

Real estate sector in the Republic of Moldova and property prices in 2022

The Republic of Moldova is a landlocked country in Eastern Europe. It is bordered by Romania to the west and Ukraine to the north, east, and south. Moldova declared its independence from the Soviet Union on the 27th of August 1991. It has a population of 2.6 million people. The official language of the Republic of Moldova is Romanian, other recognised minority languages are Ukrainian, Russian and Gagauz that is a Turkish language. By far the largest city and capital is Chisinau.

In this article I would like to highlight why the Moldovan real estate sector is a great investment opportunity, also, I will analyse the developments on the Moldovan real estate sector, the current situation on the property market, new development prospects and the main benefits that the Republic of Moldova can offer to potential investors like: very low price per square meter compared to other European countries, advantageous lending conditions, stable economic growth and very close relations with the European Union in particular after the historic decision on the 23rd of June 2022, when the European Union awarded Moldova candidate status.

The real estate market in the Republic of Moldova has been formed since the 1990s along with the transition to the market economy as a result of the privatization of a large state-owned area of land and constructions and later following the privatization of companies from different branches of the national economy.

In recent years, the Moldovan real estate sector as a whole has seen positive property price developments. Despite rising asking prices, the purchase of a property is very attractive for investors and owner-occupiers. This is reflected in the transaction volume for residential and commercial real estate, which is forecast to continue to grow in 2022.

The developments on the Moldovan property market in recent years have raised the question for many potential buyers and sellers as to whether property prices in the Republic of Moldova will continue to rise. At this point we therefore take a look at how prices have developed recently and which current factors will influence property prices in the Republic of Moldova in the future.

1. The main changes on the Moldovan real estate market

There are seven things that define the main changes on the Moldovan real estate market:

- I. First of all, the rising trend of real estate prices makes it harder for Moldovans to buy a house;
- II. The second aspect is that the real estate market is mostly concentrated in Chisinau. There is a stream of new residents from the suburbs and villages who want to live in apartment buildings;
- III. Finally the real estate market in the Republic of Moldova has a financial instrument, playing into the affordability factor. If until 2017 there were no mortgages, in the last four years we have an explosion of everything that means financing real estate. Since 2018, the average

interest rate below 10% enabled more people to acquire real estate without one's budget drying out. Among the many favorable factors, there are also various supporting measures that the government has introduced to encourage people to buy housing rather than rent. Unfortunately, this year due to Russia's aggression against Ukraine which caused a fairly high inflation worldwide the average interest rate has increased in July 2022 to 12,5% annually through the "First House" program;

- IV. Another aspect is that the surface of the apartments and houses has decreased, therefore the consumer profile has changed. Now 80% of newly-built accommodation consists of smaller apartments;
- V. A positive signal that characterizes the Moldovan real estate sector is that the real estate market after many years of decline, has started to rise sharply since 2020;
- VI. During the recent years, in Chisinau, the rental market is strongly developing, being a very accentuated phenomenon. Due to the price increase, many people are renting rather than buying or taking mortgages. Nowadays, many houses are built specially for rental;
- VII. The Republic of Moldova in terms of accessibility of housing, after 12 years is finally approaching the European average. Previously, it took up to 40 years for a new family to save enough to buy a living space. In 2022, a new family can buy an apartment in 15 years (these data are calculated based on the average monthly salary, which, according to statistics, this year is about 500 euros). Therefore, it is now enough time for a person to accumulate the full amount or close the mortgage. It now takes 15 years (roughly 60% less time) to buy a house.

2. What factors influence property prices in the Republic of Moldova?

Potential buyers often ask themselves what factors influence property prices in the Republic of Moldova and why they seem to have been rising continuously in recent years. The value of a property is determined by numerous aspects. These include, for example, the year of construction, features, structural condition, location and surrounding infrastructure. Of course, supply and demand also determine property prices in the Republic of Moldova to a considerable extent. In the Republic of Moldova, especially in the major cities there has been a persistent demand overhang for years - the number of available properties cannot therefore cover the actual demand. This is causing property prices in the Republic of Moldova to rise, particularly in Chisinau, despite the current construction boom.

3. How are property prices in the Republic of Moldova developing?

An increase in property prices in the Republic of Moldova is expected for the coming year, particularly in Moldova's capital. There are many reasons why property prices and rents in the

Republic of Moldova will continue to rise. An important factor is the discrepancy between the number of completed houses and the demand on the property market: especially in Moldova's major cities such as Chisinau, Balti and Cahul, where the number of new buildings cannot meet the actual demand. Also, the price of construction materials and labor have increased considerably in recent years. Nevertheless, it is also necessary to differentiate between different locations with regard to the development of property prices in the Republic of Moldova. Therefore, despite the generally high price level, there is a clear difference between property prices in rural areas and in the cities. Although, the prices are rising, especially in the largest Moldovan cities the purchase of apartment buildings remains an attractive investment strategy that is still extremely profitable. Overall, prices for residential and commercial properties in the Republic of Moldova rose by an average of 75% between 2015 and 2022 (first half of the year). The Republic of Moldova saw a house price explosion partly due to increased demand from foreign investors and higher remittances from the Moldovan diaspora that works in Europe combined with lack of supply.

