

# **Efficiency and Effectiveness in Using the International Valuation Standards in Land Management and Legislation Framework – Case of Romania**

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**Key words:** Land Development, Valuation Standards, Land Management, Land Legislation, Sustainable Development, Agenda 21.

## **SUMMARY**

The present paper is referring to the influences of the evolution of the legislation and standards to the business transactions with lands and property developments management in Romania and its accession to the European Union.

It is known that methods of valuation have been developed by the professional associations as IVSC, TEGOVA, RICS and ANEVAR (of Romania) in order to make easier the process of the properties valuation.

As well as the legislation concerning property of land, land development and land management have been gradually evolved to levels of efficiency and effectiveness in applying the best practice methods.

Cases of good practice are presented in the paper as well as methodology of application.

Land development should be related with sustainable development policy as well in urban areas and in rural areas.

Valuation processes are developed related to these new demands because influences in land transactions and land development could appear due to the hardening of the national environmental legislation.

# Efficiency and Effectiveness in Using the International Valuation Standards in Land Management and Legislation Framework – Case of Romania

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## 1. INTRODUCTION

The need for a sustainable development of the society was highlighted in 1992 at the **Earth Summit in Rio de Janeiro**<sup>1</sup>, having as result the document Agenda 21 and was reiterated at the **World Summit for Sustainable Development in Johannesburg in 2002**. Sustainable development is the form of economic growth that meets the needs of the society in terms of short-, medium- and long-term welfare. It is based on the consideration that development must meet the current needs without jeopardising those of future generations. A statistical information system must be developed in this field to quantify and provide an accurate image of sustainable development.

The nations that have pledged to take part in Agenda 21 are monitored by the International Commission on Sustainable Development and are encouraged to promote Agenda 21 at the local and regional levels within their own countries. Agenda 21 addresses the development of societies and economies by focusing on the conservation and preservation of our environments and natural resources.

Agenda 21 is the blueprint for socially, economically, and environmentally sustainable development. Governments, non-governmental organizations (NGOs), industry, and the general public are encouraged to become involved in the process. Agenda 21 provides a framework for tackling social and environmental problems, including air pollution, deforestation, biodiversity loss, health, overpopulation, poverty, energy consumption, waste production, and transport issues.

Many local authorities have begun schemes of co-operation to allow them to exchange ideas about sustainable development. Groups of local authorities can join together to give themselves a louder voice to influence large companies.

## 2. SUSTAINABLE DEVELOPMENT<sup>2</sup>

Expanding human requirements and economic activities are placing ever increasing pressures on land resources, creating competition and conflicts and resulting in suboptimal use of both land and land resources. By examining all uses of land in an integrated manner, it makes it possible to minimize conflicts, to make the most efficient trade-offs and to link social and

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<sup>1</sup> Agenda 21, Rio de Janeiro summit.

<sup>2</sup> <http://www.un.org>

economic development with environmental protection and enhancement, thus helping to achieve the objectives of sustainable development. One of its key components is a conscious consideration of the needs of future generations. The national sustainable development strategy process offers an opportunity to coordinate and harmonize the various macro and sectoral strategies through identifying and building on complementarities. The national sustainable development strategy should be seen as a process that improves their implementability and their effectiveness.

In December 1989, Romania moved to a free market economy. Since then, the country has strived to cope with the ever-increasing demand for economic sustainability as part of overall social development. Social and economic development goals are essential parts of the country's development strategy, but are difficult to understand in an integrated way. Concepts like sustainable development and the human dimension of sustainability were not well known or understood and were therefore neglected. In Romania, all activities have been directed toward the achievement of a single goal, that of industrial development. In 1999, however, Romania adopted a long-term **National Sustainable Development Strategy (NSDS)**<sup>3</sup> and subsequently prepared a National Action Plan for the implementation of the NSDS, and the introduction of the **Local Agenda 21** process in the country. The Romanian legal support resides in **Law no 137/1995**<sup>4</sup> which defines the main notions and a long term national strategy.

## 2.1 Strategic principles and methods under Law 137/1995

- The principle of caution regarding the decision making process.
  - Benefits: the preservation of cultural heritage, building with restrictions.
- The principle of prevention of ecological disasters and damages.
  - Benefits: a clear habitat
  - Steps forward: eg.: works of hydro-amelioration.
- The principle of biological diversity and ecosystems specific to the natural biological and geographical environment.
- The principle “ the polluter pays”
  - Application: Sanctions, fees.
- The main concern is to remove the pollutants which have a dangerous, directe influence on people’s health.
  - Application: eg.: The project “Rosia Montana” which implies the using of prohibited methods of gold exploitation. The works have been stopped by the authorities. The negative effects would have been on the environment, on the archaeological heritage in the area, very valuable. Another influence would have been on the real estate market in the neighbourhood. The prices of the houses might lower, and the pollution would decrease .the potential investments.
- Setting up a national system to monitore the environment.

