

BULETINUL INSTITUTULUI POLITEHNIC DIN IAȘI  
Publicat de  
Universitatea Tehnică „Gheorghe Asachi” din Iași  
Volumul 65 (69), Numărul 3, 2019  
Secția  
CONSTRUCȚII. ARHITECTURĂ

**THE PARTICULARITIES OF VALUATION OF REAL ESTATE  
WITH COMMERCIAL DESTINATION IN CHISINAU,  
REPUBLIC OF MOLDOVA**

BY

**ANA LEU<sup>1,\*</sup>, ADRIAN ȘERBĂNOIU<sup>2</sup> and SVETLANA ALBU<sup>1</sup>**

<sup>1</sup>Technical University of Moldova  
Faculty of Constructions, Geodesy and Cadastre

<sup>2</sup>Technical University “Gh. Asachi” of Iasi,  
Faculty of Civil Engineering and Building Services,

Received: July 22, 2019

Accepted for publication: August 30, 2019

**Abstract.** The valuation of real estate with commercial destination has become quite actual during the development of a strong competitive environment, the increase of transactions number effected with this type of real estate and the use of immovable assets as pledge for lending. Difficulties in the assessment of commercial real estate are associated with a series of problems resulting from the incorrect or inconsistent approach of the existing methodology for valuation of real estate.

The purpose of this research is to highlight the peculiarities and possible problems that arise in the evaluation of commercial properties as well as provide an image of real estate market situation in city of Chisinau. To study the specificity of evaluating commercial property in order to ensure a reliable report from the point of view of the correctness of the results presented.

**Keywords:** real estate; property; income; evaluation; commercial appraisal.

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\*Corresponding author; *e-mail*: [analeuiurie@gmail.com](mailto:analeuiurie@gmail.com)

## 1. Introduction

The development of the market relations in the last decades has led to the emergence of new types of enterprises and the formation of economic and financial relations between them: changes have been made in business processes, organizational structure, management methods and tools, the emergence of private property, numerous sales of property rights, use of rights as a way to secure loans. All these have led to the emergence of theory and valuation methods the market value of real estate.

In assessing commercial property, all factors affecting their value form the final conclusion, which is based only on complete objectives and relevant information.

In order to obtain reliable results in the process of valuing and forecasting the market value of commercial real estate, it is necessary to carefully identify, analyze and take into account all levels of factors that could influence the value.

The purpose of this paper is to describe and identify the peculiarities that appear when appraise a commercial property these points are based on a practical study of one of those types of property which also take in account the current situation of real estate market.

## 2. Particularities of Valuation of Income-Generating Property

Commercial buildings are any buildings, structures or land used for business activities, with the subsequent extraction of permanent profit or capital gains, rental income, and investment income.

Commercial real estate, called income-generating property, means any individual property such as hotels, backyard stations, restaurants, bars, usually marketed as operating entities. These properties may include not only land and buildings but also other assets that are part of it.

The main feature of this type of real estate is that it is developed for a certain activity and is analyzed from the point of view of the benefit obtained as a result of its exploitation. These properties differ from generic properties, and generic property can be used in a variety of business types such as commercial, industrial, or office (Asociatia Nationala a Evaluatorilor Autorizati din Romania [ANEVAR], 2018).

The commercial property has several economic characters that can be attributed to this segment of real estate market, which includes the commercial real estate (Bejenaru, 2009):

- it is a tangible asset that can be traded;

- it is a property that can be a source of income;
- it is analyzed as an economic good that can be divided;
- it is a good where the value can be calculated depending on the obtained profit.

Since, commercial property is linked to the market situation, an analysis of commercial real estate market is provided.

In Chișinău, from the perspective of the evolution of transactions, a noticeable evolution is emerging between 2017-2018, which is characterized by the considerable increase in the number of transactions performed on the real estate market. Thus, by analyzing the number of transactions it can be mentioned that the most dominant types of transactions on the market are the purchase - the sale followed by the mortgage and the lease (see Fig. 1).

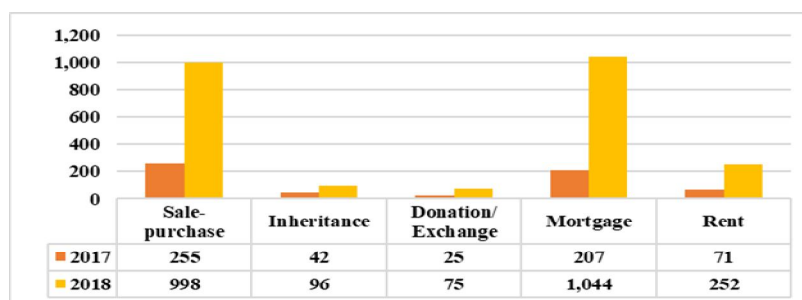


Fig. 1 – The number of transactions with commercial real estate in Chișinău, 2017-2018.

