

## THE CONCEPT OF THE EQUILIBRIUM PRICE AND THE OPEN MARKET VALUE: A COMPARISON

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**Abstract:** Every market has its specifics. According to these specifics, the prices for the property traded on a particular market are set. Based on the specifics of the real estate market, the aim of this paper is to determine whether the equilibrium price of a property corresponds with its open market value usually set in the valuation practice and, subsequently, to discuss the potential differences. The theoretical definitions of the individual types of prices (e.g. the equilibrium price, open market value, bid price) provided a foundation for the conclusion that each of the explored types of price is very specific and is shaped by the influence of many factors. As a practical example, the theoretical basis of pricing strategies is applied on the real estate market. The real estate market is a good example of the fact that, from the point of view of pricing strategies, the nominal values of the prices do not equal. The performed theoretical analysis, literature review and practical research are used as factual material for the stated conclusions.

**Keywords:** open market value, equilibrium price, Efficient Market Hypothesis, real estate market, development project

### 1 Introduction

Every market is defined by its specific characteristics and factors influencing it both externally and internally. On the real estate market, the individual factors creating the economic environment of the whole market can be seen in different sections of the set of economic functions.

One of the key indicators that develops in a very specific way on every market is the pricing strategy for a particular property. From this point of view, the economic theories distinguish several types of prices (open market value, equilibrium price, bid price etc.). All of these types of prices result from different economic processes.

From the theoretical viewpoint, it is essential to perceive and understand the differences between all types of prices when using the terms for example in reference literature, namely on the side of both the author and the reader. Therefore, the orientation in all types of prices is necessary for both written and spoken information transfer about economic issues for both sides.

In this paper, a theoretical analysis of chosen pricing strategies will be conducted with an application of these theories on the real estate market. Based on the specifics of the real estate market, the aim of this paper is to determine whether the equilibrium price of real estate corresponds with its open market value usually established in the valuation practice. Subsequently, any potential differences will be discussed.

From the point of view of pricing strategies, the real estate market is influenced by many factors (supply, demand etc.). The supply and demand in particular can be seen as the main agents creating the equilibrium price. The open market value is generally defined by the International Valuation Standards (IVS) and, specifically for the conditions in the Czech Republic, moreover, in the Act No. 151/1997 Sb.

### 2 Literature Review

For the purpose of this paper, it is necessary to start with a definition of market efficiency. The Efficient Market Hypothesis belongs to the basic economic terms studied by many authors in the last 50 years. The Efficient Market Hypothesis was

developed in the 1970s by Eugene Fama. The theory became a milestone in the development of theoretical concepts and models used by many economists to try to explain the price development of financial assets (Armeanu and Cioaca, 2014).

The Efficient Market Hypothesis applied on the stock market presupposes that the actual share prices fully reflect all available information about the enterprise value and that there is no way to generate excessively high profit due to this information (Horák and Krulický, 2019).

Kendall (1953) tried to find any price cyclicality in the prices of shares and other commodities. However, he did not discover any pattern describing the cyclicality in the price development based on publicly available information. He drew a conclusion that the price development is random and the future price is influenced by the last known price at the most. He called this behaviour of the process of price development in time a "random walk".

The market efficiency has three basic forms. Liu (2009) divides the markets according to their efficiency level into weak, semi-strong and strong ones. The weak market efficiency form includes only publicly available information into the reaction of asset price development. The semi-strong form includes besides the publicly available information the historical data as well. The strong market efficiency form reflects all public, historical and private information in the assets pricing strategy on a market.

Veselá (2019) defines four basic characteristics of an efficient market. The first characteristic feature of an efficient market is an immediate and abrupt reaction of stock value on stock markets on a new unexpected piece of information. The second characteristic is the independence of the changes of stock values on stock markets on the preceding time period. As for the third characteristic feature, no investor can repeatedly and in a long term generate an above-average profit. Last but not least, business or investment strategies focusing on destabilizing the market do not function.