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<sup>3</sup> National Sustainable Development Strategy.Official information.

<sup>4</sup> Law no 137/1995 The Official Romanian Law Bulletin

- The principle of sustainable utilization.
  - Applications:- very important care for water
    - rehabilitation works for water pipelines,
    - gas and oil for heating and transportation industry.
- The maintainance, the improvement of the environment's quality and the reconstruction of the damaged areas.
  - Application: ecological garbage disposal camp
  - Eg. :The reconstruction of Danube Delta environment.
- Setting up a cooperation between the NGO-s and the citizens in order to make decisions and enforce them
- The development of international cooperation in order to assure the quality of environment.
  - Eg.: The international cooperation among the river-side states regarding the reconstruction of the Danube Delta.

## 2.2. Methods of setting up the strategic principles and methods under Law 137/1995

- To implement the environment policies harmonized with the developing programmes.
- The compulsoriness of the valuation procedure of the impact on environment, determined by the first stage of the projects, programmes and activities.
- The link between the environment project and the land management
- Setting up the economic stimulants and coercions.
- To solve on different levels of competence the environment matters depending on their importance.
- Setting up the norms and standards, their harmonization with the international regulations and the enforcement of the coercive programmes.
- Promoting the fundamental and applied research in the field of the environment's protection.
- The teaching and education of citizens and also a participative attitude of NGO-s in the decision making process.

Approaching an indicator system to help monitor the sustainable development of our country must stem from the objectives and targets provided for in our **National Strategy for Sustainable Development, in the "Orizont 2025" Romanian Development Strategy**<sup>5</sup> and in other programmatic documents adopted at national level and must be consistent with the **EU's Sustainable Development Strategy adopted in Göteborg in 2001.**<sup>6</sup>

These indicators must be consensual and provide a representative image of the three dimensions of sustainable development: society, economy and environment. It is equally necessary that these indicators be transparent, sound and reliable from a statistical point of

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<sup>5</sup> Official notes and publications.

<sup>6</sup> <http://europa.eu.int/>

view, that they be obtained from the best data sources, which must be harmonized in point of methodology with the international standards, be similar to those of the UE Member States and provide the grounds for comparison with the international standards used by the United Nations and by OECD. At the same time, these indicators must be rapidly obtainable and easily revisable, with a view to updating them.

### **2.3. From Global To Local - Local Agenda 21 in Romania**

The primary concern of NCSO was the development and implementation of **Local Agenda 21 in Romania 2000 – 2006**

This process was achieved in several phases:

**I. Pilot Phase** . UNDP project “Building Local Capacities to Implement Local Agenda 21 in Romania,” was implemented by NCSO. The pilot phase of this project, which included 9 pilot cities (Baia Mare, Galati, Giurgiu, Iasi, Miercurea Ciuc, Oradea, Ploiesti, Ramnicu Valcea and Targu Mures) started in February 2000 and ended in Feb 2003.

**The micro pilot demonstrative projects** were the final task of the UNDP /CIDA/DFID Local Agenda 21 Project. Such micro pilot projects were carried out in the pilot cities co-funded by CIDA: Iasi, Oradea, Rm. Valcea and DFID: Baia Mare, Ploiesti and Targu Mures.

In order to facilitate development of best practices of public involvement and stakeholder participation in the implementation of LA21 strategies in the cities, funding for Pilot Micro Projects has been provided to NGOs and their coalition with other stakeholders.

### **II. Extension phase**

**2003 – 2004**. Taking into consideration the excellent results of the pilot phase and the accumulated experience of teamwork with adequate methodologies and techniques, the Government of Romania decided to expand the Local Agenda 21 programme nationwide to 40 more municipalities over the period **2003-2007**. An Agreement to that effect was signed on August 29, 2002, by the Ministry of Public Administration, the Ministry of Waters and Environment Protection, the Ministry of Public Works, Transport and Housing, the Romanian Federation of Local Authorities, and the UN Development Programme. The Ministry of Development and Prognosis, the authority in charge of the allocation of EU funding, subsequently joined the agreement.

