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DEVELOPMENT OF THE REAL ESTATE MARKET IN THE REPUBLIC OF MOLDOVA INFLUENCED BY THE MILITARY CONFLICT IN THE REGION

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Abstract: The real estate market is a generator of economic growth for the whole country, as real estate attracts significant investments, stimulates construction activity and creates jobs. It contributes to the development of infrastructure and ensures the dynamics of the country's macroeconomic development, while strengthening economic stability and creating the conditions for long-term sustainable growth. Research and analysis of real estate market development trends provide a clear picture of the current situation, as well as an updated and adapted perspective in response to changes within the sector. Over the last few decades, the real estate market has become increasingly complex, constantly evolving and facing numerous challenges and influences, including economic factors, demographic shifts, technological innovations and changes driven by various local and international phenomena. The military conflict between Russia and Ukraine is one of the events that have recently affected this sector is, and caused regional instability, disrupted economic flows, and influenced the evolution and development of the real estate market.

Therefore, this study aims to examine the impact of the military conflict in the region on the real estate market in the Republic of Moldova, using information about the complexity and dynamics of the market in recent years to provide a clear perspective on the structural changes, risks and opportunities that have arisen in the context of the conflict, and to identify possible scenarios and strategic visions for its development.

Keywords: real estate market, military conflict, regional crisis, economic impact, real estate market dynamics, strategic visions.

JEL Classification: M31, M37, R21, F51

Introduction

The real estate market is a generator of a country's economic growth, as significant investments in various types of real estate generate qualitative changes in both the demand and supply of real estate. At the same time, the real estate market ensures the dynamics of a country's macroeconomic development.

The real estate market comprises several regional and local markets, which vary according to various factors such as price levels, associated risks, investment efficiency and specific trends in different

periods, and which are open and accessible to anyone with sufficient financial resources to carry out various transactions (purchase, sale, rental, etc.). The final decision taken by the buyer is often a conscious, well considered and very important one, as it involves both financial and emotional aspects and requires a careful and well managed process to ensure a successful transaction. For well-informed buyers, the property market has proven to be extremely lucrative, allowing them to maximise returns by taking advantage of market fluctuations. These statements can certainly characterise the activity of the property market in any period, be it a stable (regular) one, where all processes follow their course, or an unstable one, influenced by factors and events that cannot be easily anticipated or remedied.

Thus, over time, the property market has been affected by various disruptive factors, each of which has had a more or less significant impact. Starting with the economic and financial crisis, followed by the COVID 19 pandemic crisis and the most recent event, which is still ongoing in the immediate aftermath of the pandemic crisis, namely the military conflict between Russia and Ukraine, all have affected the property market to a greater or lesser extent. Therefore, in the following we would like to analyse the impact of the military conflict in the region on the real estate market in the Republic of Moldova, analysing its current state, main trends and strategic visions for its development.

Impact of the military conflict in the region on the real estate market in the Republic of Moldova

The first half of 2022, more precisely with the beginning of the war in Ukraine (24 February 2022) and until September 2022, the real estate market can be characterised by a period of uncertainty that has affected the country's economy and the real estate market globally, as well as the economy of the Republic of Moldova, as Ukraine is a very important trading partner for our country and an important transit point for trade with European countries. Firstly, the crisis in Ukraine has led to a decrease in trade between Moldova and Ukraine, which has had a direct impact on the property market, and the increased tension in the region has led to a decrease in investor confidence in the Moldovan economy, which has resulted in a decrease in investment in commercial and residential property. At the same time, the tensions between Russia and Ukraine have forced Moldova to turn to other markets, such as Romania or Turkey, which has favoured a diversification of investments and trading partners.

