

## THE ROLE OF THE REAL ESTATE MARKET IN THE SLOVAK REPUBLIC WITH EMPHASIS OF HUMAN RESOURCE DEVELOPMENT

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### Abstract

*Housing policy change after 1989 caused many other changes. One of them is the creation of real estate market, which goes through significant modifications and in recent years we have seen considerable flexibility in the real estate market. The growing interest of the population in buying properties make a room for newly discovered profession of agents for sale and rental properties, i.e. real estate brokers, which number is growing in recent years due to increasing in vision of high and quick profits. In this paper, the authors deal with real estate, which has become a sector of high-growth productivity job and increasing of value added, and which is one of the largest sub-sector of the economy. Real estate, however, does not require high education, which may be one of the negative indicator in the qualification of consultants dealing with the purchase, sale, respectively property lease. The authors of the paper outlining the need for the development and creation of new fields of study in the Slovak Republic.*

### Key words

*Housing, work productivity, real estate, the non-financial business, real estate market,*

**JEL Classification:** R33, R21, R51

### Introduction

At present, the Slovak Republic's property market is highly active. Properties affect life in towns and municipalities, tell us about the architecture of the period, surviving several generations. The real estate market in Slovakia has seen a boom in the 90s, when there was the transition to a market economy, to the changing conditions in the housing market. There was established a number of new private realtors, which placed the real estate market as a facilitator of sale and purchase of property. A significant increase in their number was in 2008, from year 2009 there was a significant downturn due to the crisis of economic as well as on real estate. Quality of information provided to customers is debatable, however, as in the Slovak Republic there is no unified system of education of real estate brokers. Gradually are formed various educational organizations dedicated to increasing education of real estate agents, but the education system is not uniform in terms of national level.

Currently, we are coming to the stage of growth of real estate offers as a result of the demand of households respectively individuals for property mainly in the age group up to 35 years, due to the significant fall in interest rates on loans for purchase of residential property. In this article we will focus on real estate market and the factors affecting them. Also, we pay an attention to employment in the real estate market and its impact on the development of business

activities in the Slovak Republic in comparison with countries of the European Union.

### 1 The real estate market – theoretical background

Term market has undergone during its existence by many changes. At the same time we can characterized it as "modern tool of implementation of the exchange, based on the decisions of producers and consumers, place on their choice, respecting certain rules of the game (Brezík 1997, p. 28). In terms of the object of purchase and sales, markets are divided to of the market of goods and services, market of production factors (labor market, land market and the capital market) and financial markets (Holková, 2016). Part of the market is the real estate market. In a market economy the property is seen as a product that is so deeply embedded with the soil, it should be permanently sell or buy with a land, without a land we can only temporarily transfer it to the user.

Market (real estate market) is the area where various bodies are developing their activities with an interest to acquire or offer objects typical to this environment. In addition to seller and the buyer in the market for real estate are other entities such as: real estate agents, property developers, construction companies, investors, financial institutions, architects, planners, government bodies etc. Object of interest, whether supply or demand, is oriented to the construction objects of different physical and

technical condition for use or sites linked respectively unbound to these objects "(Romanova, 2002, p. 115).

The property market is influenced mainly by economic development. Its development and behaviour of entities in the real estate market has devoted many authors. Granel (Grenelle, 1998) in his work argues that fluctuations in the housing market cannot be considered as counter-cyclical. Based on the statistical data it shows that the housing market has a tendency to react in advance to changes in the development of aggregate economic output. During the expansion, automatically increasing credit demand not only in the household sector for procurement of a housing, residential investment, but also for loans in other sectors of the economy, causing upward pressure on interest rates. As the housing market is more sensitive to interest rate movements than other sectors of the economy, the volume of housing construction decreases sooner than economic growth. The rapid decline in housing construction may contribute restrictive nature of monetary policy, which seeks to ease the pace of economic growth to prevent overheating of the economy. Factors that influence the cyclical behaviour of the real estate market, Grenelle (Grenelle, 1998), divided into three groups, the real factors, monetary and financial factors and factors inherent to changes in the volume of production.

