

## **The marketing perspective on the risks of unqualified real estate market**

George Marius MUNTEANU<sup>1</sup>, Ana Maria STAN<sup>2</sup>

**Abstract:** *The paper is about the risks of unqualified real estate marketing and how it can be reduced through the qualification of buyers and sellers. The main risks on this market are the pricing and the customer requirements therefore the qualification of real estate agents is important too because it can entail a real estate transaction. The price of a real estate transaction is set by the interaction between demand and offer. Regarding this it was described a successful real estate project developed in Transylvania by the German investor, Maurer Imobiliare.*

**Key-words:** *real estate market, unqualified buyer customer, unqualified seller customer, risks*

### **1. Introduction**

The need for this study has arisen not for the purpose of explaining fluctuations of the real estate market, but for reducing said differences (without considering the potential crisis), given an underqualified real estate market which, in many cases, leads to failure to complete a real estate transaction.

We consider that the real estate market has become competitive at national and international level, so that, properly applying marketing on the real estate sector may lead to its development and to the correct identification of the real estate buyer and seller requirements (particularly on the residential market).

The aim of this paper is to analyse the risk factors of an unqualified real estate market. Throughout the document herein, we shall highlight certain aspects potentially contributing to the development of the real estate market with regards to the value of real estate transactions. After analysing their value for the interval 2008 – 2013, a significant increase was noted until 2010, indicating that the real estate market recovered after the 2007 crisis, and in the year 2011, the value of

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<sup>1</sup> Transilvania University of Braşov, munteanugeorgemarius@gmail.com

<sup>2</sup> Transilvania University of Braşov, anamaria.stan@unitbv.ro

transactions decreased by 17% as compared to the previous year. In 2012, the value of transactions reached the level of the year 2010, and it was followed by the lowest value of the interval submitted for analysis, in 2013.

## 2. Literature review

The real estate market comprises all transactions with ownership or usage rights on lands and buildings. The uniqueness of the buildings defines (Sirgy 2014, 34) the market complexity, divided by areas and the purpose of that asset.

The real estate transaction comprises of the permanent or temporary transfer of one right, from one party to the other, which, most often, results in a cash amount. Firstly, the price of a real estate transaction is set by the interaction between demand and offer.

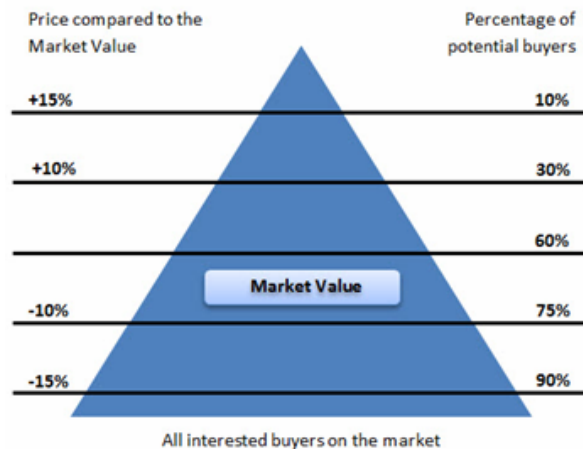
An efficient sale requires a specialised agent, grounded in the market reality, who knows how to make the connection between seller and buyer, and especially one who observes three key principles (Harkins, Hollihan and Liniger 2006, 68):

**1<sup>st</sup> Principle** – Buyers compare their properties with other properties on the market. Therefore, we shall compare different properties which they view in order to determine the price.

**2<sup>nd</sup> Principle** – The first weeks after the property listing are the most active. The first 3-4 weeks after the listing are the most active. The enthusiasm generated by a new listing shall determine agent and buyer imperativeness in viewing the property as soon as possible. This is the interval when the best and the highest offers will be received.

**3<sup>rd</sup> Principle** – The length of exposure of an offer on the market affects its value, so you should be careful in setting the right listing price, since this is considered to be a major factor in the market exposure/stationary period thereof. Studies reveal that a higher price entails a longer stationary period on the market.

The highest risks on the real estate market are related to establishing the price. For this purpose, we have included below (Fig.1) the pricing pyramid, illustrating the effect of market positioning of the property in relation to the number of potential buyers it can attract.



Data source: Re/Max

Fig. 1. *The pyramid of prices*

Therefore, if a property is assessed according to the market value, it shall most probably attract just over half of the potential buyers on the market. Not everybody is interested. It might not be the right style, size, location, etc. However, if the price is 10% lower than the market value, there will be many interested buyers since this is a good value and they shall be willing to be lenient, given this price.