In times of crisis, investors are usually reluctant to invest in the real estate market, and economic uncertainty and high-risk lead to a reduction in investment in real estate, with negative effects on the development of new projects and, in the long term, on the evolution of the real estate market. On the other hand, economic crises and pandemics also lead to changes in buyer behaviour, altering a number of behavioural dimensions such as housing preferences, purchase intentions, lifestyle changes etc. However, for those willing to invest in the real estate market, various opportunities can be created, and slightly reduced prices and the availability of goods on the market are elements that attract investors and buyers with financial resources, but also risk-takers who could take advantage of the crisis period to acquire real estate at affordable prices. In theory, these are the consequences that can occur in times of crisis and immediately afterwards, but in reality, these scenarios are not general and cannot be applied to all countries, companies, etc.

Beyond the humanitarian consequences, Russia's war in Ukraine undoubtedly has economic implications, some of which are already visible and others that will become more apparent as time goes on. Real estate is considered to be a less volatile investment than other traditional assets, but when inflation is low, it is difficult to predict how it will affect real estate in the future. Over the years, real estate investment has attracted considerable interest from both buyers and investors and

has seen significant growth in recent decades. In the context of low interest rates, investors may be encouraged to invest more in real estate as the cost of borrowing is low, allowing them to access more capital. On the other hand, extreme price rises in popular metropolitan areas may discourage investors and make them more cautious about the right time and place to invest. Market uncertainties raise questions for all real estate market participants as to how markets will develop in the future and how property prices will be affected if these conditions persist (Bezo, A., 2023).

If we analyse the contribution of the main sectors to the evolution of the GDP in 2022, in percentage points, it can be observed that only the **hospitality industry**, domestic trade, information and communication and financial activities will have a positive impact on the GDP in 2022, contributing (in order of enumeration) with 0.2 p.p., 0.2 p.p., 0.3 p.p. and 0.4 p.p., respectively, and the general picture created by the influence of these indicators is presented in Figure 1.