Fama (1970) himself characterizes the efficient market as a market where the participants have unlimited possibilities of accessing or leaving it. Moreover, all participants have a constant access to all information that can possibly influence the assets price on the market. Furthermore, all partakers accept this available information and reflect it in the actual value of all assets of their product portfolio.

The predictability of investment return is an inverse indicator of market efficiency. In the environment of an efficient market, all active rationally thinking participants get information about its development at the exact same time and can, therefore, not use this piece of information to their own benefit (Chordia, Roll and Subrahmanyam, 2008). There is a very negative phenomenon corrupting the efficient market, namely the trade with negative information among the market participants. This information has an enormous impact on the behaviour of investors and stock holders. This is followed by a fast reaction of the stock market in the form of further development of the stock price (Edmans, 2009). In case that any of the participants associated with a functioning efficient market do not have the information necessary for their rational behaviour, their, from the point of view of other participants irrational, decision can contribute to or even cause a destabilization of an otherwise functioning efficient market (Kauffman, Spaulding and Wood, 2009).

Kim and Shamsuddin (2008) tested whether Asian market works according to the Efficient Market Hypothesis. They came to a conclusion that some Asian markets function as efficient markets only in the weak form. Other markets underwent at the time of the observation a significant evolution and started fulfilling the characteristics of an efficient market. The price efficiency of a

market depends on the level of the development of the stock market and on the degree and method of its regulation.

Borges (2010) tested the Efficient Market Hypothesis on stock market indexes in European countries. In particular, the stock markets of Great Britain, France, Germany, Spain, Greece and Portugal in the time period 1993-2007 were involved. According to the data available, Borges reached the conclusion that the Efficient Market Hypothesis manifests itself in its strong form in Germany. On the other hand, the behaviour of Portuguese and Greek stock markets denies the Efficient Market Hypothesis. However, after 2003, even these stock markets started to show characteristics of this hypothesis.

A market is considered to be efficient when all available data about individual subjects are already processed by the Invisible Hand and reflected in the price of the assets (stocks, their indexes, individual currencies, bonds and commodities). The following characteristics belong among the preconditions of an efficient market:

- 1) immediate reaction of the asset's prices on a new unexpected information,
- 2) transaction costs are low,
- 3) market is highly liquid,
- 4) a high-quality infrastructure and legal regulation of the market.

Rationally thinking investors deal with valuing the stocks and they are, therefore, able to determine the value of a stock in a concrete moment if they have all information influencing the stock value at their disposal (Shiller, 2010). Ardalan (2018) claims that the cognitive processes of considering the price development on the market and the associated behaviour of a rationally thinking investor has a destabilization of the market as a consequence.

There is, however, a question whether the Effective Market Hypothesis is still valid even today. The hypothesis is nowadays supported but also denounced for its non-topicality and invalidity. It is, however, necessary to remark that the popular financial models from the 1970s and 1980s were based on the precondition of a functioning efficient market, mainly as far as the obligation and option models are concerned (Majumder, 2013).

In the last decades, studies with the purpose of denying the Efficient Market Hypothesis emerged. Nevertheless, it is very difficult to test the Efficient Market Hypothesis for its confirmation or disproval due to the changes of the market and economic conditions. For such cases, according to Titan (2014) a new model should be developed that would take all market risks into consideration. Titan points out that further studies about market behaviour simulation should focus more on their verity.

There is no united opinion on the efficiency or inefficiency of the current stock markets. Urquhart and McGroarty (2016) explored the Adaptive Market Hypothesis on stock markets. As there is always some chance of return on the original value of the purchased share on stock markets, these markets show, according to their assertion, the features of the Adaptive Market Hypothesis. They reached their conclusion based on the results of statistical tests (F-Tests) and a non-parametric BDS Test on the basis of information about the monthly development of the stock prices. This idea is supported by Dhankar and Shankar (2016) as well as it is, according to their opinion, very improbable to keep an accurate and lasting information efficiency for the price and price indexes reactions on stock markets which form the foundation for the Efficient Market Hypothesis.

