

## PECULIARITIES OF THE CONSUMPTION BEHAVIOUR ON THE REAL ESTATE MARKET IN ROMANIA IN THE CONTEXT OF THE COVID-19 PANDEMIC

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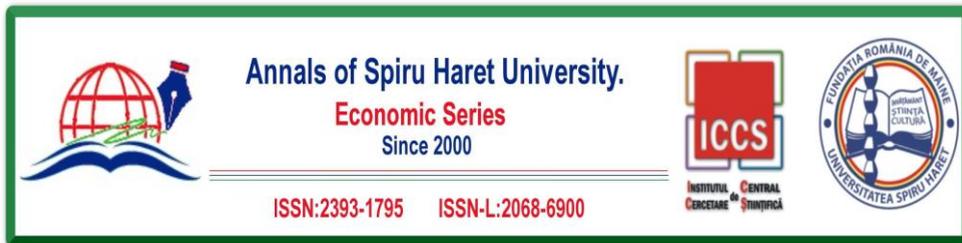
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### Abstract

*For many of the developed or developing national economies, real estate markets are areas of activity capable of substantially contributing to the structural good functionality of that economy. Transactions carried out within real estate markets provide logistical support for the proper conduct of a multitude of production activities or services of economic operators, on various levels of the economy. From this point of view, any large-scale crisis that also affects real estate field is a major challenge for the proper revitalization of many sectors and for the re-entry into a normal phase of most trade within economy. The crisis caused by the COVID-19 pandemic is a very special crisis not only because of the world scale and large span, but also because of the many plans on which it acted, economically, socially, politically, biologically, etc. This article aims to delve into the picture of the evolution of the Romanian real estate market during the pandemic, providing the main coordinates of this development and assessments on the implications that these market trends have at both Romanian and European market levels.*

**Keywords:** *real estate market; customer behaviour; COVID-19.*



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**JEL Classification:** M31, R30, R31

### **Introduction**

An overview of the developments and transformations in the world's major real estate markets over the past 25 years gives us an interesting, if not complex and suggestive, picture for the overall development of specific activities mainly in the market economy. The importance of the proper functioning of the real estate market at the aggregate level of the national economy is obvious in the context of the current dynamics which implies a similar dynamic of successful real estate transactions designed to provide the natural framework for a multitude of other transactions between economic operators [Tanrıvermi, 2020]. Thus, the manifestation of a crisis which in one form or another affects the housing market mostly on a structural level, and not only on the surface, at conjunctural level, becomes a first-hand problem that must be examined, known and to the greatest extent predicted to be able to conceive a series of measures to mitigate the harmful effects of the crisis.

In the case of the COVID-19 pandemic, the pattern and specificity of the crisis produced is atypical as this kind of phenomenon has never been seen before in the recorded history of human civilization. We are not talking about the economic or biological effects, visible and extremely easy to detect by specialists, but we are talking about the psycho-social effects, which are harder to observe and measure with an appropriate scientific instrumentation, and which, on a deeper and subtle level, have affected to a large extent the very foundations and limits of our human nature, the typology and intimate structure of our relations with others and the values that define our lifestyle at some point. This category of effects also includes those that have affected consumer motivations, preferences and attitudes towards real estate products and services. Purchasing decision-making processes associated with homes or spaces in which we conduct our current activities are defining consumption models for our personality, for intimate mechanisms that govern the way we understand communication with others and even integration into society. Throughout the history of human civilization, architectural design, the principles of urbanism, the way people understood and developed the very concept of housing was an indicator of civilization and material and cultural progress.

The COVID-19 pandemic comes and questions today's urban solutions, the concrete way in which our homes express their functionality. Even the most



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modern, avant-garde and “green” residences have not been able to fully meet the requirements of strict isolation and biological hazard caused by the pandemic. Also, the way of organizing the housing space of the major metropolises is totally inadequate to insulate at home and ensure optimal flows of massive transport of food and medicines for all central areas [Pike, 2020].

This article explores the main transformations, challenges and ultimately trends that the real estate market, especially the Romanian market, experienced during the pandemic.