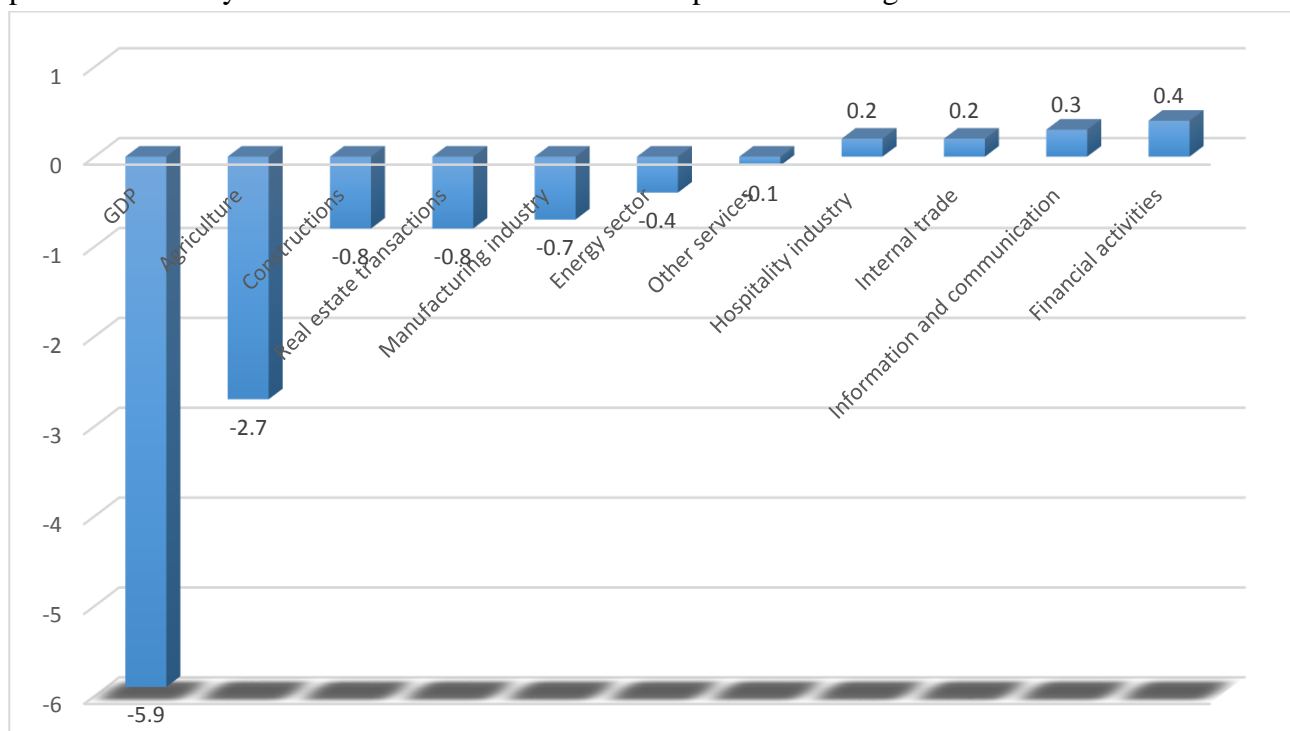


Figure 1. Contribution of main sectors to GDP growth, 2022 year, (p.p.)

Source: compiled by authors based on source (Raport lunar privind evoluția social-economică a Republicii Moldova, 31.05.2023 available at: <https://mded.gov.md/wp-content/uploads/2023/06/Raport-lunar-2023-04.pdf>)

According to the data presented by the National Statistical Office in the Monthly Report on the Socio-Economic Development of the Republic of Moldova, dated 31 May 2023, we observe that the construction and real estate transactions sectors had a negative impact of 0.8 p.p. each on the GDP for 2022, although the analysis carried out, as well as the data presented in Table 1, speak of a positive development of these indicators in terms of the total volume of works/sales in the respective sectors. However, when analysing the volume of investment in construction and real estate transactions over the period, it can be seen that the volume of investment in construction and real estate transactions decreases by 1.4 p.p. and 2.1 p.p. respectively in 2022 compared to 2021 (Table 1).

Table 1. Investment in long-term tangible assets, by economic activity

million lei, and %

Direction of investment	2019	2020	2021	2022
Total invested	31 253,2	30 089,6	35 411,2	37107,5
Constructions	4779,5	5144,8	6006,9	5777,3
Structure, %	15,3	17,1	17,0	15,6
Real estate transactions	1 586,0	1 712,3	2 242,7	1554,8
Structure, %	5,1	5,7	6,3	4,2

Source: compiled by authors based on source (Anuarul statistic al Republicii Moldova, 2022 available at: https://statistica.gov.md/files/files/publicatii_electronice/Anuar_Statistic/2022/17_AS.pdf)

At the same time, under the influence of the military conflict taking place in the region, as well as the inflation that can be described as galloping, the energy crisis that has affected our country, the extremely complicated external environment, all these factors have had a negative impact on the national economy for 2022, reducing the Gross Domestic Product (GDP), according to the information provided by the National Bureau of Statistics, by 5.9% compared to 2021, reaching 272.6 million lei (Raport lunar privind evoluția social-economică a Republicii Moldova, 31.05.2023).

Another aspect that needs to be analysed in the period related to the military conflict in the region (in time and during the period of its unfolding), concerns the number of authorisations issued by the authorities for new constructions. The housing stock is the total number of (residential) apartments, regardless of the form of ownership, located on the territory of a state. According to the data provided by the National Bureau of Statistics, as of 1 January 2023, the housing stock of the Republic of Moldova amounted to 90 528.3 thousand m², the total number of apartments in the country amounted to 1324.5 thousand units (Biroul Național de Statistică al Republicii Moldova, 30 ianuarie 2024).

