

## THE REAL ESTATE MARKET BETWEEN ECONOMIC CAUSALITY AND THE RISKS OF ORGANIZED CRIME

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### ABSTRACT

*The city of Cluj-Napoca turned into the biggest real estate boom in Romania. Although wages have remained at the national average level by field of activity, the price of housing tends to take such a large scale that it exceeds the amount of real estate in many European countries and cities. The community of ordinary, honest and industrious people sees themselves excluded from their own city, suffering because of this price explosion which has an impact in all social spheres. The explanation that the price level is due to the large number of students and computer scientists is easy and convenient for the authorities who do not really have reactions, answers and solutions.*

**KEYWORDS:** *accommodation, maximum profit, corruption, computer scientists, real estate, money laundering, indolence, incompetence, complicity, community suffering, emigration, solutions.*

**J.E.L. Classifications:** R31, R21, R28, D31, I31, R11, O18, J31

### 1. ARGUMENT

After December 1989 in Cluj-Napoca there were phenomena and facts prominently highlighted on the national socio-economic map: the Caritas pyramid megagame, the FNI scam guaranteed in the end by the CEC, the bankruptcy of the largest private Bank "Dacia Felix", the headquarters of two antagonistic national parties UDMR and PUNR and very important, in the long term, the expansion of "Babeş Bolyai" University which became the largest in the country, both in terms of number of students and as the number of sections. The transformation of the number of students into an economic, not only scientific, cultural and social argument, even without coverage on the labor market, induced the increase in the number of students at all universities. It is not easy to mention "all" universities! The six state universities have a large share:

"Babeş Bolyai" University, Technical University, University of Medicine and Pharmacy, University of Agricultural Sciences and Veterinary Medicine, University of Art and Design, Academy of Music. Along with these, the legislation after 1989 allowed the establishment of private education - "Bogdan Vodă" University (one of the first in the city), Dimitrie Cantemir University (centered in Bucharest, but with strong branches of Law and Economic Sciences in Cluj), "Sapientia" University focused on the Hungarian community, as well as "Partium" University in Oradea which has activity in Cluj as well, as well as other higher education institutions reorganized/disbanded over time, or with more limited or meteoric activity - "Avram Iancu", "Spiru Haret", "Phoenix", the Protestant Theological Institute and we do not claim to list exhaustively.

It is certain that Cluj-Napoca has the highest density of students compared to the number of inhabitants in the country. These crowds of students, about 100 thousand with master's and doctoral students, in principle, were mainly charged tuition fees and all kinds of expenses were increased, based on the well-known principle of the price that appears as a result of the competition between demand and supply. There is a very high demand in Cluj, sometimes exorbitant, the solution, the most profitable and immediate, was just to increase the prices.

Given that practically no dormitories were built after 1989, (only one in the Gheorghieni District, near "Economic Sciences" - FSEGA, but it is not entirely dedicated to students) among the prices that have exploded in Cluj, the shocking is that of rents and, logically, in the next steps, real estate prices. The explanation of the large number of students and IT specialists is the most convenient in excusing apathy or anti-crime inefficiency, but it is also necessary to analyze the hypothesis if part of the pressure on prices can come from financial flows associated with organized crime.

## **2. POSTULATED: ORGANIZED CRIME IS INTERESTED BY THE BIGGEST PROFIT**

The accommodation capacity in the state dormitories is approximately 14,000-15,000 places, and the students who do not get a place in the dorm, volens-nolens, enter a rental market where a level of 300-500 euros for a studio apartment excludes young people from disadvantaged backgrounds from Cluj university studies. Many of them would have deserved to perform in Cluj! It is estimated that approximately 65,000 students live in rented accommodation annually.

Most students barely pay their rent and living expenses, very few can afford to enter the property market as buyers. There is, however, one category that influences the real estate market the most - IT specialists.