A very interesting hypothesis tested in the process of research in the field of efficient market is the persisting shortage of liquidity. According to Dragota, Tilica and Oprea (2013), stock markets cannot be considered to be efficient because, due to the

existence of non-business days on stock markets, their overall liquidity increases and the presupposition representing one of the key characteristics of an efficient market is, therefore, not fulfilled. The liquidity of an efficient market is described by (Young and Auret, 2018). The liquidity of the efficient market was measured based on the market turnover. The non-liquidity on efficient markets weakens the predictability of the investment return. This idea was supported also by Ibikunle et al. (2016) testing the mutual relation of efficiency and liquidity on the global carbon market.

According to Chordio, Roll and Subrahmanyam (2008) the liquidity stimulates the arbitrage activity, which, once more, increases the market efficiency.

Su, Cheung and Roca (2012) examined the efficiency of real estate markets based on data from 14 countries (Australia, Canada, France, Germany, Hong Kong, Italy, Japan, the Netherlands, Norway, Singapore, Sweden, Switzerland, Great Britain and the USA) by means of generalized spectral tests according to the methodology created by (Escanciano and Velasco, 2006). The efficiency of a real estate market was detected only in six cases, particularly in markets known for their high liquidity, globalisation and the best standards of regulation that make the markets work transparently.

Almudhaf and Hansz (2018) explored the behaviour of the real estate market into much more detail. By means of statistical tests conducted on information about the real estate price development, the efficiency of individual properties according to their way of use on the real estate market was further examined. The authors observe a different level of investment return risks from the individual properties according to their way of use.

On every market, there is a competition on the side of both the supply and the demand called as a competition across the market. The competition on the side of the supply takes the goal of the seller into account, namely to sell as much goods as possible for the highest prices possible and to, consequently, maximize their profit. From the point of view of its form, the competition of the supply can be divided into two groups: a price competition and a non-price competition (Stehel, Horák and Vochozka, 2019). Gerardi and Shapiro (2009) claim that the competition impacts negatively the price dispersion.

Chie and Chen (2013) propose, according to the example of Herbert Simon, their own model based on quality called modular economy. This model is capable of taking the non-price type of the seller competition into account. The non-price form of competition is perceived as the ability of a product to satisfy the needs of the buyer more than a similar product from a different seller.

The amount of demand can be, to some extent, regulated by the sellers. Higher prices for the goods and services result in a decrease in demand. When the optimal price level is set, there is no excess in production either and the commodity liquidity is adequate to the amount of produced goods (Shin and Tunca, 2010).

According to Anderson and Bao (2010) the price is the means of communication between the seller and the buyer.

A particular form of competition on the side of the demand is described also by Xiao and Qi (2008). Based on their findings, the common practice among the suppliers is to charge more for a unit of ordered goods in order to force the merchant to increase the amount of orders resulting in a decrease of the price for one unit of the delivered goods (the so-called quantity discount).

In the efficient market environment, there is only the perfect competition. Shneyerov and Wong (2010) dealt with measuring the rate of convergence to the perfect competition on the model of a seller and a buyer creating together the final price for a property or service based on the non-public information.

Azevedo and Gottlieb (2017) propose a model of a perfect competition based on pricing strategies under the conditions of zero profit and a free access to and exit from the market. Even in the case when individual sellers and buyers have different non-public information, there is a perfect competition between them. The term perfect competition is a methodologically unacceptable state of a market. Its significance lies in empirically oriented economy (McDermott, 2015).

The basic market mechanism is formed by the conflict between the demand and the supply on the market. This market mechanism has been described into great detail by many economists concerned with the field of microeconomics. The relation of development of supply and demand is described in the following way: with an increasing demand for a particular commodity, its supply decreases and, simultaneously, its price increases and the other way around. One of the authors describing this mechanism is (Jurečka et al., 2018). In the process of this mechanism, the equilibrium price is created. The equilibrium price is a value given in any currency in the moment when the curve of supply intersects the curve of demand. This represents the state when a particular commodity is supplied in the same amount in which it is actually demanded by consumers. Supply and demand are, therefore, in equilibrium at that moment.