The following cities have been selected to participate in the extended phase of the LA21 Project for the period March 2003 – April 2004: Arad, Campina, Medias, Sibiu, Sighisoara, Pitesti, Tg. Jiu, Slatina, Targoviste, Vatra Dornei, Falticeni, Bolintin Vale and Zimnicea.

**2004 – 2005.** In parallel with the finalization of LA 21 documents in the 13 cities included in 2003 – 2004 phase, in March 2004 started the selection process and the preparatory activities for the 2004 -2005 phase of LA 21 implementation project.

In this phase were included the cities of Brasov, Bistrita, Borsec and Mures County.

**2005– 2006.** The preparation of the phase 2005 – 2006 already started. From March 2005 till March 2006 the project will be implemented in the cities of Constanta, Medgidia and Gura Humorului and at the level of Brasov County.

On 14 and 15 January 2005 the representatives of NCSO and Romaqua Group met with the mayors of Borsec and Bilbor. The meetings has as a subject the establishment of an Integrated Management area in order to declare it as Biosphere Reserve UNESCO/MAB. There were also presented the opportunities and the advantages of such initiative for preserving the resources, the traditions and landscape, and the possibilities to put in value in a sustainable way the all these for the benefit of the communities. It was agreed that during the month of February a meeting with Local Councils will be established in order to start the implementation of the initiative

**"Environment Integrated Assessment"** training session was organized in Sighisoara between November 24 and 25, 2004 within "Capacity Development for Environment Integrated Assessment" GSP-R-11 project financed by **Canadian Agency for International Development**.

#### **2.4. Pre- conclusions**

The requirements of Agenda 21 are a supporting set of norms in order to achieve the objectives of sustainable development. Romania has established a national strategy for sustainable development, using a period between 2000-2025.

As a result of the up mentioned strategy, the issues as water pollution and water consumption, energetic resources as gas, coal, impact on land and human habitat started to be solved in a **multidisciplinary approach**. For instance, measures as the ecological change of garbage camps, the rehabilitation of water, and pipeline systems have started considering the fact there is a great demand at the level of the municipalities to solve these problems because a lot of pipes are very old and have to be replaced.

In what it concerns the ecological change of garbage disposal lands, the method it's a short-term one, because this could affect in time the land availability for it and the impact on the neighbourhood properties.

**It is known that the prices of the properties lower in these conditions.**

A way to minimize the situation is that the municipality invests in garbage recycling plans. It is showed that as the price of land rises, the public places for garbage will be lesser and lesser.

**Let's see what happened on the land market and real estate investment in the last years, in Romania.**

### **3. THE EVOLUTION OF THE REAL ESTATE MARKET**

In the next paragraph, references will be made on the following topics: The foreign investments in the Romanian real estate market, the Market Research, Mortgage's influence on the real estate market.

Although the economic systems of Central and Eastern European countries have simultaneously started to develop in the same direction, their evolution pace during the '90s varied significantly. As a consequence, one may notice certain differences that will be diminished on a medium term.

The result of such differences was also noticeable on the investment market, especially in the '90s, when countries such as the Czech Republic, Poland and Hungary occupied the leading positions as regards the options of institutional and independent investors. Even speculative investments were mainly performed within the territory of these three states.

Due to the positive evolution during the last 3-4 years, both in terms of actual economic increase, and in terms of adoption of the norms and standards necessary for a functional economy, **the** Romanian real estate market, which used to be waiting for investments, is now assaulted by investors. 2-3 years ago, not even speculative investors operated on the market, while presently both speculative and portfolio investments have increased in terms of volume and number of the transactions performed.

Real estate sale prices have increased by approximately 40-45% during the period comprised between June 2003 - June 2004.

This evolution was especially due to the 60-85% increase in land prices, especially in the case of land for commercial use (retail, hotels, office) and residential use. The prices continued to rise in 2004 by an average of approximately 35%, which will clearly give an impulse to speculative investments. At the same time, real estate development is highly dynamic both on the residential area market and on the retail, office and hotel area market.

The improved quality of office and retail areas, together with the changes in the types of contracts concluded with the tenants, have attracted institutionalized investors, which found profitable business opportunities in Romania, with 10-14% capitalization rates and minimum market risks. At this moment, numerous investors coming from countries that have a long established tradition in the field of portfolio investments purchase rented premises (commercial areas, office areas, apartments).