The real factors are demographic effects (acting partly pro-cyclical, because economic growth contributes to the growth of household wealth, leading to faster creation of new households and the increasing demand for housing), wealth effect (revenue growth is linked to economic growth and act pro-cyclically, as households have been based on the growth of their incomes tend to manifest increased demand for residential services) and the number of unoccupied dwellings (rate unoccupied housing is natural, does not create pressure to reduce the volume of new housing that occurs when the natural rate is exceeded, and did not determine whether the resulting effect will be pro-cyclical or countercyclical).

Monetary and financial factors is the cost of access to credit, the rate of return on real estate market and fiscal and monetary policy. Costs of loans availability depend on the interest rate on these loans. Interest rates have upturns during grow and during recession are declining. However, the lower the interest rate on the loan, the lower the fee to the creditor for postponing current consumption in favour of future consumption. Lenders are at low rates willing to invest in mortgage loans, which may lead to a reduction of their availability. The higher the rate of return on real estate market in comparison with the rate of return on other assets, the more investors are willing to buy properties and thus constitute a larger share of their portfolio. Besides the rate of return is

also important risks associated with liquidity and that is usually low. Use the tools of fiscal and monetary policy, the government and the central bank seeks to alleviate the economic cyclical fluctuations in the economy and affect its development in a desirable direction. DiPasquale and Wheaton (1994) looks at the real estate market as the two mutually connected sub-markets, asset market and the real estate market in the use (property market). At the asset market (capital market) is created a current price of real estate. Properties here represent only one of a wide range of options to invest free funds.

Jankovičová (2003) looks at the real estate market through supply and demand in the markets for housing and states that in most countries are subject of the same rules. For effective functioning of real estate markets it can expect faster economic development.

Real estate markets may be differentiate according different aspects, in terms of whether the investor wants to hold property owned or sell it on the user market - rental market and investment market - the market for sale of real estate. According to the nature of the real estate market, we recognize the residential real estate market and commercial real estate market (retail market, bond market, the market for industrial and logistics real estate) (Adamuščin 2010, p. 28).

The real estate market in addition operators offering a demanding property are operating brokerage businesses - real estate agencies in respect of their activities and seek to advise, span the full service real estate transfer. Real Estate Services was recently made in Slovakia is booming, in NACE Rev. Section 2 L.1

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<sup>1</sup> Real estate activities are divided into three separate NACE groups and include:

- buying and selling own real estate (Group 68.1);
- renting (to third parties) and operating own or leased residential and non-residential real estate, including both furnished and unfurnished property; the development of building projects for own operation is also included (Group 68.2);
- appraising real estate; providing real estate agency services as an intermediary; managing property as an agent (Group 68.3).

Real estate activities do not include facilities management which is considered part of administrative and support services (Section M), nor the development of building projects for later sale which is part of construction (Section F), nor short-stay letting of accommodation (for example, for holiday purposes) which is part of accommodation and food services (Section I).