The equilibrium price directly takes the demand and supply into consideration and bases on the concept of an efficient market. According to Anderson and Raimondo (2018) the equilibrium price reflects all available information that can be accessed on the market as a material for setting the pricing strategy. In some fields, a major role in the process of establishing the equilibrium price can be played by the availability of technologies necessary for producing a particular commodity or providing a concrete service. This is valid on condition that some technologies are more efficient than others (usually than older technologies) (Bjorndal and Jorsten, 2008).

Furthermore, the definition of an open market value according to Act No. 151/1997 Sb. and also according to the IVS will be provided.

Property and services are valued by their open market value unless the valuation law establishes a different way of valuating (Mareček, Horák and Hejda, 2019). For the purpose of the valuation law, the open market value is understood as the price that would be reached in the sale of the same or similar property or when providing the same or similar service in the usual trade in inland on the day of the valuation. All circumstances influencing the price are taken into account apart from extraordinary conditions on the market, personal relations of the seller or the buyer and the influence of *pretium affectionis*. The open market value reflects the value of a thing and is determined by a comparison. IVS (2017) do not clearly define the term "open market value". They provide, however, a few basic terms that can give away an equivalent of this term. This equivalent is represented by the market price. The market price is an estimated price for which a property should be traded between a voluntary buyer and a voluntary seller in an independent transaction after appropriate marketing to the date of the valuation provided that both parties act in an informed and reasonable way without pressure.

The estimated price is, in this case, a value expressed using financial means that was reached in an independent payment transaction for the same assets. Internally motivated persons, the one acting for the purpose of purchase, the other for the purpose of sale, are called voluntary buyer and voluntary seller. Under the term independent transaction, it is understood that there is no other factor between the seller and the buyer that would influence the whole development of the transaction or the amount of financial settlement. In the text of the IVS, the fact that both participants of the transaction are familiar with the state of the object and, at the same time, try to reach the highest but still acceptable price in their own interest is referred to as a full awareness and rational behaviour of both parties. Relevant

information about the value of the object of purchase to the day of the transaction are, therefore, crucial for both parties (Mařík, 2004). The pricing strategies of both price types mentioned can be observed on the real estate market. This market has, like any other market, its particular specifics. The real estate market is a very competitive environment where different subjects employ various investment strategies. Investors look primarily for strategies minimizing the risks (Renigier-Bilozor et al., 2014).

According to Niskanen and Falkenbach (2014) the real estate companies can be divided into two main categories. The first group includes companies that buy property in order to gain profit through their further sale, which is a very common practice of European real estate companies. The second, not that common group of real estate companies buy property for the purpose of an investment. They also claim that property bought for investment purposes is more liquid than property that is meant for a further sale. The reason might consist in the ownership structure of a property. Based on a high liquidity, it can be stated that property acts as a preferred investment tool for the companies of the second group.

Levitt and Syverson (2008) draw attention to the fact that the contemporary real estate market is very corrupt. It is primarily the real estate agents who are to blame as they are hired by people wanting to sell their property but not knowing their way around the conditions of the real estate market. The above-mentioned corruption of the real estate market is performed in such a way that these real estate agents convince the seller to a quick sale for a lower financial settlement that would be demanded from an individual owner familiar with the conditions of the real estate market.

### 3 Materials and Methods

In the first step, the equilibrium price and the open market value will be defined along with a clarification of the methodology of their origin. Subsequently, the factors will be identified that contribute to the pricing strategy. Eventually, the theoretical fundament of both types of prices will be applied on the real estate market and the conditions influencing the pricing strategy and, furthermore, presented and clarified using a graphic representation of aggregate supply and demand. These curves will be, moreover, connected with the specifics of the real estate market. A research of the real estate market liquidity in the Czech Republic will be conducted as well.

