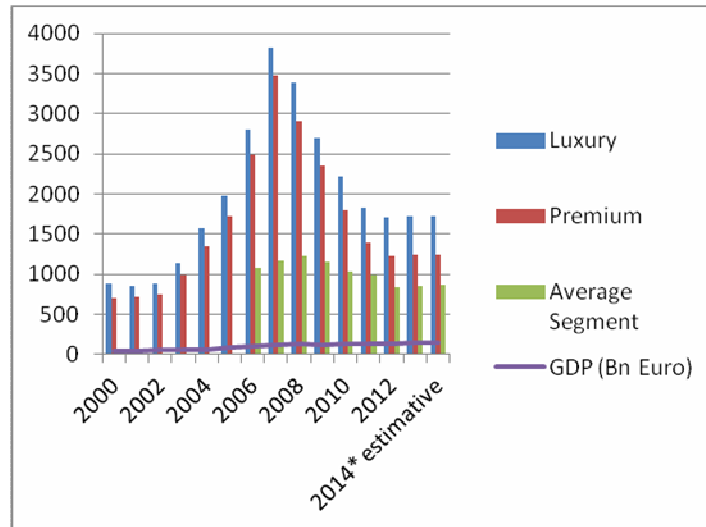
The analysis performed on the evolution of prices for real estate products from the luxury segment showed another important fact, respectively that the difference in price between the segments luxury and premium was very low until 2009, due to the following facts:

-The reduced number of products did not allow for the clear segmentation of the market into the two segments according to the price

-On the backdrop of the recession, buyers became more critical towards the products offered on the market and the selection of product quality was based on the price

-A lot of the products considered to be luxury between 2000 and 2009 started to show many technical and design deficiencies, and as consequence were quickly downgraded to the premium segment

We can state that the real value of the products in the premium and luxury segment had a much more constant evolution than that of the market average. If for certain market segments (e.g. land around Bucharest) the increasing variation registered reached a level of even 170%/year and subsequently the market correction lead to such falls as even 95% for the same product, the luxury real estate market had acceptable variations with the maximum increase being a little over 30% /year and the most significant fall a little over 11%, in conditions when the average annual corrections of the market for comparative periods in an upward direction were 44% and in a 87% decline direction.

3. Romania real estate strategy in residential

As real estate represents the largest percent of the capital investment in tourism industry, the links between these two economic sectors are significant. The fast growth of tourism in emerging economies represents a potential opportunity for real estate developers in these countries. Although we cannot compare the GDP per capita in these regions to the one in developed countries, the rapid growth of the middle class make them attractive for investments in tourism. Inskeep (1988) describes a broad range or real estate elements related to touristic activities:

Commercial, cultural and conference centers, visitor centers, recreation centers, employee housing and accommodation, all these elements represent potential opportunities for real estate developers, but first they have to gain market knowledge related to these products.

4. Chinese real estate strategy in residential

Real estate industry is a new economic growth point and main industry in Chinese gross domestic product nowadays. Most of the supplies in China are normal and traditional residential apartments; there are not many light spots and special, new creativities design in the local residential market. Because of high rate of return in investment in real estate market in China, there are more and more real estate companies going into residential market even some industries companies are opening their residential apartments or branches. It looks as a new industry in China, it is very important to build a famous brand in real estate market for attracting customers. The real estate market in China need some public praise real estate company with their famous brand and good after sales service and good facilities services to be the leader in the market. The supply situation is the market is lack of high quality residential and sub districts.

From the aspect of long term trend in the real estate market in China, the house price will increase in the future excluding a few megalopolis. In secondary cites and the level under secondary cities, with the increasing of the salary, the house price will be accepted by the local resident. At the present, the house price is downward because of the central bank constrains commercial banks whey they issue loan, and increases the ratio of down payments for the personal second house purchase and increase interest of loan. That is the adjustment by central bank for the overheated real estate market in the last few years. The downwards trend is not the long term trend for Chinese property market. The long term trend depends on urbanization process, change of population size and structural, resident income change and etc. China is a big country with 1.3 billion populations but the ratio of urban population is less than 50%. According to <World Cities Outlook

2007> issued by United Nations, there are about 3.3 billion people that lives in urban cities which means the world urban population is more than 50%. China urbanization level is lower than average of world. General speaking, China is in high speed increasing process of urbanization, but there is a distance with a lot of western countries. Because most people are living in middle and small size of cities and towns except for few big cities in China.

However, from the view of whole country, rural population trends to small and medium size of cities and people in small and medium size of cities trend to live in big size of cities in future.

From the trend of short and medium term in China property market, there will have a long adjustment period. There are some limits and reasons which will affect the adjustment period. The first one is the real economy and industry development; if the real economy keeps grow steadily, the salary and employment rate will increase steadily and that brings house demand increase. The second is inflation changes; if the inflation doesn't work in the normal range the central bank will adjust the monetary policy. All of these reasons will lead the house price change which brings uncertain factors in real estate market.

From the general view of the project, Fuxing Huiyu Real Estate Company has chosen their marketing strategy in a smart way. It focuses their energy to high end residential apartment in secondary cities and small cities which brings the company high profit.

From summing up experiences of the projects I found some good advises for real estate companies. Firstly, good location is very important. Both of the projects in 44 different cities are located in a good communications and good views areas. Because most Chinese families like take a walk after dinner, a street park is quite important for them to choose apartment. Secondly, they must know consumer psychology very much. It is easier to earn money from rich people than poor people. Rich people prefer to live together which area is must much higher than other areas, a real estate company with a good reputation satisfied customers' vanity. Thirdly, they must deeply know the marketing demand and supply. From the projects the company knows the high end residential is demanded in secondary city and small city; because the income is increasing in these kinds of cities and the customers need to buy a comfortable apartment for their parents and it could be their holiday apartment. As a well-known real estate company with a good reputation, it is not enough to build a suitable apartment but also need to build a good living environment such as a street park.

5. Conclusions

Romania real estate market is smaller than Chinese real estate, but there are some common demand, the supply situation is quite differnt. Each one has the advanced strategy to learn from each other. For example, romania market price is more reasonable and stable, Chinese market price is out of range, should be cool and get back to normal level.

6. Acknowledgment

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