## 2 Real estate sector and employment in the European Union

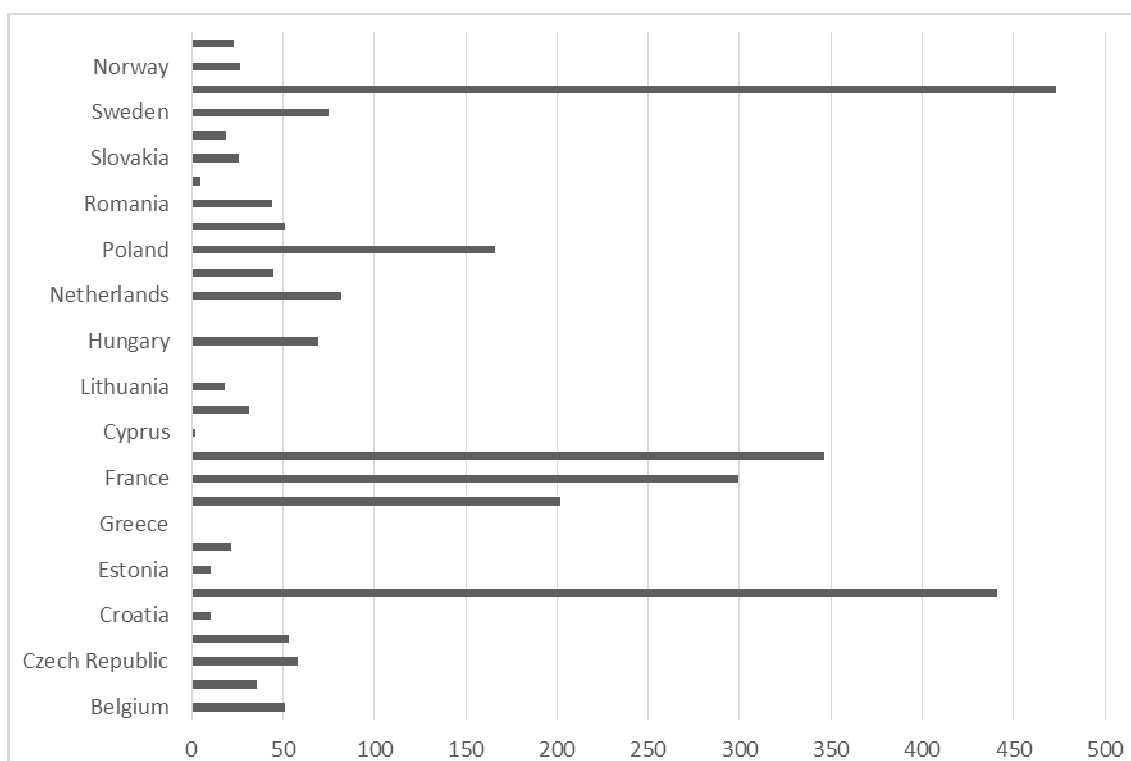
Real estate markets in Slovakia is developing dynamically especially in larger cities, despite their relatively short downturn period during the global economic crisis. This is an important market institution that paves the way for the mobility of capital, labour, finance and so on. Since the effective functioning real estate market thus partly depends on the economic development and welfare of the population (Adamuščin, 1/2011 p. 23).

The largest subsector within the EU-28's real estate activities sector in 2013 was renting and operating of real estate (Group 68.2) which accounted for above three quarters (77.4 %) of sectorial value added and employed more than half (56.4 %) of the workforce, as well as having over three fifths (64.8 %)

of the enterprise population. The second largest subsector was real estate activities on a fee or contract basis (Group 68.3) which contributed almost one fifth (18.8 %) of value added and twice this share (37.8 %) to the workforce for real estate activities. The smallest subsector was buying and selling of own real estate (Group 68.1) with a 5.8 % share of the real estate activities workforce.

The services of real estate activities are very diverse: real estate agents let (rent) or sell on a commission basis; traders buy and sell property; valuers, facilities and estate managers provide professional services; and finally owners let property. Most of these activities are related to the secondary market concerned with existing property, although some, such as property developers for own operation are active in the primary market and are therefore closely related to the construction sector.

**Graph 1: Number of employees in real estate (in thousands) 2013**



Source: Eurostat, 2015

Real estate activities have very different cost structures and revenue streams. As such, care has to be taken when comparing them, particularly when trying to measure the size of each subsector or their use of capital or labour. In particular, when enterprises are the owner of a good that they rent or lease, their financial costs and depreciation charges may constitute the main element of their total costs, but