The demand is constantly increasing, due to the significant profit obtained, and the tax policy is highly permissive: the income obtained from real estate transactions by natural persons is subject to 0% taxation, while certain categories of companies are subject to 1.5% taxation quota.

These cumulated factors have turned *the Romanian real estate market into a very attractive environment*, where the profit is much higher than the European average profit and the market risk is lower. Until present, the real estate market has had an upwards trend, both with respect to the number and amount of the transactions, and to the investments made in this field.

For Romania, European Union prepared for the successful completion of such negotiations within the shortest time possible.

Accession is still the major objective pursued through its entire economic and financial activity. 23 out of 31 negotiation chapters for EU accession have already been closed, while the last 9 chapters are already in course of negotiation.

The European Union accession of the 10 states is already visible in Romania through a significant investment flow. The economic stability and the absorption capacity of the Romanian market in most of the fields, and especially in the real estate field, have created a stable and attractive environment for investments.

This positive change was first noticeable on the real estate market and, referring to this segment only, we may consider that we have already accomplished European integration. The perspective of European Union accession proves to be a real catalyst for Romania's evolution, and especially the real estate market will be much safer and attractive from the investment point of view.

Romania's Raiffeisen Housing Bank<sup>7</sup> (RBL) predicted the country's real estate market rise to US\$7.5 billion in 2004, up from US\$6.6 billion in 2003, as the economy improves and mortgage lending gains momentum. The market is expected to reach US\$11 billion in 2007, with transactions increasing by 30% each year. Several international financial institutions, such as the International Finance Corporation<sup>8</sup>, have backed Romania's efforts to expand its residential sector, helping mortgage lending in the EU-hopeful country to rise from US\$10 million in 2000 to nearly US\$700 million in 2003. According to RBL research, over 11 percent of Romania's eight million housing units consist of 2 or more people living in one room, putting the need for housing at 800,000 new units. In addition, over 8 million Romanians want to improve their housing situation over the next few years, either through renovation of existing units or by purchasing a new apartment or house. The number of newly built housing units is expected to increase from 36,300 in 2003 to over 60,400 in 2007.

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<sup>7</sup> <http://www.rzb.ro>

<sup>8</sup> <http://www.ifc.org>

The coming years will see a continuation of the extension of the outer areas of Bucharest. This expansion is fueled by people who want to escape city pollution, a back yard and to pay less than in the center of Bucharest.

Northern Bucharest is developing at a faster pace than other regions where land prices vary from EUR 20-60 per sqm.<sup>9</sup>

Investors' interest<sup>10</sup> has concentrated on most areas in Bucharest, but the northern locations continued to be in highest demand because of the rapid development, easy access to the center of the town and mountain areas. Land prices posted the highest value increase of all the segments of the real estate market. In central and residential areas there were cases where land doubled its value, while the rest of the areas posted 60-70 percent increases.

Land prices in areas that are closer to Bucharest's exits come in at EUR 10-15 per sqm for the industrial segment and EUR 20-30 sqm for the residential one. In central areas of Bucharest, such as Cotroceni, Dorobanti and Domenii, the average is up to EUR 1,000-1,500 per sqm, especially if the transaction concerns a plot that will be used for office development.

According to data gleaned by CBRE<sup>11</sup>, most demand for surfaces is for around 5,000 – 7,000 sqm for industrial developments, around 15,000-20,000 sqm for small residential developments, up to 50,000 sqm for large residential projects and between 25,000 – 35,000 sqm for retail projects.

The most interesting locations<sup>12</sup> remain in the center of the town, regardless of their surface. The northern area maintains its distinction as the fastest increasing trend, especially since it tends to be of the most interest for large office, residential and retail developments. This is due to the existence of proper infrastructure and surfaces that are large enough to allow such developments.

Another factor that contributed to the development of the residential sector was the evolution of the mortgage system, which now makes it possible for a person to move from a flat to a house.

The highest demand for land comes from the **residential sector** in Bucharest as well as in Pipera, Tunari, Otopeni, Snagov, Mogosoaia, Chitila and Rosu. Demand came both for small surfaces, between 300-600 sqm, and for large slices, ranging between 5,000-15,000 sqm.

### Land for office space

**The market for office buildings in Bucharest has a dynamic evolution** within the local real estate market and land for such developments is in great demand. However, availability is decreasing. Land for the construction of office buildings is found mainly in the central and northern areas of Bucharest, as well as in the western part of the city.