Lease market in Chisinau is quite developed, which is justified by the large number of offers on the market. The prices for the monthly rental payment range from 3 euro /sq.m. and maximum 20 euro/sq.m. The lowest rental payment is offered by the Ciocana sector, and the highest is recorded in the Center sector, followed by the Botanica sector with a monthly payment of 12 euro/sq.m. (see Fig. 2)

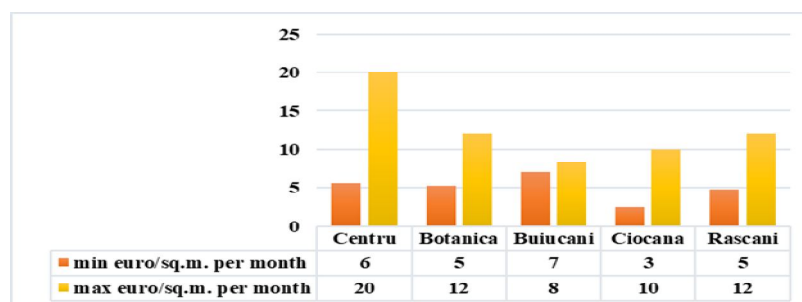


Fig. 2 – Commercial lease payment in Chișinău, march 2019.

According to the data analyzed, most of the offers for sale of commercial real estate are registered in the City Center sector followed by the Botanica sector, the fewest deals are in the Ciocana sector.

The analyzed offers have shown that minimum and maximum bid prices for commercial properties fluctuate by location. Thus, the highest bid prices are presented in the Center sector with a maximum price of 1625 euro/sq.m., followed by the Botanica sector with a maximum bid price of 1327 euro/sq.m. The lowest prices are in the Ciocana sector, 550 euro/sq.m., where there is also a low supply of commercial real estate (see Fig. 3)

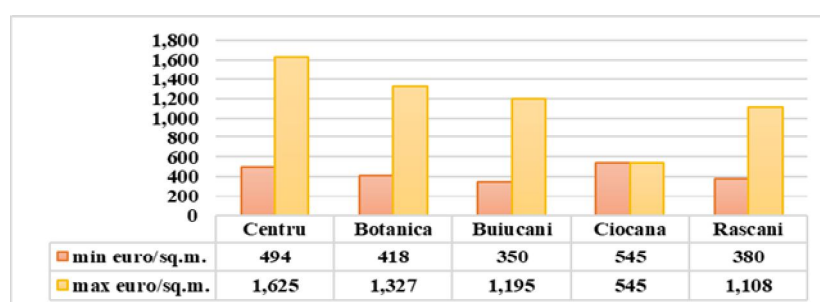


Fig. 3 –The offer prices for commercial spaces in Chisinau, march 2019.

The practical study results prove the truthfulness of market analysis as property value after the evaluation has proven to be fair within the market range.

To reflect the peculiarities of evaluation was considered a practical study in which is done a commercial appraisal, this will highlight some features for evaluation.

A special feature of commercial real estate is the strong focus on revenue. Commercial real estate market began to form on the privatization of enterprises, so it is much less than residential real estate market, the number of operations performed is small, but the high cost of facilities is attractive to those operating in this market. Commercial real estate market is dominated by leasing transactions, not sale or negotiation which are required on residential market.

The structure of commercial real estate, despite the general function, there is still some grading primarily related to the nature and type of spaces that are differentiated by their functional purpose: office, retail, warehousing, production.

A continuing concern is that certain types of properties such as: hotels, restaurants, bowling alleys, production enterprises, athletic clubs, landfills, physical real estate assets, are a part of an ongoing business.

The value of an ongoing activity includes the increased value associated with the business operation, which is different from the value of the property. Continuous increase asset value includes intangible capital appreciation operating a business enterprise, which is produced by adding the land, buildings, labor (including those trained), equipment and marketing operation. This arrangement creates a business economically viable that is expected to continue. Extending business value refers to the total value of the whole, including real estate, real estate and immaterial (see Fig. 4), (Appraisail Institute, 2012).

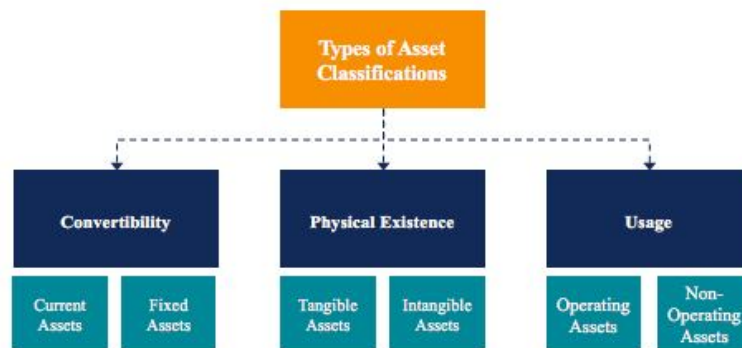


Fig. 4 – Types of Assets Clasifications  
(source: Corporate Finance Institute).

A division of realty and non-realty components of value may be required given the intended use of the appraisal (Appraisail Institute, 2012).

In the evaluation process, is selected the best use of the space, in fact, that represent a part of assessment. The result of such work can prove to be a surprise for owner whether suddenly proves that spaces are used completely inefficient and it may generate greater potential profit than with current labor exploitation.