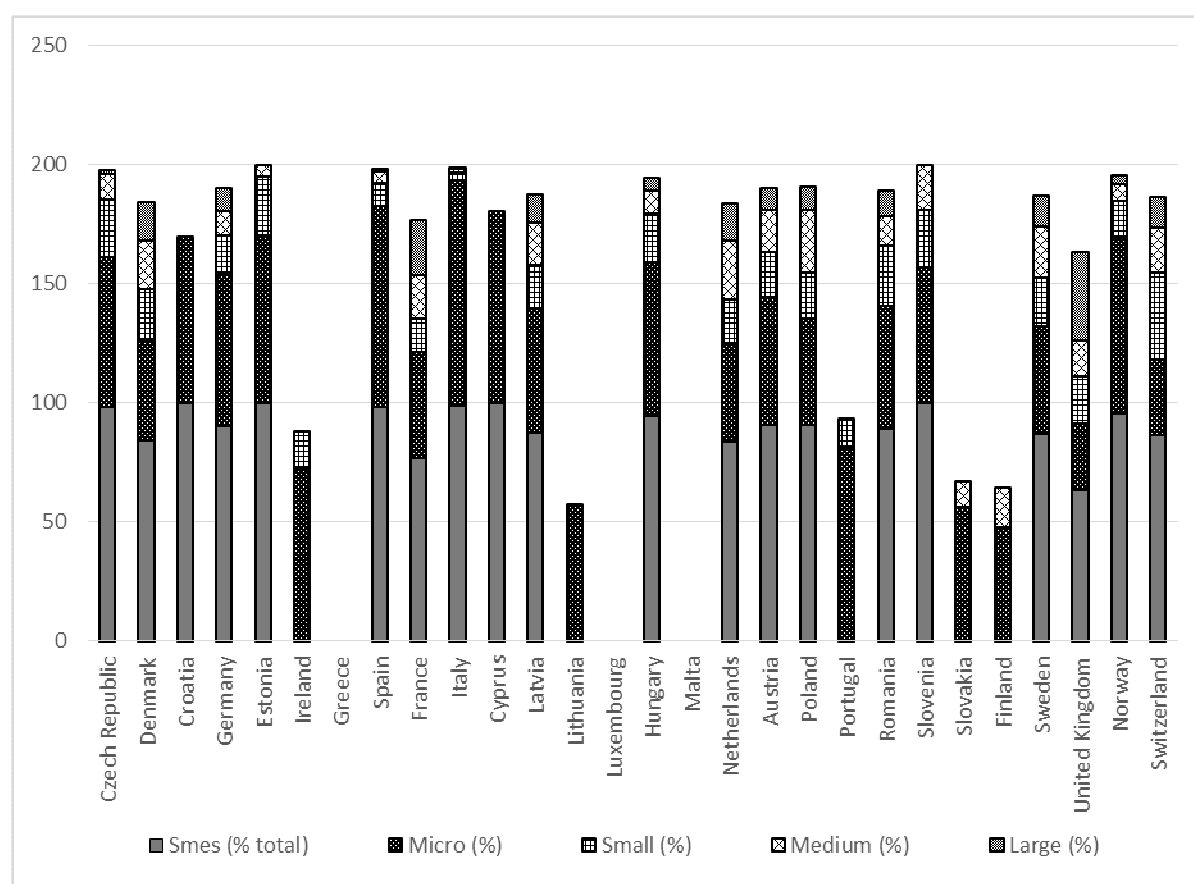
these are not considered when calculating gross value added or indicators of productivity based on this.

Lower % of home ownership in the country has an impact on the real estate sector, which can be seen on the example of Great Britain, Germany, Italy, France and Spain. The lower the % of home ownership the greater demands on the number of employees in the sector (Graph 1).

The high wage-adjusted labour productivity ratio recorded for the EU-28's real estate activities sector in 2013 was pulled up by the ratios recorded for renting and operating of own or leased real estate (402.0 %) while the ratio recorded for real estate activities on a fee or contract basis (144.0 %) was just above the non-financial business economy average (143.1 %). By contrast, the gross operating rate for real estate

activities on a fee or contract basis (24.4 %) was well above the non-financial business economy average (9.5 % in 2013), although considerably lower than for the renting and operating of real estate (51.3 %), which was the highest gross operating rate across all non-financial business economy activities at the NACE group level.