If the price is 15% lower than the market value, almost all potential buyers shall consider it. This is both a good business and a good investment. On the other hand, if the property price is 10% higher than the market value, fewer buyers shall consider it. They know the prices and they shall be willing to pay a bonus to obtain the suitable property for their needs. On the same line of thinking, if a property is assessed by 15% more, the large majority of potential buyers will be excluded. Transactions will take longer, without becoming impossible, since the buyer has to be identified.

Agents and, particularly, sellers, tend to overprice the property, for various reasons. There are various reasons (Martell 2015, 31) for which overpricing affects the sale.

First of all, it reduces the activity of agents and their promotion budget since they are aware of the overpricing. They know that the seller is being unrealistic and they will not be interested in wasting their time.

Secondly, property overpricing will attract buyers with larger budgets, but with no interest in purchasing that property, whereas suitable buyers will not view it.

Third, this will lead to an increase in competitiveness for the same price category and it may cause assessment problems even if a buyer is willing to pay more than the market value was identified. The creditor may request an assessment

or, in other words, objective evidence showing that the price which the buyer intends to pay for the property in question is justified.

Given the above-stated reasons, market exposure is therefore extended for more than 30 days, leading potential buyers to question if there are ulterior motives for which the property was not sold up to that moment. Should they be willing to give it another chance, they will consider buying it as a bargain.

### **3. The risks of unqualified real estate market**

The risks of unqualified real estate markets are varied. They should be analysed both from the seller's and from the buyer's perspective. The real estate agent is the one who makes the connection between these two categories of customers, so the real estate agencies invest in the qualification of its agents, as well as to eliminate possible risks concerning its customers, facilitating real estate transactions and identify requirements of its customers.

#### **3.1. The risks of unqualified seller customer and its qualification**

Customer qualification is the most important step in real estate economy. This requires knowing the exact right price of the property to be sold. This is only possible by means of a professional real estate agent carrying out his or her activity strictly in the area where the property for sale is located, who shall submit a market analysis to the customer. The prices from real estate websites and notary offices are always inaccurate.

The notary office database prices include the prices declared by sellers and buyers, which most often are less than the real value of the transaction, in order to decrease the taxes paid by the buyer customer to the state and here we refer to the sale tax (between 2% and 3%, depending on the time in which the seller has owned the property) and the notary commission payable by the buyer customer, also approximately 2% of the sale value.

With regards to real estate websites, we shall use the example of [www.imobiliare.ro](http://www.imobiliare.ro). Sale prices are unrealistic since the website considers the sale price of the property corresponding to the moment when it disappeared from the website. Of course it is possible that the property has already been sold, but there is no indication with regards to the real sale price. The website does not have a call centre for follow-up, making it impossible to find out the real sale price from the customer.

The second option is that the seller might no longer be willing to pay for the property promotion on [www.imobiliare.ro](http://www.imobiliare.ro), and therefore he or she removes it from the website and tries to promote it on other specialized websites or even real estate

advertising newspapers. Once again, it is possible that the property was not sold and it entered the site database.

These are the main reasons for which the statistics submitted by the National Institute of Statistics and taken by television programs are false. Hence, buyers start off with false information when initiating a search for the desired property. As a result of these statistics, the general image in Romania is that on the real estate market, within the last two years, prices have increased by 10 per cent, when the real increase amounts to approximately 2%.

The unqualified seller customer shows the following risks for the economy:

- As a consequence of false information being published in the media, some customers prefer to postpone purchasing a house and to remain lessees.
- Small real estate agencies from the market might become bankrupt, since they lose their customers for this reason.
- Smaller tax paid to the state, given that the real value of transactions is not declared. This will finally lead to even further slowdown of the infrastructure expansion and state investments in all areas, for lack of budget funds.
- Reduced incomes for public notaries, leading in the end to the need to cut the wages for their employees.
- The personal bankruptcy of debtor sellers who, as a consequence of their failure to understand the market, will be required to sell the property for a smaller price, without fully covering the real estate loan or even worse, they will be foreclosed by the bank or the creditor if they fail to sell the property within the time frame agreed with the creditor.

A seller is qualified when, after discussing with a professional, he or she has understood the steps needed in order to sell the property as soon as possible and for the best price. Only after understanding the ways of the market, the pace of sales for similar properties and the method of presenting a house before the official listing, an owner may consider himself qualified.

### **3.2. The risks of unqualified buyer customer and its qualification**

Buyer customer qualification is the most important step taken by a real estate agent in a real estate transaction and this determines the success of the agent and, last but not least, the success of a real estate agency on the market.

This is the reason why most agencies on the market go bankrupt: the buyer agent does not want to collaborate with real estate agencies when purchasing a house. The customer prefers to work alone, and this can be easily noted in Romania, since only 15% of the total real estate transactions are carried out through companies in this sector, the other being transactions carried out between direct owners.

