

THE REAL STATE

PROPRIETATEA IMOBILIARĂ

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Abstract: *The real state is made of the physical terrain and all additions fixed on this terrain. The real propriety includes all the interests, benefits and rights of the propriety right over the real state. The evaluators make analyses and issue opinions and conclusions regarding the nature, the quality or utility of some rights and other aspects of the real state. The evaluation is the act or process of estimating the market value.*

The purpose of the real state evaluation is based on the needs of information of the client regarding the delimited market value of a real state right. The use of a real state evaluation is the way in which the client uses this information.

Rezumat: *Proprietatea imobiliară este formată din terenul fizic și toate dependențele fixate pe acest teren. Proprietatea reală include toate interesele, beneficiile și drepturile aferente dreptului de proprietate asupra proprietății imobiliare.*

Evaluatorii realizează analize și emit opinii sau concluzii în legătură cu natura, calitatea, valoarea sau utilitatea unor anumite drepturi sau alte aspecte în proprietatea imobiliară. Evaluarea este actul sau procesul de estimare a valorii.

Scopul unei evaluări se bazează pe nevoile de informații ale clientului în legătură cu valoarea delimitată a unui drept de proprietate imobiliară. Utilizarea unei evaluări este maniera în care clientul folosește această informație.

Key words: *real state, evaluation report*

Cuvinte cheie: *proprietate imobiliară, raport de evaluare*

INTRODUCTION

The evaluation process represents a procedure used for offering an answer at the client's question regarding the value of the real state. It is a plan of evaluation activity reflecting an understanding of the value and methods used for estimating the value. The evaluation process is ended with an Evaluation Report that is requested when it is involved the transfer of expropriated propriety, the establishment of the rent and its revolution, the insurances problems, considerations related to the feasibility and selling, taking the decisions to invest, zoning and planning the community. The purpose of the Evaluation Report is to define the market value and the best utility of a real state.

For making an Evaluation Report must obey the Ethical Code and The Standards of Professional Practice.

The difference between the real state and real propriety is fundamental for evaluation. The real state is made from the physical terrain and all dependences fixed on the terrain. The real propriety includes all the interests and rights afferent to the right of propriety over the real state.

The rights afferent to the propriety right can be detained, rented, sold, and transferred in block or partially. The rights afferent to the propriety right over the real state, unaffected of no interest are known under the name of full propriety right. A propriety right detained of an owner with the using rights and occupational rights transferred to the tenant is known as *renting right*. The right of occupation and use detained by the tenant is known as the *tenant right*.

The difference between the *personal propriety* and *real state* is very important for the evaluators. The personal propriety contains the displaceable elements of the propriety which

are not fixed permanently or which are not part of the real state.

The evaluators make analyses and have opinions or conclusions regarding the nature, quality, value or utility of some rights or other aspects. *The evaluation is the act or the process of estimating the value.* The estimated value resulted can be the market value, the assurance value, investment value or other value of a propriety right or some propriety rights of some lots from the real state at a certain date. The evaluation and the consultancy are different activities. *The consultancy is the act or process of furnishing the information, data analyses related to the real state, others than the value estimation. A third type of activity made by the evaluator is the verification of an evaluation – act or procedure of critically study of a report made by another evaluator.*

The purpose of an evaluation is based on the needs of information of the client regarding the value delimited by a real state right. *The use of an evaluation* is the matter in which the client uses this information.

MATERIALE SI METODE

Due to the fact that the concept of evaluation has a great importance for the evaluation, we must do the differences between the terms of *price, market, cost* and *value*. A price represents the amount that a buyer is agreed to pay and a certain seller is agreed to receive in a transaction. A *market* is a set of transactions where the buyers and sellers are met through the mechanism of the price. The *cost* is applied more in production than in commerce and it can be divided in *direct costs* and *indirect costs* and also in *construction costs* and *development costs*. The *value* represents the monetary expression of the propriety, goods and services for buyers and sellers.

The *market value* is defined by the Canadian Institute of Evaluation as follows:

The most probable price which propriety would bring on a competitive market in all conditions requested by a right selling, the seller and the buyer acting prudently, knowing the fact and existing the presumption that the price is not affected by the incorrect stimulus.