Although for several years there has been talk of a decline in the number of permits issued for construction works, the statistics speak of a different situation, so permits are being issued and new construction will continue to take place. In this regard, Table 2 has been prepared, in which the data on the number of building permits granted for the period from 2020 to 2023 are presented as follows:

Table 2. Building permits issued for buildings, 2020 – 2023

	2020	2021	2022	2023	In % vs:	
					Year 2022	Total
Total	3038	4118	3394	3414	100,6	100
Of which for:						
residential	2044	3026	2301	2252	97,9	66,0
non-residential	994	1092	1093	1162	106,3	34,0
Total, in:						
urban	1730	2430	1517	1545	101,8	45,3
rural	1308	1688	1877	1869	99,6	54,7

Source: compiled by authors based on source (Biroul Național de Statistică al Republicii Moldova, 30 ianuarie 2024 available at: https://statistica.gov.md/ro/autorizatii-de-construire-eliberate-pentru-cladiri-in-anul-2023-9801_60917.html)

On the basis of the information presented in Table 2, in 2022 there is a decrease in the number of permits, both overall and by type of real estate, while in 2023 we observe an increase of 0.6% compared to 2022, a decrease of 2.1% in the number of permits granted for residential buildings and

an increase of 6.3% in the number of permits granted for non-residential buildings. When analysing the distribution of authorisations by living environment, we see that the number of authorisations will increase by 1.8% in urban areas and decrease by 0.4% in rural areas compared to 2022.

Subsequently, an analysis of the number of apartments commercialized during this period is carried out, a period that presents several successive events as follows (Figure 2):

- 2020 - beginning of the COVID 19 pandemic;
- 2021 - the period of "property fever";
- 2022 - military conflict in the region;
- 2023 - real estate loans become cheaper.

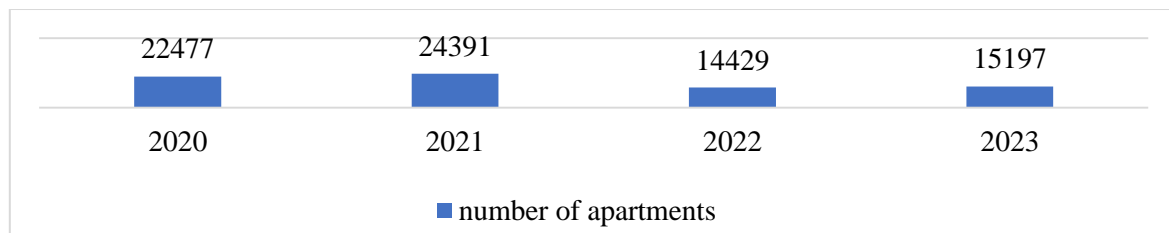


Figure 2. Number of commercialised apartments, 2022-2023

Source: compiled by the authors based on source (Site-ul oficial al companiei Acces Imobil SRL, 1 ianuarie 2024 available at: <https://accesimobil.md/blog/criza-imobiliara-chisinau-numar-apartamente-vindute-scadere-40-procente>)

According to the data presented in Figure 2, we can see that the military conflict in the region had the greatest impact on sales compared to other major events that occurred. Thus, if in the COVID 19 pandemic the number of apartments sold increased by 8.52% compared to the previous year (2020), in 2022 it decreased by 40.84% compared to 2021. The year 2023 can be characterised as a good year for the real estate market, when due to the influence of several factors (slight overcoming of buyers' fears and uncertainties, cheapening of real estate loans, decrease in prices for some categories of real estate, etc.) a slight increase of 5.33% in the number of apartments sold is observed.

If we analyse the main indicators of the real estate market in the period from February 2022 to September 2022, we can see that the average price of the flats in the construction phase offered for sale has decreased by about 30 euros/m², the most significant decrease in the price of the apartment in the construction phase (by about 80-100 euros/m²), at the same time there was an increase of about 20 euros/m² in the price of the apartment put into operation, where the customer becomes the owner practically immediately and has the possibility to live immediately after the purchase. Another peculiarity of this period is the increase in prices on the rental market, influenced by (Site-ul oficial al companiei Acces Imobil SRL, 1 ianuarie 2024):

- the large influx of refugees from Ukraine, seeking alternatives for a safe life, coming to the Republic of Moldova, especially Chisinau, and renting apartments or houses, initially on a short-term basis, then renewing their leases indefinitely, in anticipation of a quick resolution to the conflict in their country;
- inflation has risen by 30%, so the selling price of apartments in general has also increased;
- the influence of seasonal factors, such as the return of students to their studies; in particular, it should be noted that after the pandemic crisis and the restrictions imposed by the authorities, for a long time the educational process was carried out at a distance, online, and the period analysed also coincides to some extent with the full return to the educational process with physical presence.