**Graph 2: Employment in real estate by size of enterprise (%)**



Source: Eurostat, 2015

EU-28 real estate activities sector in 2013 were classified as micro enterprises (Graph 2). These micro enterprises dominated the real estate activities sector as they accounted for 98.1 % of the total number of enterprises in the real estate activities sector, while providing employment to the majority (58.6 %) of the real estate activities workforce and also generating more than half (57.4 %) of the added value. Indeed, micro enterprises within the real estate activities sector recorded the second highest contribution to sectorial employment and the highest contribution to sectorial value added across any of the NACE sections

that compose the non-financial business economy.<sup>2</sup> This pattern was repeated across most of the EU Member States, as micro enterprises frequently accounted for more than half of the total number of persons employed in the real estate activities sector in

<sup>2</sup> The main size classes used in this article for presenting the results are:

- small and medium-sized enterprises (SMEs): with 1 to 249 persons employed, further divided into;
  - micro enterprises: with less than 10 persons employed;
  - small enterprises: with 10 to 49 persons employed;
  - medium-sized enterprises: with 50 to 249 persons employed;
- large enterprises: with 250 or more persons employed.

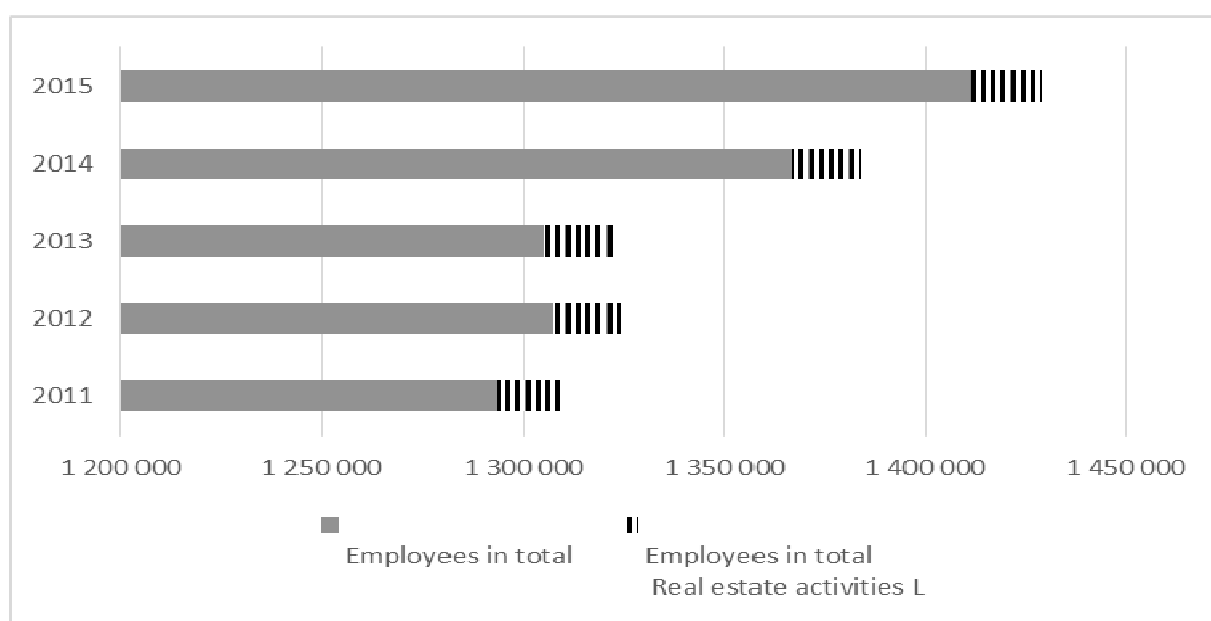
2013, peaking at 95.1 % of the total workforce in Italy and 85.3 % in Belgium. By contrast, Poland, Sweden, the Netherlands and the United Kingdom reported that less than half of those employed in the real estate activities sector worked for micro enterprises — although micro enterprises still had the highest share (among the four size classes analysed) of the real estate activities workforce in each of these countries. The United Kingdom was the only EU Member State where micro enterprises did not provide employment to the highest share of the workforce within the real estate activities sector, as large enterprises (employing 250 or more persons) had a 32.3 % share of sectorial employment, compared with a 28.7 % share for micro enterprises. In Switzerland, small enterprises (employing 10 to 49 persons) accounted for the highest proportion of the real estate activities workforce, some 32.9 %. In terms of value added, the relative importance of micro enterprises was often even higher (than for employment). For example, micro enterprises accounted for the highest share of added value in the real estate activities sector in the United Kingdom (41.6 %), and for the majority of value added in all of the remaining EU Member States for which data are available other than in France (45.2 %), Poland (19.0 %) and the Netherlands (25.1 %). The Netherlands was the only country where micro enterprises did not record the highest share of sectorial value added, as medium-sized enterprises (employing 50 to 249 persons) accounted for 30.6 % of value added for Dutch real estate activities.