The conditions for being accomplished the selling are as follows:

- The buyer and the seller are motivated.
- Both parties are well informed or well advised and every one act in his best interest.
- It is allowed the exposure on a free market in a certain reasonable period.
- The payment is made in cash or with other financial arrangements comparable with

it.

Other types of evaluation are as follows: value of use, value of investment, business value, assurance value and taxation value. *The value of use* is based on the value with which the real state contributes to the enterprise it belongs to. *The value of investment* is the value of an investment for a certain investor based on his subjective expectations for that investment. *The business value* is the value created by the exploitation proved of propriety where the corporal actives of the real state are part of the business under development.

The assurance value is a part of a value that is covered by an assurance for losses. *The taxation value* refers to the propriety value in order to be taxed.

The value is created by 4 independent factors: *utility, rarity, desire and power of effective buying*. For these factors should create a value, the goods must be transferable. The interaction between these factors influences the report between the request and offer.

Some important principles form the way of understanding of the value by the society. These principles offer a rational analyze of the market behaviour.

- **The anticipation principle** means to perceive the value to be created by the perspective of some future benefits.

- **The changing principle** says that the economical, social, governmental and physical forces affect continuously the value.

- **The principle of the offer and request** says that the real state price varies directly, but not proportionally with the request or offer. Theoretically, the offer and request of goods tend to be in equilibrium if the value, price and market cost are equal. The offer and also the request have qualitative and quantitative dimensions.

- **The substitution principle** shows that when more similar goods and services are available, the one who has the least price will attract the biggest request and will have the greatest distribution. The opportunity cost is a concept that represents the cost of lost and unselected options.

- **The equilibrium principle** says that the real state value is created and supported when the opus elements are in equilibrium these elements may contain the physical components of the propriety (for example the land and the buildings), the production and developing costs and the relation between the propriety and environment.

The concept of the *best utilization* is based on the way in which the buyers and sellers set their prices for the proprieties, based on their conclusions related to the more profitable use of the area or propriety. The best utilization is the one that supports the greatest value of the terrain or real state at the evaluation moment. The utilization must be legally permissible, physical possible and financially capable and to result the highest price of the terrain. The best utilization is determined different for the terrain considered to be without constructions and available for the proposed utilization and also for the built propriety (terrain + building).

The evaluators study the behaviour of the market participants, the buyers and sellers in order to identify the models and tendencies.

There are 5 real state markets: residential (real states for a family or more tenants), commercial ones, industrial ones, farm ones, with special destination.

RESULTS AND DISCUSSIONS

There is a series of concepts fundamentally for the market analyze. *The market definition* takes into consideration the type and features of the propriety (occupation degree, consumers base, quality, designing and construction endowment), the market place (local, regional, national or international), the availability of some substituted proprieties and the presence of some complementary proprieties.

The *request* reflects the necessities, desires, and power of buying and preferences of the consumers. The request indicators vary depending on the houses market, offices and commercial areas. The request previsions are based on the rate of forming the family, on the average size of a family, on average income and on occupation degree of work force.

The competitive offer refers to the availability of the house product or of the inventory of the proprieties that are in competition with the specified propriety.

The market equilibrium is the point towards which the request and offer of houses on long term tend to gravitate. Due to discrepancies between the request and offer, the marks are rarely in equilibrium and the request and offer do not act always as we expect to act. The house

activity is submitted to the effects of the long-term or short-term cycles. The long-term cycles depend on long-term indicators for example the work offer and existent income or the anticipated one. The short-term cycle are generated by the changes in credits availability and costs. (reflected by the interest rates) and industrial and commercial changes (reflected by the levels of inoccupation and rates of absorption).

The *evaluation process* represents a systematic procedure used for offering an answer to client's question regarding the value of his real state. It is a plan of evaluation activities, reflecting an understanding of the value and methods used to estimate the value.

The first step in evaluation process consists in *defining the evaluation problem*, which includes identifying the real state and propriety rights that will be evaluated, to specify the date and the purpose of the evaluation, to define the value requested and to identify other limitative conditions.

The propriety identification may be realized by mentioning the street, the location or a legal description. *The propriety rights* are identified by propriety form (individual, association or corporation), the limits of the propriety rights, financial participations (mortgage or capital) and legal propriety form (full, rented, temporary).

