Facts about the Evaluation Process required to Establish the Market Estimation of the Sport Hotel Land, Cluj-Napoca

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Abstract. Valuation is an opinion about a value of a real estate, which reflects all the pertinent realities of an active market. The valuation process has an official character, developed under a contract on which identified parties have the guarantee and for what the assessor assumes liability. The valuation process supposes a selective research of relevant markets, assembling conclusive facts, using appropriate analytical methods, and also practicing knowledge, experiences and judgments for finding the most appropriate solutions. The assessed property consists land and buildings. Economical valuation of land approximates its favorability from certain uses from the economical point of view, which determines the relation between land and its utility. This valuation is absolutely necessary in a market economy. All the technical information on which the valuation process is based is obtained through topographic documentation. The real estate is owned by S.C. UNITA TURISM HOLDING S.A., for which has been obtained by direct comparison and extraction method its market value of about 5 million RON.

Keywords: topographic-cadastral documentation, valuation process, the best use of the land, land, value.

INTRODUCTION

The real estate means the land, buildings and other improvements related; all that was build to abide (electricity network, canalization system, water plants etc.). Proprietary estate refers to participation rates, advantages and rights arising from property (Dirja, 2008). The practical activity of assessments includes three components, which are all based on a accurate analysis which respects The Professional Assessment Standards: valuation process – a complex process of determining a value, at a certain date and which includes the evaluation report; consulting – the process which provides information or analysis of date referring to the real estate, and also recommendations or conclusions about various aspects, others than the ones used in the valuation process; verification of the assessment process – the process of elaboration and communication of an opinion about the valuation work quality done by the assessor. The valuation process is a determination, not an exact calculation of a value using mathematical formulas or a precise quantification. In the assessment work, the professional standards for the assessor are the “International Valuation Standards”, whose valuation principles are generally accepted. Guided by these standards, the assessor responds to the market demands through credible evaluations, which lead to satisfy the needs of buyers and sellers.

MATERIALS AND METHODS

The studied area is located in Cluj-Napoca City, in the western part of the Cluj-Napoca Central Park, near the Municipal Stadium, and it covers an area of 18673.72 square
meters (Fig.1). The location which makes the subject of the valuation process is located in the central area of the Cluj-Napoca City, with these neighborhoods:
- North: Stadium Alley;
- East: RADP;
- South: Morii Canal;
- West: RENEL.

**MATERIAL AND METHODS**

Fig. 1. The frame of the land

The evaluation process consists of an ordered and coherent set of procedures, which ends with the estimation of the value.

The topographic-cadastral documentation assumed the terrain recognition, consisting on identifying the geodetic points, of existing points from previous works, leveling landmarks, property limits, construction observation coverage and other details (Fig. 2).

**The property in study is composed of:**

A. **Construction:**
- Area – total built surface: 12698.12 square meters.

B. **Land:**
- Area 18673.72 square meters, of which 1590.42 square meters built, occupancy CAN=8.52%.

**Land description:** Land area is about 18673.72 square meters and has an almost rectangular shape, and it is flat. The front from the Alley Stadium is 218.88 m - according to the topographic plan.

**Property identification. Legal description:** The real estate is owned by S.C. UNITATURISM HOLDING S.A., according with the individual land property book number 116 667 Cluj-Napoca, issued by the Cadastral Office and Real Estate Advertising Cluj-Napoca with topographic number 10905/2, 10005/1/2, 11152, 11138/2, 11137/2/3.
Fig. 2. Situation plan of the real estate
**Zoning of the property:** The assessed property is situated in Cluj-Napoca, which is situated the centre of Transylvania. The town lies at about 160 km from the Hungarian border. The highway Brasov-Bors which will be built in the near future will relate more easily Cluj-Napoca to Hungary or the rest of the country. In preparing the evaluation report were considered the internal standard recommendations consistent with the European and international standards.

**Definition of market value:** Market value is defined in international standards IVS a standard applied in Romania: "Market value is the estimated amount for which a property will be changed on evaluation between a buyer and a seller decided at a fixed price transaction objective, where appropriate marketing activity, the parties have acted knowledgeable, prudently and without compulsion."

The real estate market in Cluj-Napoca and the surrounding areas is in crisis. In this market and also in Romanian’s market are found changes in the evolution of the properties prices from previous years; if so far we have been used with a continues growth, in early 2008 they stalled and on the beginning of the last quarter, once have felt the financial crisis, shows some decrease. This price trend is a consequence of fall in demand due to increasing access credit more difficult by potential buyers.

Unit bid price of land in the Central Park area is between 230-290 Euro/m² depending on the positioning surface (the bigger surfaces have lower prices and vice versa), the aspect ratio, the endowment with utilities.

**The best use of the property:** The concept of the best use of the property represents the alternatives of the uses. The best use is defined as the use of reasonable probable and legal of a free land or building that is physically possible, appropriately based, feasible and financially resulting in the highest value.