### **Brief literature review regarding real-estate marketing challenges under COVID-19 pandemic**

The effects of the pandemic crisis in the international real estate market are extremely nuanced due to specific local conditions. However, the specialists were able to individualize several stages after the start of the pandemic, each stage having specific effects. The first stage of the lock-down meant an effective blockage for most transactions, implicitly real estate ones. For some of the national or regional markets (including Romania), the following steps have resulted in a gradual “return” to the volume of transactions on the market, sometimes recording positive trends stable enough to “promise” a complete return to a not very distant future. The pandemic has requested the maximum urban management capacity of large cities, in the sense that their spatial configuration is not adequate to cope with changes due to COVID-19 [De Toro *et al.*, 2021]. The COVID-19 pandemic in general has forced a reformulation of urban studies in relation to several aspects, including, for example, those related to urban inequalities and mobility, the criticisms of which are inevitably brought to light with the state of health emergency.

A study in the UK highlights how COVID-19 has led to changes in housing demand. For example, the increased prevalence of work at home has led to an increasing emphasis on the comfort and quality of the indoor environment. Better thermal insulation, acoustic, visual insulation, comfort, indoor air quality and the use of natural light are some of the factors identified by the above study as buyers’ desires for improvement [De Toro *et al.*, 2021]. These elements will lead to greater investment in measures to improve house performance, such as temperature increase or acoustic insulation (which in turn would lead to a reduction in CO<sub>2</sub> emissions).

Global analyses show the efforts of governments in several countries trying to mitigate the negative effects of the crisis by adopting various measures, for



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example protection against dismissal for tenants, mortgage relief, rent freezes and even rent subsidies [JLL Research & Strategy, 2020; Balemi *et al.*, 2021].

Another trend to be highlighted concerns the important changes that have also arisen from the perspective of communication between real estate customers and industry providers. They relate to the special measures which have been adopted, on the one hand to comply with the specific legislation imposed by the authorities for periods of isolation and, on the other hand, to effectively protect the staff of the real estate agencies and their clients. Here we can list the use of working online tools such as Skype or Facetime platforms to perform live home tours, mixed with more intense online communication, virtual contract documentation and the use of electronic signatures [Jovanović-Milenković *et al.*, 2020]. Therefore, concrete efforts to “reallocate” the usual activities specific to traditional offline transactions in the online environment by “virtualizing” them can be remembered. Thus, various applications have been created that allow customers to search for real estate offers and update them in real time, platforms dedicated to the completion and transmission of electronic documents that are usually support for the completion of a real estate transaction – land registers, reports, land book, evaluations, etc. [Jovanović-Milenković *et al.*, 2020; Wisniewski, & Brzezicka, 2021].

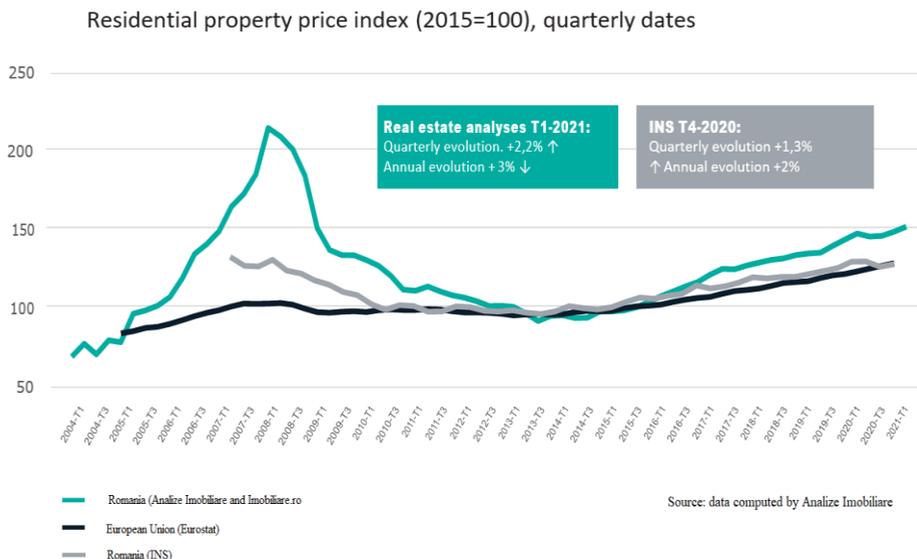
Another key dimension to highlighting developments related to the housing market because of the pandemic is the extent to which consumers of real estate services and products have access to the right financial products to become sources of financing necessary for the purchase of housing and/or land. From this perspective there is an important concern of financial-banking institutions for the identification of flexible solutions (deferral of credit rates, the practice of more attractive interest rates, financial education, etc.) and a greater emphasis placed during the pandemic period on actions and activities specific to social responsibility, in the interest of consumers and the community [Baicu *et al.*, 2020a; Lisi, 2019]. On the same level are also changes in the consumption behaviour of financial-banking products and the use mainly of mobile banking applications for various types of transactions performed by most real estate consumers [Baicu *et al.*, 2020b].