To specify the data for which the value was estimated indicates the moment for which the estimated value is relevant. The estimated value may be the current value, a future value or a historical value, estimated for the transactions, profit tax, processes or capital gains. The use of the evaluation is decided by the client and influences the type of evaluation. An evaluation can be used for estimating the buying price or selling price, for establishing the loan value, a value for the taxation, for establishing the rent, for estimating the value for being recording into accountancy, etc.

Most of the evaluations, *the defined value* is the market value, but the value of use, the value of continue exploitation, the investment value, taxation value or assurance value can be also requested. The evaluation sphere or the sphere of extending the evaluation process depends on the importance of the evaluated problem.

After being identified the evaluated problem, there are some steps that should be made inside the evaluation process. The preliminary analyze is constituted as a general regard over the character and purpose of the evaluation. Inside the operation of selecting and collecting the information, the evaluator groups the general data in influences of the value and tendencies, specific information regarding the propriety financing, cost, incomes and expenses and legal and physical aspects, and related to the localization and information regarding the competitive request and offer, which describe the position of the propriety on future market.

The analysis of the best use of the terrain considered free helps the evaluator to identify the comparable proprieties and to obtain an estimative value of the terrain. The analysis of the best use of the propriety in assemble is used for identifying comparable proprieties and for determining if the existent constructions should be kept, renewed or demolished.

An estimation of the terrain value is requested when it is followed to determine the contribution of the terrain to the total value of the propriety or when the constructions are evaluated separately for example this is used in cost method. There are used six methods for estimating the value of the terrain: direct comparison method, allocation method, extraction method, method of dividing in lots, residual method applied to the terrain, method for capitalizing the basic rent.

In order to obtain a well-sustained final value, the data analyze can be done by using three approaches. Even if the methods are correlated, the type and destination of the propriety will determine which method is more adequate.

The *approach of direct comparison* is useful when we have information regarding the properties similar with the evaluated one and which had been recently sold. This information is adjusted in order to reflect the differences between the comparable properties and the analyzed one.

The *cost approach* is efficient in evaluating the new buildings and the properties, which are, not frequent transactional on the market. In this approach, an estimated value of the terrain is added to estimation of the reconstruction current cost or replacing one of the constructions. It is added the profile of the real state enterpriser. From this total it is subtracted the value of the estimated depreciations due to all causes.

The *approach based on income* is used for evaluating the properties that generate income. It is measured the present value of the future benefits of the owner, the future flows of incomes and the value of reselling, are converted into the present value. The basic formula of the capitalization can be expressed in three ways:

$$\text{VALUE} = \text{PROFIT} / \text{RATE OF CAPITALIZATION}$$

$\text{VALUE} = \text{PROFIT} \times \text{MULTIPLICATION VALUE}$ (the multiplication value = 1/rate of capitalization)

$$\text{PROFIT/VALUE} = \text{RATE OF CAPITALIZATION}$$

The *reconciliation* of the values obtained after using these methods can propose a single value or an interval of the most real values. In this stage it is presented the trust in values resulted and it is explained the applicability of the used methods.

The *reconciliation* of the results offers the opportunity to solve the differences between the values and methods used to obtain these values.

The *evaluation report* furnishes to the client a summary of the analyzed information, of the used methods and of the thinking that led to obtaining the estimated value. The evaluation report must be written carefully, well organized and clearly presented.

CONCLUSIONS

There can be used different techniques for estimating the value of the real state: direct comparison analyzing the pairs of data and relative comparison; the proportion, extraction, dividing in lots, residual technique of the terrain, capitalizing the basic rent. The real state value obtained by using the above mentioned methods is the value for the property will full right, which can be corrected if there are involved other property rights.

The difference between the reconstruction cost and replacing cost is very important. The reconstruction cost is the cost estimated for building, at the preset prices at the date of the evaluation, a copy or a substitute for the evaluated building, by using the same materials, projects, plans and man work and involving all the deficiencies, supra-dimensions and depreciation of the evaluated building.

The replacing cost is the cost estimated for building, at the evaluation data, a building with an equivalent utility with the one of the evaluated building and using modern materials, projects and present plans.

Using the replacing cost it is eliminated the necessity of estimating some forms of functional depreciations, but we have to take into consideration the cost for replacing the elements which reflect the recoverable depreciation and supplementary exploitation costs due to over-dimensioning. To use the reconstruction cost estimation or the replacing cost estimation depends only on the evaluation purpose.

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