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<sup>9</sup> DTZ Echinox

<sup>10</sup> CB Richard Ellis

<sup>11</sup> CB Richard Ellis

<sup>12</sup> Regatta

In 2004, demand for land for the development of office <sup>13</sup>buildings came mainly from companies that want to build on their own and from developers. For 2005, the supply of land for the development of office buildings will be limited, while demand will increase due to the dynamics of the office space market. These two factors will lead to an increase in prices.

### Land for residential use

The market for land for residential use<sup>14</sup> grew continuously during the last few years, but was also unstable, due to the unjustified increase of prices.

There were several factors that led to the increase of residential land prices. The primary reason was the existence of a large number of investors and the movement of clients from the capital market to the real estate market.

Another cause was the development of the mortgage market that provides funds for the acquisition of property with the help of bank loans, which allowed more parties to enter the buying market.

Also a factor was the development in various areas of small housing estates by bringing utilities and improving the infrastructure and the existence of a high demand for luxury apartments, which drove many developers (individuals and companies) to acquire land for the construction of apartment buildings.

The northern area and the outskirts of Bucharest are where most of the residential land is located. The demand for land mainly comes from investors and developers. **Speculative investors, both Romanian and foreign buyers who acquire land, are using their savings for another purpose than that of capital market investments, since the real estate market allows for higher income streams in a shorter timeframe. This category represents about 45 percent of total investment.**

Professional developers that buy land with infrastructure in place represent the second category of buyers who want to build residential compounds. They account for 55 percent of the total demand for land for residential use.

Those who do not have land rush to buy it and those who have it rush. This trend explains why, according to all estimates, land prices will continue to increase, but not at the same pace as last year. A real estimate on for this increase is around 15-20 percent, but it could go much higher for areas that are targeted for large-size developments.

**The land rush will continue in 2005 as well since Romanian and foreign developers have numerous projects in mind.** Changes in the economic environment have prompted more to make investments for the long term.

**Large foreign investors have shown a higher level of trust in the Romanian business environment and often consider major portfolio acquisitions in the large cities.** An increased demand was triggered for the residential sector mainly because of the development

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<sup>13</sup> Eurisko's market report for 2004

<sup>14</sup> Eurisko study

of the mortgage system, which will result in a shift in development from flats to individual homes.

**The commercial sector** will also see an increased demand for land for office and hotel developments, and this demand will trigger a hike in the prices for land that fits the profile. Although northern Bucharest is the traditional favorite, many projects developed in other areas proved profitable as well.

The western areas in Romania, especially near Arad, Oradea, Timisoara and Baragan and Dobrogea, are witnessing an increased presence of foreigners who come and make massive land purchases.

**Most of these investors are foreigners – especially Italian, German and Austrian – but Romanians have an important share as well.** Generally, investments are made for speculative purposes because in many areas of the country land is sold below its real value.

However, another category of investors buy land to use in agriculture. **For this type of land, prices will increase by 30 to 60 percent each year, depending on the location, quality of the soil and utilities, especially the water source for irrigation.**

**The land market values in Bucharest are affected by the general town management plan, which has not been updated or improved since 2000.** Most of the old industrial sites within Bucharest have been taken over by other companies and their use will probably be changed. In such cases, authorities should be more receptive to requests to change the use of a site and allow the development of residential or office projects, since these two market segments are in high demand.

The past three years brought a continuous and constant increase of land prices, influenced by the switch of prices charged from US dollars into Euro at a 1:1 ratio and by the fact that interesting locations are harder to find. Currently, land in Baneasa costs between EUR 40-150 per sqm. Prices have risen by 300 percent in the past four years.<sup>15</sup>

Prices rose in 2004 by 25-40 percent compared to 2003<sup>16</sup>, while the northern area has seen increases of 35-40 percent. **Land in the Pipera-Tunari area costs between EUR 70-110 per square meter for plots that have access to utilities and main roads and between EUR 25-50 per sqm for plots located in more secluded or insufficiently developed areas.**

**The supply of land will remain high in 2005<sup>17</sup>,** especially in the outskirts and northern Bucharest. The high level of demand will be maintained and professional developers are expected to outnumber speculative investors as the prices have already reached a high level and there will be no further substantial increases. Since prices are not projected to increase as

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<sup>15</sup> DTZ Echinox

<sup>16</sup> Regatta

<sup>17</sup> Eurisko

much as last year, unjustified high prices will not be accepted, which should lead to the stabilization of prices in 2005.

### Land for retail use

The supply of land for the development of various retail projects is in all areas of Bucharest, with varying surface sizes between 3,000 and 80,000 sqm.