The theory of the equilibrium price works on the assumption that there is a well-functioning efficient market. For this particular reason, it will be explored whether the real estate market can be considered to be efficient and, consequently, whether the equilibrium price theory works there.

Furthermore, the process of creating the open market value will be described along with the factors influencing this price the most.

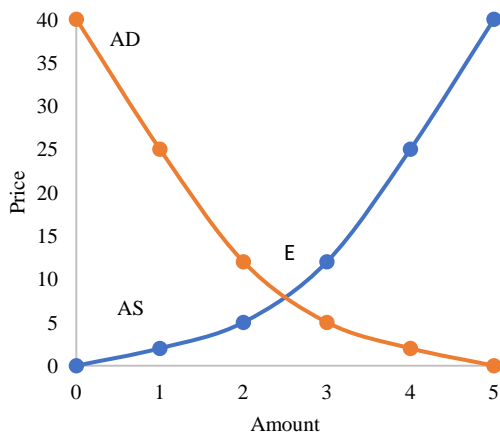
While interpreting the theoretical assumptions in the form of a graphic illustration, the results will be presented based on both the hypothetical and ascertained input data. The values represented in the graphic representations of the individual explored issues will be chosen in such a way that they can provide the best informational value when clarifying the issue.

The research into liquidity of the real estate market in the Czech Republic will be conducted using the analysis of the number of offers of properties on Czech real estate advertising websites. The number of offers will be analysed according to individual categories. The real estate will be categorized in several groups: housing units, housing infrastructure development projects, estates, commercial property and other (garages etc.). The number of offers in each category will be observed to the first day of the respective month from February to June 2020.

#### 4 Results and Discussion

The equilibrium price can be established only in the environment of an efficient market. The efficient market is characterised mainly by the fact that there is no excess or shortage of any goods. The market is, therefore, in a perfect equilibrium. This condition can be illustrated on the relation of the aggregate supply (AS) and aggregate demand (AD) (see Figure 1).

Figure 1: The efficient market model demonstrated on the AS and AD curve



Source: Authors.

According to the Figure 1, it is evident that the efficient market works in an equilibrium state (E) created by the intersection of the curves AS and AD.

When creating the equilibrium price, only the demanded and supplied amount of property for a price acceptable for all parties of the business transaction is taken into account. The equilibrium price, therefore, represents a current price in a particular point in time and place without any external influence and circumstances of the particular market or other markets, political influence etc. Moreover, it means that all prerequisites of a functioning efficient market are fulfilled. The price reaction is immediate and abrupt as the intersection of the AS and AD curves occurs at a particular point in time respecting the "random walk" principle. It is, therefore, not possible for an individual to reach above-average profit from property sales, let alone for a longer period of time. The liquidity of an efficient market is optimal, there is no excess or shortage. This state can be reached only in case of a strict legal regulation.

From the conducted research, it is evident that the real estate market in the Czech Republic is specific and does not fulfil all preconditions of an efficient market, mainly as far as the high liquidity is concerned. This fact follows from the research into liquidity conducted using real estate advertising websites. The results are shown in Table 1.

Tab. 1: Number of offers on the Czech real estate market

Real Estate Category	Number of Offers				
	2/2020	3/2020	4/2020	5/2020	6/2020
Housing units	15,206	14,489	14,360	14,628	14,537
Housing Infrastructure Development Projects	441	425	438	451	469
Estates	13,421	13,518	13,611	13,768	13,696
Commercial Property	4,990	4,996	4,990	4,984	4,998
Others (garages etc.)	521	499	513	546	537
Total	34,579	33,927	33,912	34,377	34,237

Source: Seznam.cz (2020), own interpretation.

Table 1 shows that more than 34,000 pieces of real estate were published in the time period from February to June 2020 on real estate advertising websites. This only proves the fact that the real estate market cannot be considered to be an effective market.