In 2022, the real estate market in Moldova was affected by several major factors that had a significant impact on it (Ioniță, V., 2023):

1. Too rapid a recovery in prices has caused concern among buyers,
2. The military conflict in Ukraine has had a negative impact on housing decisions and discouraged potential buyers,
3. High inflation has caused people to turn to current spending, minimising interest in real estate investment, and
4. Rising mortgage rates have reduced the number of mortgage transactions, which has reduced demand.

All these factors contributed to the phenomenon of "deferred demand", many people postponed the decision to buy an apartment in 2022, but potential buyers did not abandon the idea of buying a real estate, but continued to wait for the right time. Therefore, a significant increase in real estate transactions is expected in 2023-2024 as a result of the combination of regular demand and deferred demand in 2022. "Although housing prices increased in the first quarter of 2023, they became more affordable for buyers, which is due to the fact that the average annual salary in Moldova, calculated in euro, has increased much faster than the increase in housing prices. Thus, in the first quarter of 2023, the average annual salary in Moldova reached 6,555 euros, which represents an increase of 20.5% compared to 2022" (Ioniță, V., 2023), information presented in detail in Figure 3.

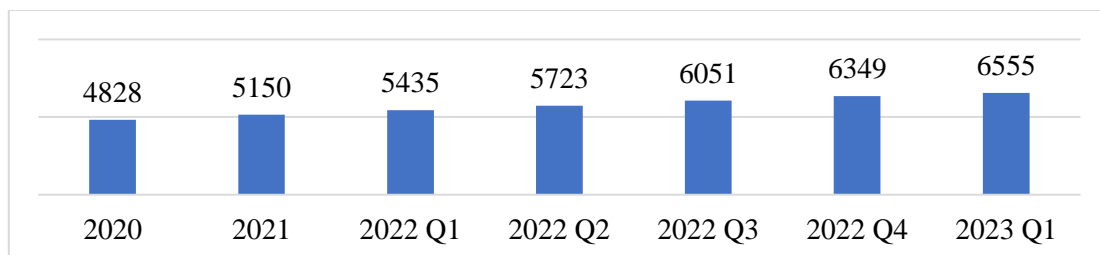


Figure 3. Average annual salary in the Republic of Moldova, euro

Source: compiled by authors based on source (Ioniță, V., 2023 available at: <https://ionita.md/2023/05/15/dupa-o-stagnare-de-jumatate-de-an-preturile-la-apartamentele-din-mun-chisinau-in-primul-trimestru-din-2023-au-inregistrat-o-crestere-de-23/>)

Thus, we can see that since 2022, investors in this sector will be more reluctant to use their savings and cash in real estate investments, and from 2023, although there is a situation where inflation continues to rise, we understand that real estate prices will also rise. Any investor who chooses to invest in real estate must learn not to be euphoric when making decisions, but also not to fall prey to panic based on market trends, which can lead to hasty and wrong decisions. The most important thing for a savvy investor is to know when to get in and when to get out of the market.