The best use of the land implies that the land is considered free or may be released by the demolition of buildings. If the land is free, should be considered more details. So the location of the building in the central area of Cluj-Napoca and the presence of Central Park may be feasible to build offices or commercial spaces. So the better use of open land would be developable land, office buildings, and commercial or tourism establishments.

**RESULTS AND DISCUSSION**

The land is located within the built city of Cluj-Napoca, central area, has main utilities (electricity, water, sewer connection, gas connection and telephone connection). The property is assessed for a land area of 18673.72 square meters from which 1590.42 m² are built. To determine the value of the land were chosen the following methods:

**Direct comparison method:**
It is the most effective real appreciation of the value of building land. It is mainly based on the experience of assessors and their database about the surface field characteristics similar or closed to rated land.

The assessor has reference data containing effectuated transactions, current deals or terrain offers for building new constructions, data obtained from its personal database or from real estate agencies from Cluj-Napoca (Ancuta Real Estate Agency, Welt Real Estate, Mix Properties etc.).
- Property A: Real estate agency selling land for building destination in the center of Cluj-Napoca, near Central Park, area of 2200 square meters, 25 meters front, land book, town planning certificate. Utilities include: electricity, water, gas, and sewer. 240 EUR - price per m² negotiable. Ideal for hotel, office, bank.

- Property B: Selling land with total area of 12378 m² in Cluj-Napoca, located near Central Park in a quiet little circulated area. The land is crossed by a stream (channel), which divides the parcel into two parts with areas of 8799 m² and 3579 m². The land has a street front of 150 meters and has access to all possible utilities: water, sewerage, electricity, gas, telephone, etc. In the vicinity of the land is situated the Sport Hotel, which is an 8 floor building. Also it is near the place where the new stadium and a large gym are built. Sale Price: 260 Euro / m².

- Property C: Real estate agency selling land for building destination in the center of Cluj-Napoca, near Central Park, area of 2160 square meters, 30 meters front to the street. Utilities include: electricity, water, gas, and sewer. Price 250 Euro per square meter.

- Property D: Land (for building) for sale in Cluj-Napoca area: Central; Price 230 EUR / m²; the land is near Victor Babes Park (recreation area), with a front open to the main artery of 25 m. The land is in the urban area L5a with GF+ 4, GF+8.

- Property E: Land (for building) for sale in Cluj-Napoca; surface: 500 m²; open front: 18 m; area: Central; Price 350 EUR / m².

Using the offers of the active market was made the market dates grid (Tab. 1).

Tab. 1

<table>
<thead>
<tr>
<th>Comparison elements</th>
<th>Evaluated property</th>
<th>Property A</th>
<th>Property B</th>
<th>Property C</th>
<th>Property D</th>
<th>Property E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer price EUR/mp</td>
<td>240.00</td>
<td>260.00</td>
<td>250.00</td>
<td>230.00</td>
<td>290.00</td>
<td></td>
</tr>
<tr>
<td>Market conditions</td>
<td>24.00</td>
<td>26.00</td>
<td>25.00</td>
<td>23.00</td>
<td>29.00</td>
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</tr>
<tr>
<td>Corrected price</td>
<td>216.00</td>
<td>234.00</td>
<td>225.00</td>
<td>207.00</td>
<td>261.00</td>
<td></td>
</tr>
<tr>
<td>Property right complete</td>
<td>complete</td>
<td>complete</td>
<td>complete</td>
<td>complete</td>
<td>complete</td>
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<tr>
<td>Correction</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Corrected price</td>
<td>216.00</td>
<td>234.00</td>
<td>225.00</td>
<td>207.00</td>
<td>261.00</td>
<td></td>
</tr>
<tr>
<td>Location worse</td>
<td>21.60</td>
<td>23.40</td>
<td>22.50</td>
<td>20.70</td>
<td>26.10</td>
<td></td>
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<tr>
<td>Corrected price</td>
<td>237.60</td>
<td>257.40</td>
<td>247.50</td>
<td>227.70</td>
<td>287.10</td>
<td></td>
</tr>
<tr>
<td>Direct access/servitude directly</td>
<td>directly</td>
<td>directly</td>
<td>directly</td>
<td>directly</td>
<td>directly</td>
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<tr>
<td>Correction</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>Corrected price</td>
<td>237.60</td>
<td>257.40</td>
<td>247.50</td>
<td>227.70</td>
<td>287.10</td>
<td></td>
</tr>
<tr>
<td>Surface sqm 18673.72</td>
<td>2.200</td>
<td>12.378</td>
<td>2.160</td>
<td>1.729</td>
<td>500</td>
<td></td>
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<tr>
<td>Correction</td>
<td>23.76</td>
<td>12.87</td>
<td>24.75</td>
<td>22.77</td>
<td>57.42</td>
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<td>Corrected price</td>
<td>261.36</td>
<td>270.27</td>
<td>272.25</td>
<td>250.47</td>
<td>344.52</td>
<td></td>
</tr>
<tr>
<td>Equipment with utilities comparable</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Corrected price</td>
<td>261.36</td>
<td>270.27</td>
<td>272.25</td>
<td>250.47</td>
<td>344.52</td>
<td></td>
</tr>
<tr>
<td>Street front 218.88</td>
<td>25.00</td>
<td>150.00</td>
<td>30.00</td>
<td>25.00</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Correction</td>
<td>-13.06</td>
<td>0.00</td>
<td>-13.61</td>
<td>-12.50</td>
<td>-17.22</td>
<td></td>
</tr>
<tr>
<td>Corrected price</td>
<td>248.3</td>
<td>270.27</td>
<td>258.64</td>
<td>237.97</td>
<td>327.3</td>
<td></td>
</tr>
<tr>
<td>Total gross correction</td>
<td>82.42</td>
<td>62.27</td>
<td>85.86</td>
<td>78.97</td>
<td>129.74</td>
<td></td>
</tr>
<tr>
<td>Total gross correction %</td>
<td>33.19%</td>
<td>23.03%</td>
<td>33.19%</td>
<td>33.18%</td>
<td>39.63%</td>
<td></td>
</tr>
</tbody>
</table>
For the analyzed land, considered "free", given the size of area, the location, employment size and buildable land, especially equipped with utilities and prices of previous transactions (eliminating extreme values), estimating the market value of adjacent land assessed property is 270.27 Euro / m$^2$ or rounded 270 Euro / m$^2$: the unitary market value, is estimated at 270 EUR/m$^2$ as the result of market data scale (Table above) for free land with building destination (especially comparable B because the gross corrections in this case from the offer price is the less).