### 3 Employment in real estate Slovak Republic and the development of human resources

The current state of the labour market in Slovakia is characterized by its high imbalance between labor supply and labour demand. The labour market is essentially that what goes in all policies, with a view to high employment, that is to ensure a high level of domestic production and consumption and its equitable distribution among the population as a whole. These contributing factors manifests itself through the GDP as in household consumption and in the formation and structure of fixed capital and the amount and structure of consumption in the public sector (Rievajová, E. Klimko, R., 2015, p. 40). The situation on the Slovak labour market has recently recorded positive changes. There is an increasing number of workers and reduced the number of unemployed. The problem remains the long-term unemployment, which is failing as intense as to reduce the overall level of unemployment on file.

Impact real estate market is visible in the growth of employment in the intermediation of sales respectively. rental. Since 2011, the number of employed in this sector increases. Similar developments occurred and employment from 2005 to 2008. As the real estate market has an impact on employment, the impact on the creation of business activities. Graph 3 shows the number of employees in enterprises by size.

**Graph 3 Employment in real estate SR (number of employees)**

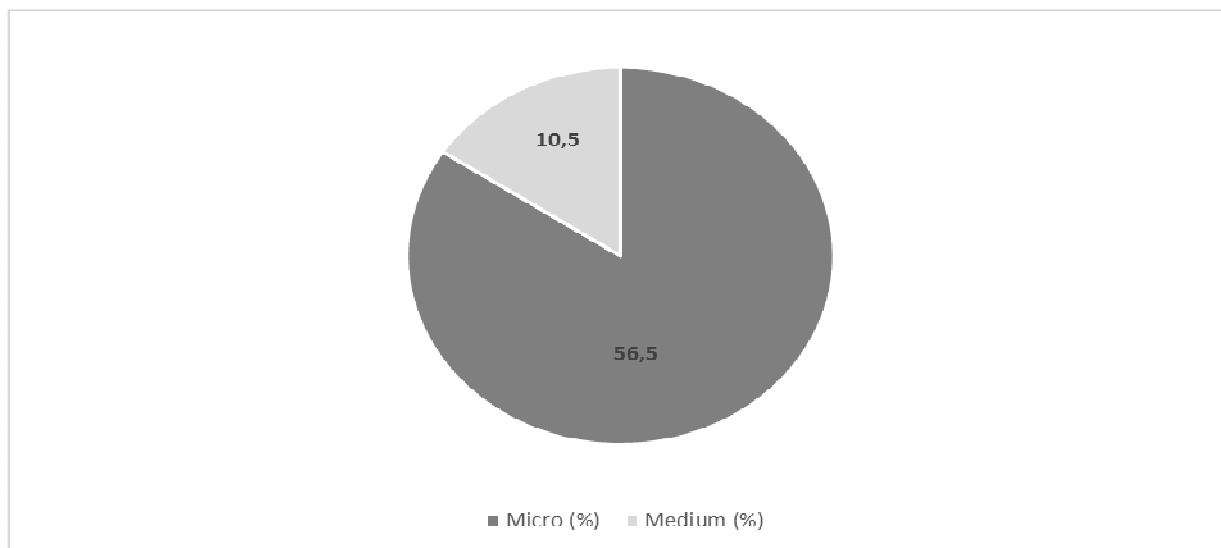


Source: Regional statistics SR, 2016

The Slovak Republic has implemented activity in real micro enterprises with a share of 56.5% and medium-sized enterprises with a share of 10.5% (Graph 4). The number of persons are micro largely only jednoosobové. It is associated with setting up a

business in the family and at the time owned the boom, for example, married couples and three real estate agencies. With the current developments in the real estate market situation in 2008, when many businesses have been canceled, may be repeated.