Large agencies of Romania, such as Re/Max and Coldwell Banker attempt to use the interior office design of foreign agencies in marketing campaigns in order to attract customers. The most successful marketing campaigns from Romania used by

real estate agencies are the following: “0% commission” and “Try Before You Buy”.

Furthermore, in order to stand out on the market, you need to be creative. Considering that the main purpose in real estate is to get to know people and to receive referrals, Re/Max Romania agency created the campaign entitled simply, 'Coffee invitation' where both buyers, sellers, developers and market investors are invited and major interest topics are discussed for each category attending the meeting.

The major risks of the unqualified buyer clients is that the bank evaluators do not offer loans to buyers if the price of a property is greater than the limit provided by the bank for a property located in a certain area, with a certain degree of improvements, etc. This will lead to higher costs for the clients which wish to invest, such as in some cases the amount paid in advance as a promise to buy or prolongation of the fee offered by the bank to identify properties that the buyer customer will acquire.

#### 4. Successful real estate projects in Romania

The AvantGarden Brasov project is the second largest project in Romania, given the careful selection of customers by the developer team, as opposed to the other national projects.

MAURER IMOBILIARE is a German private-owned company established by the businessman, Simon Maurer. Until this date, all projects have been developed in Transylvania.

The first real estate project launched in Romania started in 2005, in Cluj Napoca, with a building comprising of 29 luxury apartments. Later, the developer shifted his attention to the city at the foot of Tâmpa Mountain, where the construction of Avantgarden, the largest residential complex of Braşov.

In 2013, the developer also launched a project for 1800 apartments in Sibiu, close to the retail park, Sibiu Shopping City.

Project	Period	Housing units	Built units
Ansamblul Cluj Napoca	2005-2006	29	29
Avantgarden 1 - Brasov	2006-2008	365	365
Avantgarden 3 - Brasov	2009-2020	3500	1670*
Avantgarden 3 - Sibiu	2013-2018	1800	90*

\* Apartments completed by the end of 2004.

Data source: Re/Max

Table 1. *Projects carried out by Maurer Imobiliare in Romania*

The Avantgarden project was launched in 2006, the top period of the real estate market, when the developer started building luxury apartments. The project Avantgarden 1 - Brasov, comprising of luxury apartments and penthouses, priced starting with EUR 80,000, for a two-room apartment, and going up to EUR 170,000, for a penthouse, was developed after a market study performed that showed the interest of existing potential customers of Brasov market in new buildings, surrounded by green areas and parks.

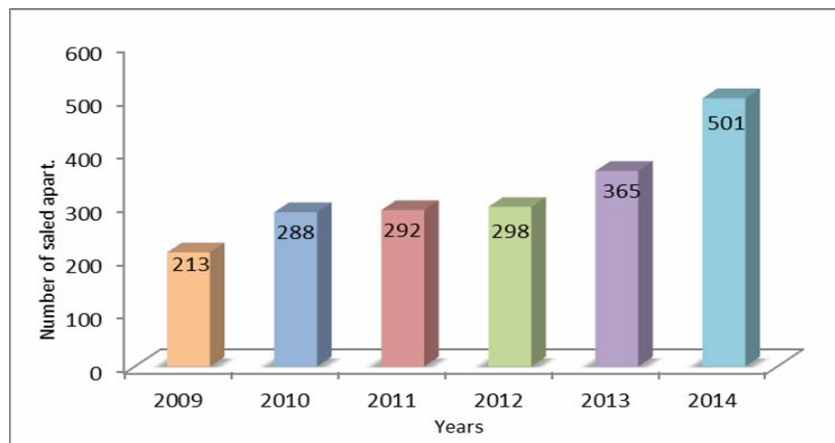
This was immediately followed by the economic crisis, and the developer acknowledged that this has led to a change in buyer requirements. He also understood the importance of understanding their decision-making rules. In order for a real estate property to be considered by the consumer, the consumer needs to be informed on the existing product and to perceive said property as suitable to his or her needs.

The criterion used by the consumer in selecting between the alternatives, considered of utmost importance by the consumer, was, for instance, in Brasov, after the year 2007, that buyers were looking for small surface apartments, with separate rooms, at intermediary floors, with less focus on improvements or location.

The project management immediately understood that the Avantgarden 1 project needed to come to an end, since it was exactly the opposite of what customers desired. This is how the project Avantgarden 2 came to life. It comprises of small apartments, on Italian structure, with budgets starting from EUR 25,000 and amounting up to EUR 50,000. The project was extremely successful, despite the economic crisis, until 2009, when 100 apartments from the project were sold within approximately 1 year and a half.