In some regions of the Czech Republic, one can spot a higher supply than demand and also the other way around. In big cities experiencing an influx of population due to the trends of centralization and urbanization, the demand for property increases and the supply is not capable of satisfying it. On the other hand, there is a low demand in regions with a high unemployment rate and few job opportunities. As a consequence, the supply exceeds the demand there. One of the price-forming factors is also a different accessibility of services. This causes a destabilization of the equilibrium price and, consequently, formation of the open market value. Besides the accessibility of services, another important criterion is also the comfort quality for the inhabitants as far as the points of interest are concerned. Rousek (2010) describes the possibilities of up-keeping local roads for local administration and the method of the right choice of a company providing these services. Bigger differences are observable in case that the price development for individual real estate categories (housing units, family houses, industrial buildings etc.) is taken into account.

Hašková, Volf and Machová (2019) focused on the convergence trends in Czech regions. They came to the conclusion that both the internal and external factors influencing the regional GDP can also have an impact on the decrease of unemployment in the respective regions. This way, the demand for real estate as well as the disposable income can be influenced.

For these above-mentioned reasons, it is usual that, in the process of valuation, the open market value of a property is established. The open market value takes, next to the demand and supply on the real estate market, also further price-forming factors into account such as how much time passes from the first publication of the offer before a purchase contract is concluded. This viewpoint in particular is very crucial for the formation of the open market value. In the case of the real estate market, it is necessary to allow for the transaction time, i.e. the time that passes from the first contact of the seller with the potential buyer who decides to buy the particular property. This time period, as far as the real estate market is concerned, includes the real estate tour, creation of a contract, a financial settlement and a data change in the land registry. The open market value is set based on the assumption of usual prices of comparable property along with a usual time necessary from the first publication of the offer to the moment of the conclusion of a purchase contract including the final arranged payment. During this time, there is usually a development of the real estate price mainly in property where the conclusion of the purchase contract is expected to take more time up to the point where the bid price is considered to be the open market value. For this reason, the valuation practice uses correction coefficients that take the influence of the time delay into consideration. In exceptional cases, however, the offered property can be sold for a price different from the open market value. In such case, the influence of extraordinary circumstances on the market, personal relationships of the seller or the buyer or the pretium affectionis reflects itself in the price. It follows that not every deal on the real estate market is closed for the open market value.

The time viewpoint reflects also the liquidity of the real estate market. When establishing the open market value of a property, the assessment is usually based on the prices of similar real estate matching as far as their size, location and technical state of the valued property is concerned. Subtle differences in the individual parameters are taken into account by means of the correction coefficients. As there is no publicly accessible database of realized real estate sales in the Czech Republic that could provide the data about the final selling prices serving as a reference material for establishing the open market value, the valuers are often forced to use the bid price as a basis for setting the open market value. The selling prices of all real estate can be, however, accessed in the chargeable section of the Czech

land registry, where purchase contracts concluded for particular property are kept record of. However, regarding the amount of data needed for the valuer to establish the open market value of a valued property, collecting the necessary information would be a very expensive process. The bid prices are subsequently corrected using the so-called coefficient of reduction to the source price. This coefficient is used in the case that, in the process of establishing the open market value, it is proceeded from the bid price of similar property by means of the comparative method. Generally, the bid price is considered to be higher than the actual purchase price. If actual purchase prices of similar property are used to establish the open market value, the coefficient of reduction to the source price is (Bradáč et al., 2016). Another factor influencing the forming of the open market value of real estate is liquidity of housing infrastructure development projects. Lower liquidity in these projects can represent a source of risk of losing the financial means for the investor. According to Ooi, Le and Lee (2014) the main factor determining the value of property built in housing structure development projects mainly the quality of their technical execution. Furthermore, it influences positively the value of the property for the contractor but also for a potential future investor. A better technical execution can, therefore significantly increase the liquidity of this type of real estate.

In case of a low liquidity of the real estate market, the sellers are progressively forced to lower their bid prices of the offered property, which results in a decrease in the final payment. Momeni and Martinsuo (2019) state that in the case of development projects, a cooperation of a wider team dealing with marketing from the beginning of the development project is necessary for a successful sale of all units built in pursuance of the project and, consequently, for minimizing the risk of losing value of investments for the investor.