**Graph 4: The share of employees in micro enterprises in real estate in Slovakia (%)**

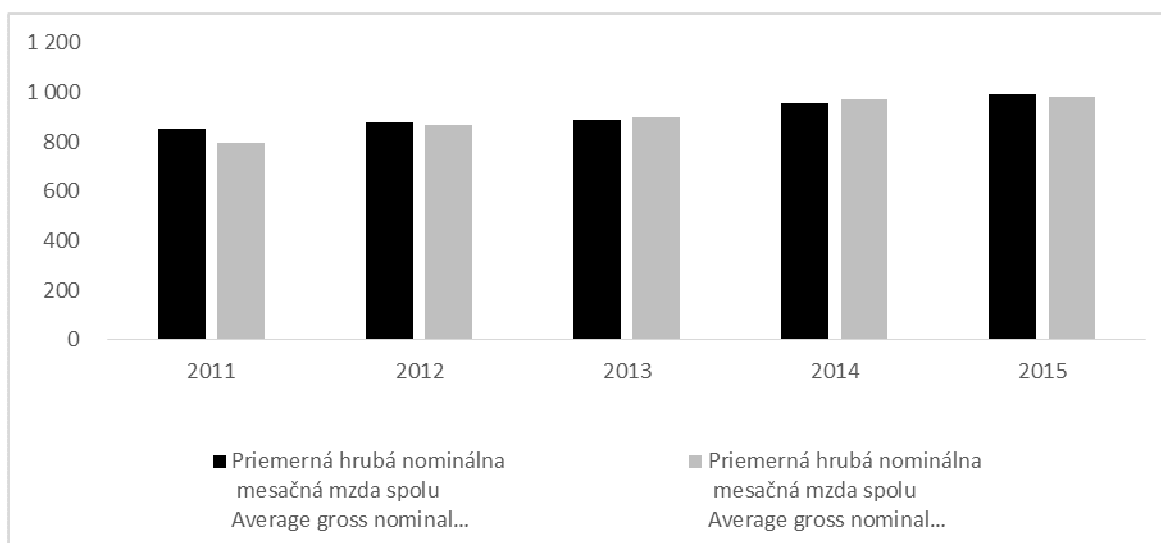


Source: Eurostat, 2016

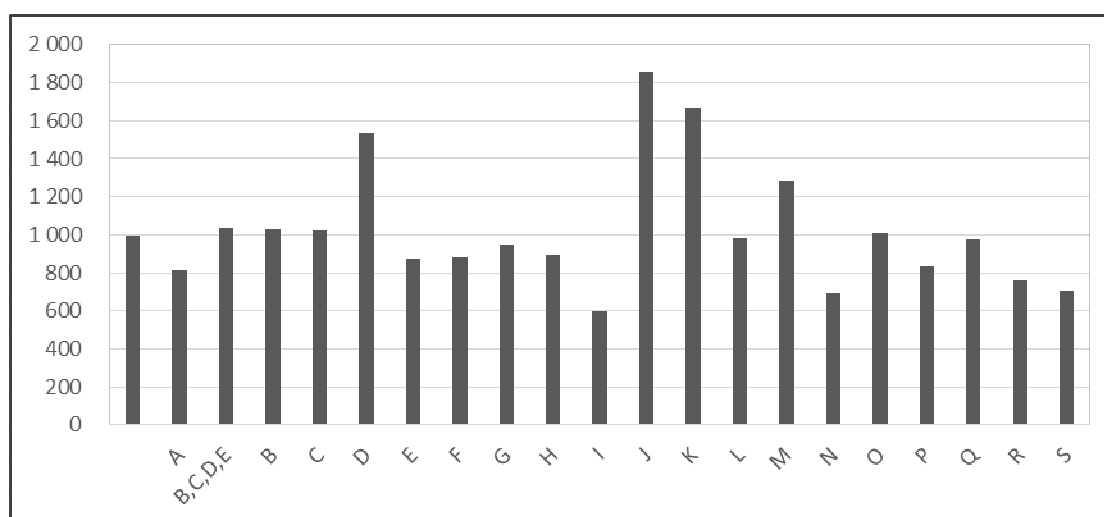
Demand to work in real estate is influenced by the amount of wages. In Figure 5 is shown the average wage in the national economy and real estate in Slovakia. Compared to the average wage in other sectors it is higher. Positive development of

fundamentals continued to the wage growth and reducing unemployment is not reflect through demand pressures into faster growth in prices of market services (NBS, The Game February 15, 2016, p. 1).