All these structural and behavioural changes related to the housing market, represent as many burdens as possible for the future, in an environment characterized by uncertainty and insecurity. However, at least for the domestic housing market, several trends indicate the existence of a real chance for the situation readjustment and supply/demand ratio recovery, which may provide some predictability of the

market in the medium and short term. These trends are investigated in the following sections of this paper.

**Specific trends and statistics on consumption within the real estate market in the context of the COVID-19 pandemic**

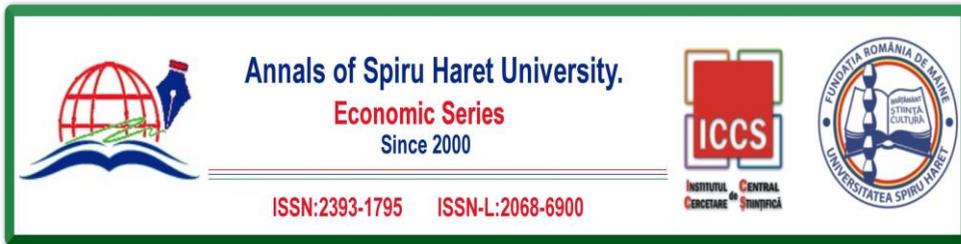
Real estate products and services belong to a category of goods which address specific needs and are thus the subject of special buying and consumption behaviour. In the context of the pandemic, consumer patterns have fundamentally changed, also affecting the structure of markets. As regards to the real estate market, it has also undergone substantial changes in most countries of the world, however no major negative effects are expected within the Romanian real estate sector.



**Figure 1. Residential Property Price Index (quarterly data)**

Source: <https://www.analizeimobiliare.ro/rapoarte/>

In the beginning of the crisis, the market was in a moment of cyclical expansion. The bottleneck of lucrative activities and the regulations specific to the states of



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emergency has caused a halt to this trend. Subsequently, the episodes of the crisis caused specific developments in this area, such as demand and the intention to buy housing, which initially decreased considerably, recovered with the second half of 2020, even reaching a higher level than in the same period of the previous year. For the case of Romania, there are specific factors that mitigated the initial negative effects – we can thus discuss the option given to most commercial banks that allowed borrowers to postpone payment of rates for a specified time. Also, the possibility of offering technical unemployment to employees, during the period of restrictions mattered in the case of companies that were in the specific situation of bankruptcy.

Overall, in a comparative analysis with data relating to the European Union, the real estate market in terms of the price index shows for the period 2004 to 2021 an upward trend with a peak in the case of Romania during 2007 – 2008.

During the last quarter of 2020, an advance of 1.3% compared to the previous 3 months and an increase of 5.7% compared to the same period in 2019 respectively can be seen for the European Union housing trading values. In the case of Romania, there is an advance of 1.3% compared to the previous quarter, with a price difference from the previous year of 2%. Data also indicate a decline of about 2.6% in trading prices for the Romanian market, towards the end of 2020.

Another market segment that is relevant to the overall evolution of real estate is the sales of apartments. For the Romanian market, the evolution of apartment prices is relevant for 11 large cities with more than 200,000 inhabitants and which accumulate much of the actual supply of apartments existing at national level. The beginning of 2021 confirms the trend of market recovery, with price growth margins of more than 2% for all cities considered (<https://www.analizeimobiliare.ro/rapoarte/>). Thus, Galati is noted with an increase in the first quarter of the year of +3.2%, followed by Brasov (+3.1%), Oradea (+2.8%), Braila (+2.5%), Ploiesti (+2.3%), Constanta (+2.1%).