Strategic visions in the development of the real estate market in Moldova in the light of the military conflict in the region

Regardless of the efforts of the main actors and participants of the real estate market to stimulate and develop its activity, there are a number of unpredictable factors that can affect the real estate market and which, unfortunately, cannot be anticipated, fully controlled, managed with certainty, etc. An example is the military conflict between Russia and Ukraine, which has suddenly started. It is very difficult to predict what will happen in the coming period. Even if this military conflict was supposed to be short, the Ukrainian people have proved to be more courageous, organised and patriotic, and

the help of Western countries is helping them to put up a strong resistance. The consequences of rising energy prices have already been seen in Europe, with annual inflation in the eurozone at 7.5% in March 2022, with energy prices 44.7% higher than in March 2021 (Eurostat, April 2022).

As for the Republic of Moldova, although not directly involved in this conflict, the population of the country lives in constant fear and uncertainty as to how the events related to this conflict will unfold, with strong economic and financial consequences for the economy of the countries involved, while at the same time influencing the economy of our country, including negative effects on the real estate market. Based on the possible outcomes (evolution/ stagnation/ end), we propose a visionary model that includes 3 scenarios and possible actions for each of them in the coming years (Figure 4).

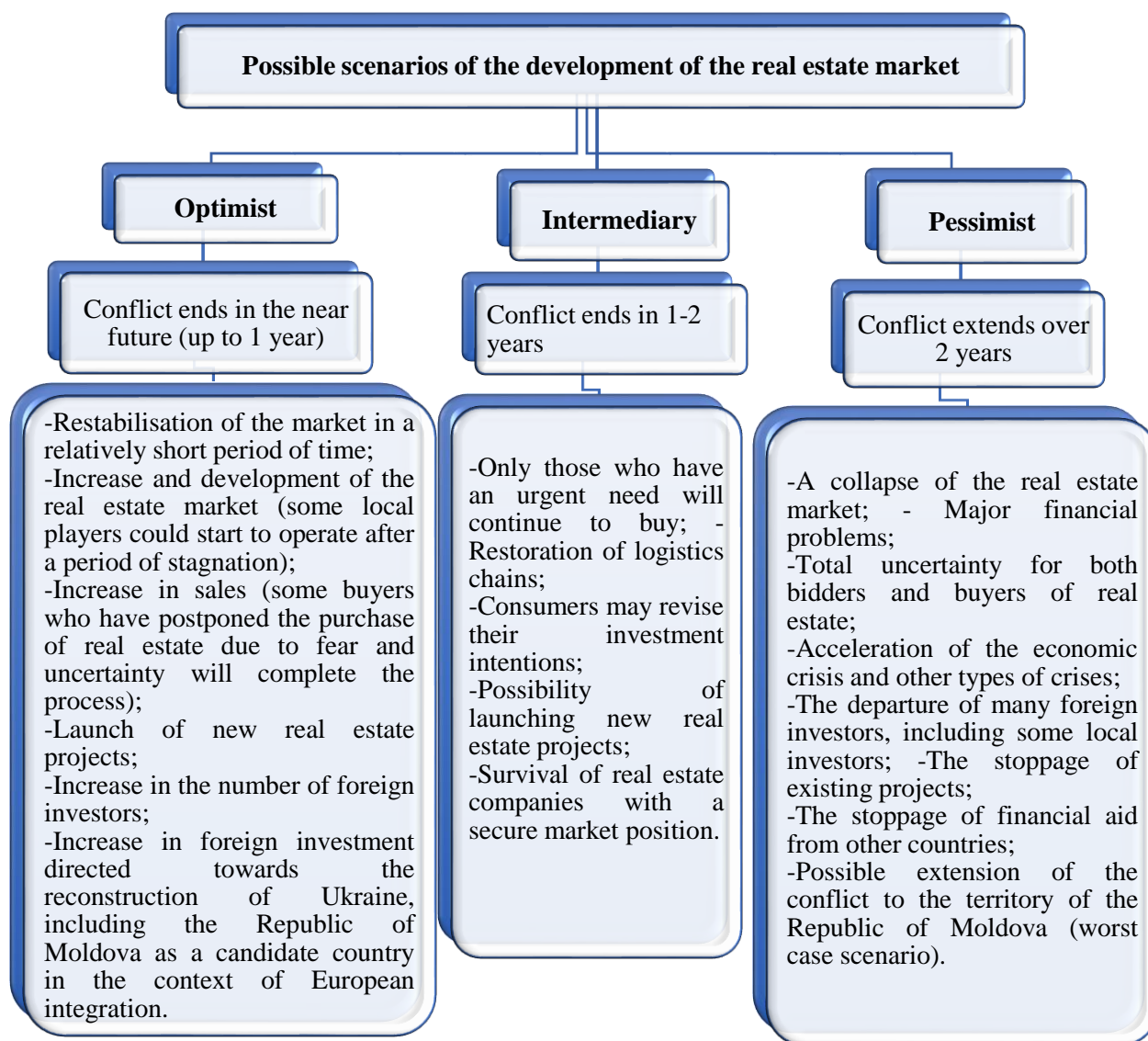


Figure 4. The visionary development model of the real estate market for the next years in the light of the evolution of the military conflict in the region

Source: compiled by authors

No matter which of the three possible scenarios is proposed, it is certain that our country's economy is already affected by financial problems, including the real estate market, one of the main reasons being the impossibility of importing raw materials from Ukraine, which is one of the main suppliers of raw materials and materials for construction and finishing works, at prices that are affordable

compared to what is currently imported (new suppliers are being identified) at much higher prices by up to 30% for some categories of materials.

A reality that has arisen as a result of the conflict in the region is the fact that external partners are limiting aid and investment in our country and turning their attention to our neighbouring country, which has been severely affected both economically and in other respects (infrastructure, relations, social, etc.), although the EU and its member states are making a huge contribution to Moldova's economic rehabilitation through aid and loans.