They influence more because they have high salaries relative to the rest of the population. However, the infusion of students and the university environment determined the explosion of the crowd of IT-scientists in Cluj-Napoca, rightly considered a "Silicon Valley" of Eastern Europe. The estimate goes up to the existence of about 30,000 IT specialists in Cluj with a number of over a thousand active IT companies.

All of these provide clues to the size of the rental market and the total value of real estate transactions.

In 2025, Cluj county registered an approximate volume of 30,782 real estate transactions with an estimate of between 1.8 - 2.2 billion EUR annually (sources: ANCPI - National Real Estate Agency; Imobiliare.ro; Storia.ro s.a.).

The rental market is more difficult to quantify, but it can be approximated by the number of residential units estimated to be in the rental circuit of at least 45-50 thousand units (apartments and rooms). Considering the data published in some specialized websites, Imobiliare.ro; Storia.ro, or of public institutions (City Hall of Cluj Napoca - floating population) we arrive at a total estimated annual value of approx. 300 million EUR.

What happened in the USA during alcohol prohibition when alcohol smuggling produced a huge amount of black money? Who appeared on the market?

In drugs, in human trafficking, in the smuggling of oil to Yugoslavia in the 90s, in the massive cutting of forests in countries that do not protect them, in prostitution, in gambling and betting, wherever, when the stake of a very large profit appears, even if it is illegal, who undoubtedly appears?

Popular wisdom has an expression that captures the phenomenon: "Let it be, because frogs gather!" Is there a risk that part of the real estate market in Cluj or in Romania will be accessed, influenced or even controlled by organized crime?

The clearest proof of the influence of organized crime is the huge number of homes sold that remain unoccupied! Between 18,000 and 24,000 housing units, depending on the information sources, in Cluj-Napoca alone. Thousands of apartments are bought for hoarding. Rising property prices coupled with very low interest rates offered by banks on savings have made buying an

additional home an investment for anyone who can afford it. But it is also a classic method of money laundering where the goal is not the profit from the rent, but the legalization of the initial amount through subsequent resale.

### **3. REAL ESTATE IS FAVORITE TO BE A "SAFE HAVEN" (SAFE REFUGE) FOR ILLICIT CAPITAL**

Although the presence of the IT sector and students would lead to the thought of a constant demand, especially in the conditions in which a salary recession in IT is foreseen (it actually took place), the hyperbolic evolution of real estate prices in Cluj cannot be justified. Practically, these real estate prices have been decoupled from the real purchasing power of the average salary, even if this "average", in Cluj, contains a lot of IT.

Who does the disconnection? A working student, a programmer even with an above-average income is subject to the bank lending grids. When the price per square meter exceeds the threshold of 3000 euros/sq m, or in special areas/center, over 5000 euros/sq m, they become unaffordable for the middle class through mortgage credit. Everyone knows that high prices are supported with "cash", which highlights sources of financing external to the transparent banking system, specific to organized crime that needs to "clean" financial funds of dubious origin as quickly as possible. It's like a geometric law, a postulate, it's just like that, but even if it's like that, it's certainly not a proof on file, it's just an assumption. There are institutions that, based on some laws, will look for this evidence, being within their competence.

Some authors on economic crime suggest that real estate markets in fast-growing cities may become vulnerable to the infiltration of capital from illicit activities (Unger, 2021). The real estate sector is recognized as a classic instrument for money laundering, including the profits from drug trafficking (FATF, 2019).

An interesting work in the field is by a collective led by Klitgaard Robert "Corrupt Cities: Practical Guide to Institutional Reform". These specialists identify three main mechanisms:

- money laundering through real estate investments because real estate offers: high and relatively stable value; the possibility of justifying the origin of the funds; integration into the formal economy.
- capital reinvested from the drug market. According to the UN Office on Drugs and Crime (UNODC), the drug market generates hundreds of billions of USD annually globally (UNODC,

2023). Part of these funds are reinvested in: residential real estate; commercial premises; urban developments.