According to Eurisko's market report overview, **demand for land in Bucharest for retail projects in 2004 was divided into four main different types of developments: showrooms, supermarkets, gas stations and mixed residential and retail projects.**

Companies requiring land for showrooms inside the city preferred surfaces between 3,000 and 5,000 sqm located at street junctions. For showroom projects developed on the main exit roads from the city, land was located on the busy arteries with access to highways and national roads and surfaces between 10,000 and 15,000 sqm.

**Another important area of demand came from gas station chains wanting to expand and needing some 1,500 – 3,000 sqm of land.** Each of these locations had to be in compliance with the existing guidelines regarding the placement of a gas station. For this section of the market, the supply is very rapidly absorbed.

Land to satisfy the demand for supermarkets must have an area of between 5,000 sqm and 20,000 sqm as well as good street exposure and access to areas with a high density of population.

Another category of demand came from investors who wanted to develop buildings in mixed retail and residential projects. Plots of land with surface areas ranging between 20,000 and 60,000 sqm were required for these types of projects.

The price of land for the development of retail projects has varied from EUR 50 per sqm to EUR 250 per sqm depending on location, available utilities and surface.

Prices in the south-eastern areas of the city were the lowest at EUR 80-150 per sqm, while the north and center remained the most expensive areas, with prices topping EUR 250 per sqm.

The supply of land will decrease in 2005 due to the increasing amount of retail developments. The situation for the retail sector is not so bright<sup>18</sup> at the **moment because currently there is a crisis of plots that are suitable for retail and commercial developments. And all this happens while the large chains such as Cora, Carrefour, Selgros and Metro want to expand their networks in Bucharest.**

The land supply in Bucharest is constantly shrinking and in certain areas, such as Aviatorilor, Primaverii and Kiseleff, the only plots available are small with inflated prices. The offer for the areas close to Bucharest remains quite generous and these areas are to become interesting for future residential and commercial developments.

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<sup>18</sup> Regatta

## Land with industrial use

The supply of land for the development of industrial and warehousing projects is varied and is spread in all areas of Bucharest. **In the southern area, the supply of land is abundant, prices are low, yet the road infrastructure is still under construction, which renders access to the ring road rather difficult.**

The supply of land in the western area is limited **due to the intense development of industrial** and retail projects during the last few years. Due to the limited stock of land and the increasing demand, prices in the western areas increased significantly in 2004.

**The eastern area of Bucharest has a good supply of land for the development of industrial projects with very attractive prices, which benefit from the availability of utilities (electricity, gas and sewage)**

The northern area benefits from an excellent position, being located in the vicinity of the airport and allowing quick access to the center. Yet, due to traffic limitations on DN 1 and to high prices, investment in the development of industrial spaces is becoming unprofitable in contrast to residential and retail projects.

The average demand is for smaller plots between 5,000 and 10,000 sqm, yet the availability of such spaces is rather limited because the shape of the lots do not have the necessary opening and exposure. Another category of demand is focused on larger plots of land, from 50,000 to 100,000 sqm, which is coming from the part of developers of logistic or industrial facilities. The price of land for the development of industrial spaces varies depending on location, positioning, access, neighbourhood and utilities available.

**The supply of land for the development of industrial projects will decrease because all land with good exposure is quickly absorbed by the market.** The increasing demand is the result of the attention given by the investors to the industrial sector, which has a positive trend, since it will then lead to the improvement of the industrial space market.

*For a better understanding of the real estate market dynamic and the influences that foreign investments had on it, it is necessary to point out the legal frame.*

### **3.1. Legal Framework**

The legislation in force (Government Emergency Ordinance no. 92/1997<sup>19</sup> on Direct Investment Stimulation, amended and approved by Law no. 241/1998).

In order to improve the business climate in Romania and attract foreign capital, the Romanian authorities issued a new enactment in July 2001, i.e. Law no. 332/2001<sup>20</sup> on promoting direct

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<sup>19</sup> Ordinance no. 92/1997, Law no. 241/1998. The Official Romanian Law Bulletin

<sup>20</sup> Law no. 332/2001. The Official Romanian Law Bulletin

investment with a significant impact on the economy. Direct investment with a significant impact on the economy is the investment with a value in excess of 1 million US dollars in equivalent, made in the forms and ways provided by this law and which contributes to the development and modernization of the Romanian economic infrastructure, determines a positive spin-off effect in the economy and creates new jobs. Investments may be made in all economic sectors, except for the ones governed by special laws.