Residential, commercial or industrial real estate is heavily affected by what's happening in the economy. Retail is dependent on consumer spending. Consumers who earn less have less money to spend, characterized as purchasing power. Available revenue for spending is crowded with necessities such as gas, electricity and food. Thus, the income generated by the property is dependent on the income of the population.

Normally, all three approaches can be applied to the assessment of income-generating assets, but priority is given to income approach, this being the primary approach used for the specificity of property. Market approach will be used mainly to verify the result achieved by the income method and cost

approach has little relevance due to the special purpose of the properties (ANEVAR, 2018).

**Income approach.** The essence of this method consists in the fact that the real estate value of which property is invested reflects the quantity and quality of the income expected from this object over the entire operating period. The value of the revenue-generating object is equal to the amount of future income, updated at the time of the valuation. In using this method, it is necessary to take into account the conditions of financing and investing in the real estate, to analyze the revenues and expenses using different techniques.

In this approach, one of two methods is usually applied:

- the revenue capitalization method uses a normalized annual income that has difficulty in forecasting a steady income stream.
- Discounted Cash Flow (DCF) method is commonly used due to a possible variation in the annual revenue stream.

**Sales comparison or market approach.** This method is based on the substitution principle that an investor will not pay more than similar properties that have been sold. The main idea is to select properties whose characteristics are similar and at associated costs. Some important features may include the location and surrounding area, size, condition, or floor plan. Many in the commercial real estate appraisal industry believe this is a more accurate approach because the current market value is taken into account. Despite that, the field of use of this method is limited. It is not recommended under conditions of high inflation or when the sales information is unsatisfactory in terms of quantity and quality.

The cost approach is based on the determination of total reproduction cost of the property or fully replacing the object being evaluated, taking into account the size depreciation. To the result obtained, the market value of the land is added as if it were available for construction. Thus, the full value of the real estate is appreciated. Addressing "Calculate costs" in practice are used in two ways. One embodiment provides for calculating the cost of reproducing the property (reproduction cost new) other - calculation replacement (replacement cost new) mostly resort to calculate the total cost of reproduction, because in fact, a different object is being constructed (Albu *et al.*, 2007).

A problem of commercial real estate valuation does not arise if there is a well-developed market information infrastructure, there are qualified specialists who can use this infrastructure to make informed decisions, there is a generally accepted evaluation methodology that provides a broad information base, but appears to be quite problematic in the case of a poorly developed market. Low-activity markets have both common properties for the commercial real estate market and the additional risks associated with low investment

activity in these locations. At the same time, markets with an underdeveloped investment environment, an inactive market, carry out economic activities, for which it is necessary to use the appropriate assessment tools. Existing methods for assessing commercial real estate are based on categories that reflect developed market relationships and practically "do not work" under an almost complete absence of market intelligence, leading to many conflicts among market-related subjects.

### 3. Conclusions

To conclude, some special aspects of the valuation of commercial immovable property can be identified as:

1. Initial construction is adopted under a particular field of activity that may subsequently appear inappropriate for another type of activity, thereby narrowing the use of this property.

2. Often a commercial property may accumulate several classes of both tangible and intangible assets that make evaluation more difficult, and sometimes it is necessary to divide them.

3. The value of the property is dependent on the revenue flows accumulated during the year.

4. It is sensitive to fluctuations in the real estate market as well as to the economic situation in general.

5. In the case of a low-activity market, it is rather difficult to apply the approaches as they use economic indicators based on market information.

6. When assessing revenue-generating properties, the prevailing approach is the income approach and the updated net flow method.

The cost of capital invested in real estate changes over time under the influence of factors such as inflation, demand for a specific type of real estate, physical, functional and economic wear. Therefore, when deciding on investment in real estate, it is crucial to evaluate commercial real estate.

The assessment of commercial real estate is somewhat different from the valuation of other types of real estate. In assessing commercial buildings, all factors that affect the amounts and forms the final conclusion, which is based only on objective complete and relevant information.

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#### PARTICULARITĂȚILE EVALUĂRII BUNURILOR IMOBILE CU DESTINAȚIE COMERCIALĂ ÎN ORAȘUL CHIȘINĂU

(Rezumat)

Evaluarea bunurilor imobile cu destinație comercială a devenit destul de actuală în perioada dezvoltării unui mediu concurențial puternic, creșterea numărului de tranzacții efectuate cu acest tip de imobile și utilizarea bunurilor imobile în calitate de gaj pentru creditare. Dificultățile în evaluarea bunurilor imobile comerciale sunt asociate cu o serie de probleme care rezultă din incorecta sau inconsecvența abordării a metodologiei existente pentru evaluarea bunurilor imobile.

Scopul acestei cercetări este de a evidenția particularitățile și posibilele probleme care apar în cadrul evaluării proprietatilor comerciale precum și să se ofere o imagine a situației pieței imobiliare în orașul Chișinău. Studiarea specificului evaluării unei astfel de proprietăți în vederea asigurării unui raport fiabil din punct de vedere a corectitudinii rezultatelor prezentate.