$$V_{\text{land}} = 18673.72 \text{ sqm} \times 270 \text{ EUR/sqm} = 5 041 904.4 \text{ EUR},$$
the equivalent of EUR 21 314 146.66.

**Extraction method**

This method is used in estimating the market value of land when no data are available regarding sale offers or transactions of similar parcels of land. Given the occupancy of land CAN = 8.52% and the height permit regime of GF+8, the land value will be estimated with the extraction method. For exploring the real estate market (bid on real estate sites and journals, but also deals with land) the offer value of properties near Central Park, area where the property taken into study is located, is 1.494 Euro/m$^2$ - the sale price is estimated at 1350 Euro/m$^2$, after the negotiation of offer price with approx. 10%.

Steps that are followed:
- there is determined the hypothetical construction that represents the best use of the site – in this case is considered the complete construction;
- there are determined the construction costs;
- there is estimated the sale price of properties taking into account the identified comparables.

**Estimating the costs of the potential buildings.**

On the land with a total area of 18,673.72 square meters is erected a building of "resort" with GF+ 8E.

The maximum built area is:

$$\text{Sc} = 18673.72 \text{ m}^2 \times 8.52\% \times \text{CAN} \times 8 \text{ levels} = 12698.12 \text{ square meters.}$$

The market value of the property is

$$V = 12698.12 \text{ m}^2 \times 1.350 \text{ EUR/m}^2 = 17 142 462 \text{ EURO}.$$  

The building is done with quality materials, concrete and masonry structure, roof structure, heating central, connected to utility networks. The completion of the construction costs based on the market data are:

<table>
<thead>
<tr>
<th>The evaluation of the land through extraction method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on design, development, building construction, 650 EUR / sqm</td>
</tr>
<tr>
<td>Unforeseen (5%)</td>
</tr>
<tr>
<td>Fee engineer (3.5%)</td>
</tr>
<tr>
<td>Promotion and marketing expenses Real estate agency (2%)</td>
</tr>
<tr>
<td>Profit housing developer (50%)</td>
</tr>
<tr>
<td>Total expenditure for construction</td>
</tr>
<tr>
<td>Value of property-house sales + land-1350 EUR / sqm</td>
</tr>
<tr>
<td>Value field = value property-value of the buildings</td>
</tr>
</tbody>
</table>

The values of design costs, unforeseen expenses, the fee of the project supervisor, the promotion and marketing expenses of the real estate agency and the real estate promoter income were estimated based on information from construction companies and real estate developers, the figures are valuable for the month of May 2010 when the evaluation report was prepared.
Market value of land is:
V\text{land} = V\text{market property} - \text{Total construction costs}
V\text{land} = 18412274\ \text{EURO} - 13247313\ \text{EURO} = 5164961\ \text{EURO} \ \text{respectively}
V\text{land} = 21,832,290\ \text{RON}
V\text{unitar land} = 5164961\ \text{EURO}/18673.72\ \text{sqm} = 276.58\ \text{EURO}/\text{m}^2 \Rightarrow 277\ \text{Euro} / \text{m}^2.

CONCLUSIONS

The real estate market in Cluj-Napoca is dynamic, so the total market value of the property is rated as determined by direct comparisons, because it is considered that this method reflects the best the actual price.

In preparing the assessment report were considered the recommendations from the internal standards in line with the European and international standards.

According to the assessor the evaluated property meets all the conditions to form a bank guarantee based on the market value.

The assessment report is valid as long as on the housing market will not be essential changes, after that date it is necessary a reassessment.

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