Investment made according to Law no. 332/2001 benefits from the following incentives:

- *Exemption from the payment of customs duties* for technological machinery, installations, equipment, measuring and control apparatus, automation equipment and software products purchased from Romania or abroad, necessary for achieving the investment, which are according to the list approved by joint Order of the Minister of Development and Prognosis and the Minister of Public Finance, providing the goods are new or were produced 1 year at the most prior to their being brought to Romania and they have never been used.
- *Delay in the payment of value added tax*, according to the regulations in force, until the date of 25th of the following month after the start-up of the investment for the new goods, imported or Romanian, necessary to achieve the investment, until its commissioning (according to Law no. 345/2002 regarding the VAT).
- *Deduction of 20 % of the value of the new investment*, made according to the provisions of the law, fiscally calculated in the month the investment is completed (valid until December 31, 2004, according to Law no. 414/2002 on profit tax).
- *Carrying forward the fiscal loss during the following 5 years from the taxable profit*.
- The use of accelerated depreciation, according to the specific legislation in force, with no obligation for a prior approval from the local fiscal authorities (valid until December 31, 2004, according to *Law no. 414/2002 on profit tax*).

Investors are bound to preserve their investment for at least 10 years.

The same UNCTAD report shows that "more than half of the companies that decided to move their business to other countries opted for Romania, Poland and Hungary as destinations in Eastern Europe." Gilbert Vood, President of the Foreign Investors Council<sup>21</sup> shows why it is good to invest in Romania: "Romanians are very well educated, skilled and relatively cheap; the market is large - 22 million inhabitants - and has a good geographic location with transport connections towards Europe and central Asia. Moreover, the Government has been striving for many years to create a favorable business environment, which can be seen in the economic growth, diminishing inflation, and political stability." Oresa Venture, the representative of the Foreign Investment Fund pointed out that the hierarchy of the most attractive opportunities in Romania had changed in the last year. "Utilities, the real estate sector - from farming land to the most sophisticated houses -, constructions and sophisticated financial services, infrastructure are the stars of the moment."

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<sup>21</sup> [www.fic.ro](http://www.fic.ro)

The present legislation is based upon general principles, according to which any investor, foreign or local, benefits from:

- The freedom of investment forms and methods;
- The possibility of investing in any field and under any juridical form provided by the law;
- The equal treatment - fair, equal and non-discrimination- for Romanian or foreign investors, resident or non-resident in Romania ;
- The guarantees against nationalization, expropriation or any other measures with similar effect;
- The right to benefit from customs and fiscal incentives set forth by the law;
- The right to obtain assistance in filing administrative formalities;
- The right to own movable and immovable assets, excepting the land, which may be acquired by Romanian natural or legal persons;
- The right to elect the competent court or arbitration authorities to settle potential investment-related disputes, etc.

"The investors are going to supply the necessary capital for the growth of the Romanian companies. Along this line, the development of the banking system plays an important part," said Hildegard Gacek, EBRD manager for Romania.

Foreign investments change the business environment. A report drawn up by the AT Kearney American<sup>22</sup> consulting company shows that European investors are "increasingly optimistic" as regards the "small tigers" of Europe, namely Romania, Slovenia, the Baltic States, Croatia, and Serbia.

An analysis undertaken by the Oxford Business Group (OBG) points out that foreign investors are confident in Romania's potential.. This explains the EURO 18-million investment made by the Austrian company Wienerberger AG in a brick plant (expecting that the construction sector will boom as the European integration gets near).

### **3.2. The influence of Mortgage Law and Banking Law on the real estate market. See the related research (pages 5-10)**

#### **Mortgage Law and the Banking Law**

Mortgage loans can be made in Romania under two laws—the Banking Law, which allows licensed banks to make loans secured by real property, and the Mortgage Law, which allows “other financial institutions,” in addition to banks, to make mortgage loans.

Previously, most bank loans were made under the Banking Law, since the Mortgage law requires that loans be for more than 10 years. Borrowers may be natural persons who are citizens and residents of Romania, or Romanian legal persons engaged in construction or rehabilitation of real estate.

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<sup>22</sup> <http://www.atkearney.com>

Loans can be collateralized with real property under the Mortgage Law of 1999 or the Banking Law of 1998. The Mortgage Law allows for loans to be secured by future (to-be constructed) property. As the property is built, it becomes subject to the mortgage; modification in the value of the property does not require modification to the initial registration.