Starting with 2009, the real estate market began to show signs of return, with the programme 'Prima Casa' [First House] encouraging many young people to give up their leased apartments and to become owners. Their decision-making rules changed and, once again, Maurer Imobiliare conducted several case studies. The results showed that young people no longer wanted small apartments but, on the contrary, they were interested in apartments with average structures, between 50- 65 sqm., with square rooms and large windows. The customers were pleased by the large window-design which, at that time was only included in the luxury projects from Brasov, located in Poiana Brasov. This meant a lot for young people living at the foot of Tampa Mountain. For them, Avantgarden apartments give the feel of luxury houses in Brasov, with extensive space, large kitchens and panoramic views over the city and Bucegi Mountain.

The Avantgarden 3 project was the most successful on Brasov market (Figure 2), with Maurer Imobliare reaching an average of 27 apartments sold per month. This was 10 times higher than the average number of apartments sold in other projects in Brasov.

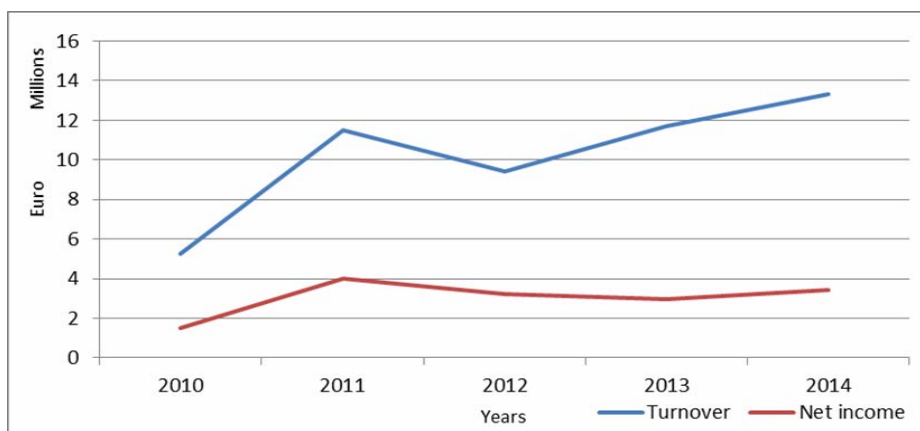


Data source: Re/Max

Fig. 2. Sales evolution of apartments in the interval 2009-2014 for Avantgarden 3 – Brasov project, Romania

In Brasov, in 2014, when the average number of apartments sold from new buildings was of 2.5 apartments/month, Avantgarden 3 managed to sell 41 apartments monthly. This was due to the fact that the project developer understood exactly what buyers in Brasov were looking for, after considering their requirements, this led to the establishment of the largest new residential neighbourhood of the city.

This can also be noted in their turnover (Figure 3) which increased by EUR 9.1 million in the interval 2009-2013.



Data source: Re/Max

Fig. 3. Turnover and net income evolution in the interval 2010-2014 for Avantgarden 3 - Brasov project, Romania



The developer Maurer is permanently informed on any market changes and its team is up to date to customer requirements consisting not only in the structure and price of the apartment, but also in the environment.

Avantgarden has encouraged the construction of supermarkets in the area. When entering this neighbourhood, we can find the supermarkets Billa and Penny Market and by the end of 2015 the construction of Lidl will also be completed. Furthermore, there are numerous beauty parlours in the neighbourhood. There is also a restaurant, a well-known coffee shop from Brasov, namely, Comback Coffee, 2 football and volleyball courts. For the following year, the project includes building of a gym.

## 5. Conclusions

So the risks of false information are multiple, but they may be controlled easily through seminars with seller and buyer customers or through a professional agent that presents a complete analysis of market.

Referring to qualified real estate developers, they can lead to:

- Creating infrastructure; in case of successful real estate projects, Brasov Mayor's Office shall provide the paving and lighting of streets included in a residential project. In Brasov, Brasov Mayor's Office has paved and installed lighting only for the streets included in Avantgarden project.
- Developing the economy by creating new jobs and businesses around the project.
- Developing the peripheral areas of cities where large building projects are built and expanding city borders.
- Increasing the safety of residents, since all residential projects offer human security and permanent video surveillance.
- Increasing the quality of life, by satisfying the main needs of residents, namely by building Kindergartens, gyms, pools, restaurants, supermarkets inside and in the close vicinity of the residential project, but also by offering a clean neighbourhood. All new projects in Brasov are privately-administered, which means that the green areas shall always be cared for, neighbourhood streets will always be clean and the stairwell of each building will be cleaned weekly.

In conclusion, a qualified constructor is the one who understands exactly the requirements of market buyers, the one who understands that a project will not be successful if it remains unchanged as time goes by and according to consumer requirements changing from one year to another. In Brasov, Avantgarden 3, is the only residential project with over 20 buildings built in the same area.

In addition to meeting the strict requirements of market buyer until this date, a successful developer helps in developing the economy, by creating infrastructure and jobs, both in constructions, as well as for the future businesses in the project area.

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