In terms of the average price per useful square meter, in the segment of old and new apartments, Cluj-Napoca remains at the top of the ranking with € 1850 per useful square meter, second place following Bucharest with € 1480 per useful square meter and Timisoara with € 1290 per useful meter, Constanta with 1,280 Euro per square meter), Brasov (1,260 Euro per square meter), Craiova (€1,200 per square meter), Iasi and Oradea, each with €1,090 per square meter). Compared to the same reporting period of 2020, there are quite significant increases of about 7% for Galati, followed by Craiova with 6.2%, Brasov with 5.5%, Cluj-Napoca with 5.2%, Iasi with 4.9%, Oradea with 4.6% (<https://www.analizeimobiliare.ro/rapoarte/>).

Evolution of asking prices in big cities - apartments for sale

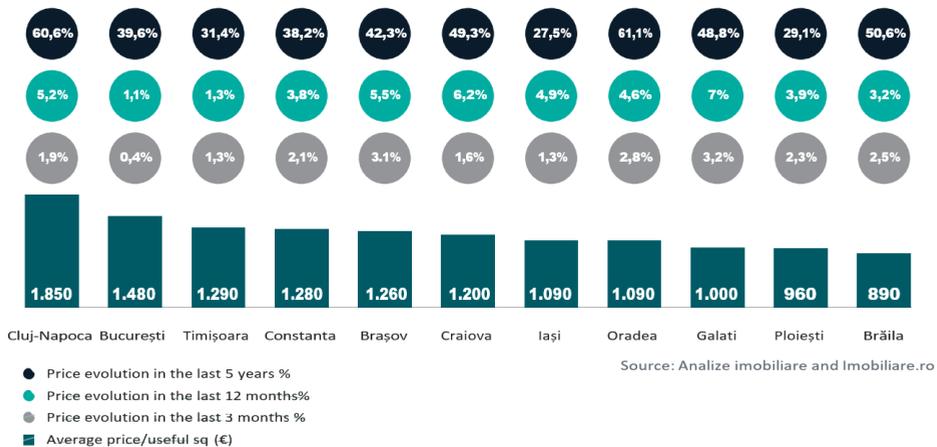


Figure 2. Evolution of Asking Prices in Big Cities – Apartments for Sale

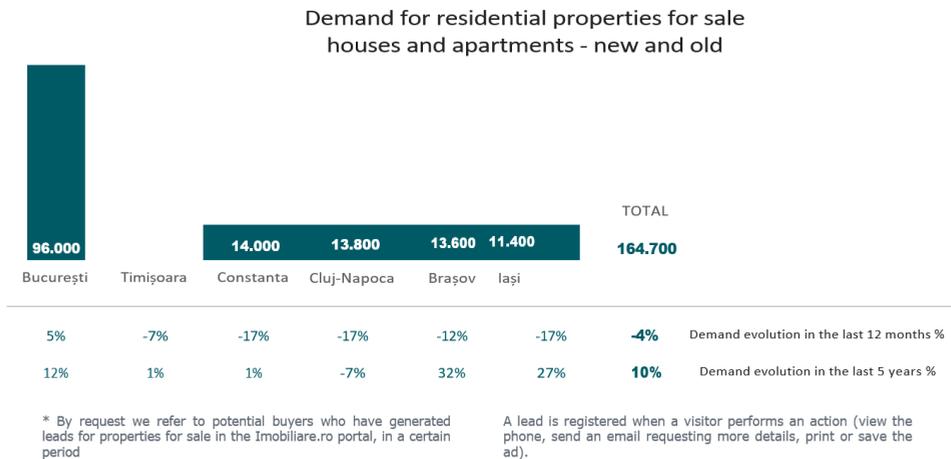
Source: <https://www.analizeimobiliare.ro/rapoarte/>

The demand segment relating to residential properties (houses and apartments for sale) experienced a slight setback against the backdrop of the pandemic compared to the period before the pandemic. The 164,700 potential buyers in the first quarter of 2021 represent a 4% lower figure than in the same period of 2020, i.e., immediately before the pandemic broke out. The only area where there has been an increase is Bucharest, where for the last 12 months there has been an increase of 5%, the other regions having decreases of 17% in Constanța, Cluj and Iași and 12% in Brasov (<https://www.analizeimobiliare.ro/rapoarte/>), as can also be seen in Figure 3.