In Europe, studies on cities such as Amsterdam or Barcelona have shown correlations between the underground economy and speculative real estate investments (Savona, 2020).

- the third mechanism refers to demand distortion. Is it the case of Cluj?

Black money does not pursue classic profitability, but:

- preservation of value;
- anonymization of property;
- integration into the legal circuit.

Thus, artificial demand can push prices above the level determined strictly by legitimate supply and demand.

#### **4. COMPETENT INSTITUTIONS, CASE STUDY AND THE THREAT NARCO TRAFFIC**

Combating the phenomenon would require the coordinated action of several institutions:

- Directorate for the Investigation of Organized Crime and Terrorism (DIICOT)
- National Anticorruption Directorate (DNA)
- National Office for the Prevention and Combating of Money Laundering (ONPCSB)
- National Fiscal Administration Authority (ANAF)
- General Inspectorate of the Romanian Police (IGPR)

The main legislative framework mainly refers to:

- Law no. 656/2002 on the prevention and sanctioning of money laundering
- Law no. 143/2000 on preventing and combating drug trafficking and illicit drug consumption
- Criminal Code (art. 367 – organized criminal group)

Examples of relevant files:

##### **Romania**

- 2020 – DIICOT file on drug trafficking and money laundering through real estate purchases in Bucharest (DIICOT public release);
- 2022 – File regarding an organized criminal group involved in tax fraud and real estate investments (Bucharest Court of Appeal),

- 2023 – Case instituted by DIICOT regarding cocaine trafficking and property investments in the west of the country.

**Germany:** Investigations coordinated by the Bundeskriminalamt (BKA) demonstrated the use of real estate for the recycling of profits from drug trafficking networks (BKA Report, 2021).

Netherlands: The Financial Intelligence Unit (FIU Nederland) reported in 2022 the increase in suspicious transactions in the real estate sector in Amsterdam, associated with the drug economy.

## **5. THE THREAT OF DRUG TRAFFICKING ON CLUJ. INCLUSIVE OF CLUJ REAL ESTATE**

Cluj-Napoca is a major university center, and the reports of the National Anti-Drug Agency indicate the existence of high consumption in the university environment (ANA, 2022). In economic theory, a city with: high consumption, logistical proximity, high purchasing power, can generate important financial flows in the underground economy.

If these flows are reinvested in real estate, it results:

- additional pressure on demand;
- cash purchases;
- lack of price sensitivity.

However, we note that no public data has been identified that accurately quantifies the weight of this phenomenon in the formation of prices in Cluj-Napoca.

## **6. CONCLUSIONS AND PROPOSALS**

It is well known that the upward spiral of real estate has a major negative impact on all components of social life. Institutions with competences in the field are expected to leave their mark more and contribute to the normalization of the perspectives of local communities, despite a lack of social reactivity typical of an increasingly aggressive, apathetic population, resigned to the idea that nothing can be done to improve living conditions.

A lot can still be done, there are international anti-corruption models. Where there was political will, things got better, some negative phenomena were even eradicated, and some proposals can be extracted from those models:

- Extending the verification of the source of funds for transactions above a certain value threshold. Constantly checking the real prices from the real estate agencies with those declared at the notary chambers:
- Automatic interconnection ANAF–ONPCSB–DIICOT.
- Complete public register of beneficial owners (in line with EU Directive 2018/843).
- Extended confiscation according to art. 112 Criminal Code.

Romania is the country that in peacetime was condemned by pauperization, lack of perspective, systemic corruption to have the largest share of emigrant population in Europe, and of course with an unwanted leading place in the world, and all this took place in peacetime. By analogy, from the much-acclaimed "5-star city", the aberrant price spiral in Cluj-Napoca can produce similar, uncontrollable effects internally. Paraphrasing the legal admonition, we would conclude by warning, "Any silence can turn against us!"

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\*\*\*Law no. 656/2002 for the prevention and sanctioning of money laundering