**These provisions were included in the law to allow ANL—the National Housing Agency—to develop and finance the sale of housing.**

The Mortgage Law provides that the borrower must insure the property for the entire term of the mortgage contract. Banks often have their own insurance subsidiaries, but the law requires that the borrower be allowed to select the insurer. Many lenders require life insurance on the principal borrower, although this is not mandated by law.

Laws on ownership and other property rights are adequate and complete for operation of the mortgage market. **A number of previously nationalized properties are still subject to restitution claims, particularly in Bucharest. This complicates their sale or mortgage, but the properties subject to restitution claims are clearly identified so this does not unduly affect the general real estate market.**

#### **4. APPRAISAL POLICIES.THE NATIONAL ASSOCIATION OF ROMANIAN VALUERS**

Romania has had the foundations in place for a high quality real estate valuation system. There are many independent valuers who are licensed by the **National Association of Romanian Valuers (ANEVAR)**. ANEVAR itself has benefited from international assistance from the USAID-financed EERPF (the East European Real Property Foundation) in developing its methodologies and manuals.

Valuers use market standards, generally the comparable sales methodology.

The profession of valuer was established in Romania in 1992, as a response to the economical changes and to the new concept of free market.(as Romania entered since 1989 a new historical period and a democratic regime).

**The National Association of Romanian Valuers<sup>23</sup>** set up The Romanian Institute of Valuation Research (IROVAL) which coordinates the draft projects for ANEVAR standards named SEV (**Valuation Standards**), standards that are defined accordingly to the European (EVS) and international (IVS) standards.

ANEVAR is a full member and also member of the Board Committee of **IVSC<sup>24</sup>** (International Valuation Standards Committee) and full member of **TEGoVA<sup>25</sup>** (The European Group of Valuers' Associations).

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<sup>23</sup> [www.anevar.ro](http://www.anevar.ro)

<sup>24</sup> [www.ivsc.org](http://www.ivsc.org)

<sup>25</sup> [www.tegova.org](http://www.tegova.org)

In 2003, Romania was the first country which translated the IVSC standards from English to another language.

One of its medium term aims is to harmonize the various standards, from the valuation field, the sales field, the buildings and cadastre-geodesy fields in order to operate with a common language, using as reference ISO 9000 (quality standards) and ISO 14000 (environmental management).

There is predicted a strong cooperation among the NGO-s, at this level, because there is a high request in this direction, considering the soon membership of Romania to the UE. Many professional associations, an example being the Romanian Union of Geodesists, member of FIG (Federation Internationale des Geometres) have understood the necessity for such a common policy, and started to join their efforts.

## 5. CONCLUSIONS

This paper aimed to show the **links among the international requests of sustainable development in a global society and the real estate market considered to be an important part of the habitat** and it has support in international standards as the environmental management, the quality management, the valuation and the topographical measurements. The steps forward that Romania made in this direction are highlighted by an **adequate legislation orientated to a new definition of the property right**, under the new Constitution (enforced in 2004) which guarantees the property right, the restitution of properties – restitutio in integrum, of the lands which have been taken abusively by the state in the communist period, all these legal improvements having as result the dynamic of the real estate market.

The foreign investors have an increased interest in the Romanian property market and their financial contributions had also influenced the transactions with land and buildings. Romania is a potential market which has a bright future for the coming years in the field of the real estate investments, considering the needs for a new urban policy and the existence of a large, common, free European market which started to extend in the south-east part of the old continent.

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  - <sup>5</sup> Official notes and publications.
  - <sup>6</sup> <http://europa.eu.int/>
  - <sup>7</sup> <http://www.rzb.ro>
  - <sup>8</sup> <http://www.ifc.org>
  - <sup>9</sup> DTZ Echinox
  - <sup>10</sup> CB Richard Ellis
  - <sup>11</sup> CB Richard Ellis
  - <sup>12</sup> Regatta
  - <sup>13</sup> Eurisko's market report for 2004
  - <sup>14</sup> Eurisko study
  - <sup>15</sup> DTZ Echinox
  - <sup>16</sup> Regatta
  - <sup>17</sup> Eurisko<sup>i</sup>
  - <sup>18</sup> Regatta<sup>i</sup>
  - <sup>19</sup> Ordinance no. 92/1997, Law no. 241/1998. The Official Romanian Law Bulletin
  - <sup>20</sup> Law no. 332/2001. The Official Romanian Law Bulletin
  - <sup>21</sup> [www.fic.ro](http://www.fic.ro)
  - <sup>22</sup> <http://www.atkearney.com>
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