**Graph 5: Comparison of the average wage in the national economy and in real estate in €**



Source: by the Regional statistics SR, 2016.

**Graph 6: Comparison of the average wage by sector NACE – 2 in €**

Source: by the Regional statistics SR, 2016.

Regulatory approaches in the real estate sector vary significantly from one country to another. Since most countries have identified similar risks, it is necessary to examine the reasoning behind such substantial differences in regulation. A number of countries put forward historical traditions, differences in civil law and differences in the organisation of the profession, as well as recent trends in property markets as well as an economic context in order to explain the individual shape of each regulatory regime.

According to the International Standard Classification of Occupation (ISCO)<sup>3</sup>, real estate agents and property managers arrange the sale, purchase, rental and lease of real property, usually on behalf of clients and on a commission basis. Tasks performed by real estate professionals usually include obtaining information about properties to be sold or leased, the circumstances of their owner and the needs of prospective buyers or tenants; showing properties to be sold or leased to prospective buyers or tenants and explaining terms of sale or conditions of rent or lease; facilitating negotiations with tenants and owners on rents and fees; drawing up leasing and sale agreements and estimating costs; arranging signing of lease agreements and transfer of property rights; collecting rent and bond monies on behalf of owner and inspecting properties before, during and after tenancies; ensuring the availability of workers to perform maintenance of the properties.

Directive 2005/36/EC on the recognition of professional qualifications<sup>1</sup>, as amended by Directive 2013/55/EU sets out a transparency exercise and a mutual evaluation of all regulated professions. Article 59 of the revised Directive 2005/36/EC introduces an

obligation for the Member States to notify the professions they regulate (including the activities reserved to qualified professionals) and to assess the justification and the proportionality of existing entry restrictions. In addition, the Communication on evaluating national regulations on access to professions lays down a methodology and work plan for carrying out this process. The mutual evaluation exercise requires each country to review national requirements on access to professions and to share its findings with the others.

The profession of real estate agent was selected by a majority of Member States for in-depth discussion among the first cluster of professions (including Business services, Construction, Manufacturing, Real estate, Transport, Wholesale & retail) considered to have the greatest potential in terms of level of employment and degree of mobility. For the purposes of the mutual evaluation exercise, under the generic name of the profession “Real Estate agent/Real estate agency manager/Administrator/Director” are grouped activities related to the provision of intermediary services in respect of real estate transactions and real property assets. Many countries have reported more than one profession regulated in the real estate sector.

## Conclusion

In view of current status, the real estate activities must still improve and that the work of real estate brokers level and thus meet the needs of sellers and purchasers, it is necessary to constantly be given to the training and development of human resources. In

Slovakia, as well as in other countries, the investment in real estate is still considered as a safe investment that, depending on the type of real estate, can bring some revenue. Intermediary in the real estate market (i.e. Agents) is an independent intermediary of real estate business, representing interests of the customer who entrusted the team (with high professional care) as well as the client's on other side. This requires personal and professional competence and professionalism.

Real estate agent professional represents client and accompanies him during the whole process of implementation of the business case, which brings its original contribution and guarantee the delivery of services to that client. This is particularly the negotiation of the sale, purchase and rental properties (apartments, houses, land, office, warehouse, retail space and objects, etc.), thus creating a good

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opportunity to realize real estate transactions, according to the potential of available resources and tools.

From the information submitted is not always clear as to whether the profession of real estate agent is subject to an exclusive reserve of activities or a shared reserve with other professions. However, the Commission would ask countries to be mindful that national legislation requiring real estate agents to carry out that business exclusively, with the exception of other activities, such as management of property, is considered not to be in compliance with Articles 49 TFEU and 56 TFEU by the European Court of Justice.

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