According to the author Yelisieieva L., the restoration of the functioning of the real estate market in Ukraine will be one of the most urgent tasks in the post-war reconstruction of the national economy. New buildings must not only be comfortable, but also fulfil safety and energy-saving functions. To achieve this, it will be necessary to consolidate the efforts of all subjects of the national economy and the international community (Yelisieieva, L., 2022).

Thus, in an optimistic scenario, all neighbouring countries, and not only them, will be geared towards helping Ukraine to recover its economy, infrastructure, etc., including investment in the real estate market, which was badly destroyed during the attacks on it. In an intermediate and worst-case pessimistic scenario, the consequences could be catastrophic, as economic relations have already suffered enormously and will be in an even more critical situation in the event of such an end. As negative as the consequences of the armed conflict between Russia and Ukraine may be from an economic point of view, we cannot ignore one of the possibilities of its development: the conflict could spread territorially to other countries, including the Republic of Moldova, given that attacks have often taken place on the borders of the Republic of Moldova. This would be the worst possible scenario, in which the economic and other aspects related to the real estate market, and not only, would become the least important, and buyers and sellers would be in a situation of total uncertainty.

Conclusion

The real estate market, which has been affected by highly disruptive factors such as the economic and financial crisis, the COVID 19 pandemic crisis and the military conflict in the region, has developed positively over time, although it has been a period of unrest and uncertainty. The analysis of the above aspects has made it possible to identify some trends in the development of the property market as a result of the influence of various external factors. One of the truths about the state of the real estate market is that potential buyers are postponing the decision to buy a property, waiting for a more secure period of economic and social stability in the region. Also, the tendency to invest in rental properties, especially in urban areas, has gained momentum as a result of the high demand for rental properties during the period of large influx of refugees to our country. At the same time, the development of real estate projects and the construction of new residential complexes continue to be an important factor on the real estate market in the Republic of Moldova, but taking into account the peculiarities and behavioural dimensions of buyers, as well as the specificity of the period in which they are active.

At the same time, it is essential for the authorities to monitor and regulate the real estate market in order to ensure sustainable, affordable and equitable development, and for market players to adapt and respond to economic and social changes, such as economic crises and pandemics, in order to minimise the negative impact.

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