In the process of building development projects, a particular construction enterprise ensuring the realization of the whole project from the technical point of view is chosen. Vochozka and Machová (2017) were, therefore, concerned with the identification of value generators of construction enterprises in connection with the construction of new real estate.

According to the Czech National Bank in the time period from 2006 to 2010, 90.4% of all housing units built in the process of constructing development projects were sold before their completion. However, due to the economic crisis in 2008, this trend started to drop. This development is illustrated in Table 2.

Tab. 2: The share of housing units sold in development projects before their completion (time period 2006-2010)

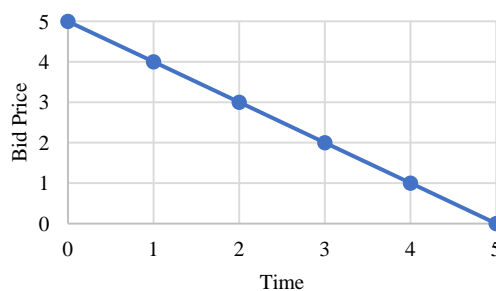
Year	2006	2007	2008	2009	2010
Share of Sold Housing Units [%]	90.4	94.8	84.3	66.9	60.1

Source: Authors.

Even though the rapidity of development project sales progressively decreases, they offer very interesting job positions for companies active in the sector of construction from the point of view of their realization. According to Vrbka, Šuleř and Horák (2019) it is the construction companies which contribute to the economic growth in the Czech Republic the most. In compliance with their conclusion, there are only a few construction companies in the Czech Republic that would be capable of influencing the economic situation of the whole EU by their size.

According to Krulický and Horák (2019) real estate can serve as an investment asset for a property developer. In the case of sale, however, the bid price progresses depending on the length of the advertisement. The development of the bid price in connection to the length of the advertisement is illustrated in Figure 2.

Figure 2: Progression of the bid price depending on the advertising time



Source: Authors.

Figure 2 show the usual scenario of bid price decrease for an offered property in case of a longer period of time before finding an eager buyer. If the seller cannot find a suitable buyer in the usual time frame, they are forced to decrease the bid price until a purchase contract is concluded and the payment on the side of the buyer in the arranged amount is made. Due to the circumstances of the real estate market development, the seller can lose a considerable amount of financial means if the initial bid price is set too high. If the real estate market develops in a negative way for the seller during the advertising time, the progressive decreasing of the bid price can result in offering the respective property for a bid price that is lower than the open market value at the time of the first publication of the advertisement.

The comparison of these results supported by the conducted research and a discussion of the issue with other authors leads to the conclusion that the equilibrium price and the open market value usually do not correspond in the real estate market environment.

## 5 Conclusion

The aim of the paper was to determine whether the equilibrium price and the open market value correspond in the conditions of a real estate market. The equilibrium price can be reached only in case of a functioning efficient market. The parameters and factors of the real estate market influencing the prices of property, however, do not comply with the specifics of an efficient market. For this particular reason, in the environment of the real estate market, the open market value is established in the valuation practice. According to the results, the real estate market does not meet mainly the requirement for a high liquidity and an equilibrium of supply and demand.

Based on the theoretical analysis of the equilibrium price and the open market value, it is not possible to state a correspondence in the values of both above mentioned types of prices. When exploring the reference materials for topics corresponding with the factors influencing the formation of the open market value on the real estate market, a conclusion was reached that the open market value can be influenced by a set of external factors. The main factor having an impact on the open market value is the time frame. The aim of the paper was, therefore, fulfilled.

Along with the findings, it can be stated that authors of future reference materials in the field of economy should further analyse and explore the liquidity of the real estate market in a broader context. This theoretical foundation also provides space for further and broader research in the field of the individual types of prices and, primarily, in the strategies of their formation.

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**Primary Paper Section: A**

**Secondary Paper Section: AH**