Purchases of individual units, seen as transactions concluded on the real estate market, also show an increasing trend, with an increase of around 25% in January 2021 compared to the same time frame in 2020. In the next 2 months of the first quarter of 2021, the trend remained increasing, with about 13,000 purchases registered nationwide in February and more than 16,000 buildings in March 2021 (see Figure 4).

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The expansion of the remote, online work model, which no longer required daily travel to work, as well as the foreshadowing of the same trend for the near future, positively influenced the demand for land that was no longer conditioned by the distance between work and housing. In this context, demand for land has increased in Ilfov and Cluj County respectively by about 100% in the last 12 months, while in Bucharest and Cluj-Napoca the increase was about 30%.

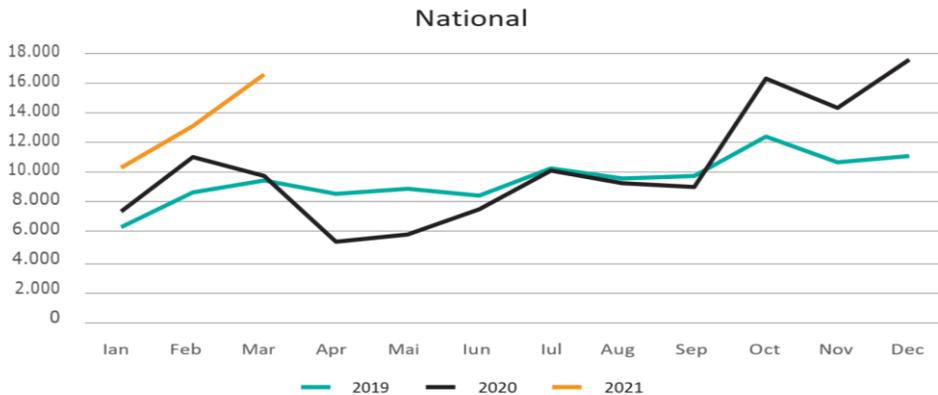


Source: Analize Imobiliare and Imobiliare.ro

**Figure 3. Demand for Residential Properties for Sale Houses and Apartments – New and Old**

Source: <https://www.analizeimobiliare.ro/rapoarte/>

The rental segment in the domestic real estate market has also had a relatively optimistic development throughout this period. According to [analizeimobiliare.ro](http://www.analizeimobiliare.ro), the demand for apartment and house rental increased by about 12% in the first quarter of 2021, as compared to the same period in 2020. The average price decreased from the corresponding value of the first quarter of 2020 by 10.5% in Cluj, 7.7% in Bucharest, 7.4% in Timisoara.



**Figure 4. Sales of Individual Units/National**  
 Source: <https://www.analizeimobiliare.ro/rapoarte/>

### Conclusions and future research directions

The data and information presented in this paper provide a complex picture of the current situation in the Romanian real estate market with relevant international implications. Thus, the trends of transaction growth and stabilization of demand on an upward trend for various segments of the domestic real estate market, provide the prerequisites for rather optimistic scenarios on a medium or short term. The aggregation of the entire national economy in terms of diverse trade, the readjustment of the production and service sectors, the relaxation of severe measures to control and limit the activity of tourism and hospitality economic operators, can contribute to a stabilization of the various factors with direct action on the real estate market. Both individual consumers and corporate consumers adapt to all these phenomena and processes by trying to maximize their long-term interests in the most judicious use of limited resources. If the main supply and demand mechanisms are stabilized throughout the national economy, the housing market will benefit from this stability, which is reflected in the ability of the market players to properly initiate and develop real estate projects, promotional efforts, and optimized intermediary services. To identify future trends, it is recommended to carry out both quantitative



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and qualitative research that can outline the complex picture of these processes, which are both related to market mechanisms and the behaviour of real estate services and products consumers. Quantitative research in the form of surveys, carried out on consumers and on real estate agencies or developers, may reveal sufficient quantitative data to enable statistical projections of major market trends. Qualitative research in the form of in-depth interviews among managers of companies involved in the market, and in the form of focus groups on consumers can extend the knowledge by providing qualitative data that reveals trends in consumer behaviour or managerial approaches and adapting mechanisms to changes initiated by the crisis. A favourable combination of the two types of research in the sense of supplementing qualitative and quantitative information can be an optimal solution to capture, in a realistic manner, as many of the possible connections that exist between the variables that characterize the dynamics of the real estate market and the buying and consumption behaviour of these services.

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