4. Property prices for apartment buildings / residential and commercial buildings

Most of the real estate market in the Republic of Moldova consists of the housing or residential real estate sector, which includes private houses and apartment buildings. In 2022, this sector has a share of about 80% in the total real estate market. The second important sector after the housing one in the real estate market is the non-residential real estate sector that holds about 20%.

Property prices in the investment property segment (apartment buildings, residential and commercial buildings) have risen sharply in recent years. In the condominium segment, Chisinau leads the Republic of Moldova-wide 2022 ranking with square metre prices averaging 1050 euros. The Moldovan capital is followed by Balti in second place - here prices average 750 euros per square metre. In third place is Cahul, Ialoveni and Orhei, with average prices of 700 euros per square metre. Due to the pandemic, compared to previous years, the demand for apartments with balconies or terraces has increased very much.

In terms of commercial buildings, I mean the non-residential real estate sector, the office market sub-sector began to grow rapidly in 2008-2010 along with the development of the service sector (especially IT and telecommunications), opening of foreign companies' representation offices that needed the best working conditions and appearance of large investors expecting high return from the activity of large office centres. (for instance the business centres "Skytower" with an area of 12,000 square meters and "Le Roi" with 8,000 square meters, both of which are class A offices offering high-quality spaces for rent). It is worth mentioning that the offer on the Moldovan market for class A office spaces is rather limited and is mainly available in Chisinau. On the other hand, due to incentives Moldova offers to domestic and foreign investors in IT related activities and due to multilingual

population, which attracts international business processes outsourcing companies, there is a growing demand of office spaces in the capital city of Chisinau but also in the biggest municipalities in the regions like Balti, Cahul and Comrat.

5. House prices: single- and two-family homes

In 2022, the purchase prices for detached and semi-detached houses have also continued to rise in many Moldovan cities. The undisputed leader in this segment is Chisinau with average house prices of three hundred thousand euros. On the second place is Balti, which has an average asking price of one hundred and fifty thousand euros for detached and semi-detached houses. Third place goes to Cahul, Ialoveni and Orhei - here a single or two-family house is offered for an average of one hundred and twenty thousand euros. During the pandemic, the demand for individual houses increased by 10%, and more than 500 homes have already been sold in the first half of this year.

6. Is the purchase of real estate cheaper than generally assumed?

On the demand side, there has so far been little evidence of a corona effect. As the property market reacts slowly to economic changes, it remains to be seen whether a longer-term economic crisis will also affect the demand for residential property. While the international real estate market is declining due to the global COVID-19 pandemic, the Moldovan real estate market managed to thrive. Currently the real estate market in the Republic of Moldova is highly increasing in terms of the available stock and demand. COVID-19 has changed the mentality of Moldovan buyers, therefore it changed the demand. After the quarantine, all types of individual homes, housing in condominiums with a large common yard, and apartments with terraces are in mad demand.

7. Where property prices are rising

Chisinau is the main city that has the highest property price level in the Republic of Moldova. The majority of real estate purchasing opportunities, hence, the investing ones, too are concentrated in the capital. It is the country's political, economic, and cultural capital. Chisinau is the largest Moldovan city, therefore about a third of Moldova's population lives in the Metropolitan area. The capital is also the most economically prosperous city in Moldova and the main industrial and commercial center. Property prices in the Moldovan capital continue to rise as an attractive and emerging location. At an average of 1,050 euros per square metre, the local condominiums are more cost-intensive than anywhere else in the Republic of Moldova. This is noticeable on the real estate market: real estate prices are expected to rise in 2023 in all locations, both in the condominium segment and in single and two-family homes. In the central, very good locations, houses achieve up to 1 million euros, and condominiums in the best locations reach square metre prices of up to 3,500 euros. In the segment of

residential and commercial buildings it remains to be seen what effects the rent cap will have. However, Chisinau remains a very attractive investment location due to the strong surplus demand. As a result, property prices and rents have been rising for years. In 2022 at national level, 80% of apartments and houses that are offered for sale are in Chisinau. Many people from the suburbs and villages from all over the country want to live in Chisinau. Nowadays, part of the population leaves the country to work in Europe and after send remittances in Moldova to buy houses, while the other part moves from other districts to Chisinau.

To sum up briefly, we are encouraging you to invest NOW in Moldovan real estate sector, before the boom of the market. There are no restrictions on foreigners buying properties in Moldova, except for agricultural lands and lands of forest fund. The Moldovan international law firm, GRATA International is the prime source of information and assistance in the Republic of Moldova for potential foreign investors. We provide tailored services for potential investors throughout the investment decision process. We also support existing investors in extending their operations. Our team consists of professional staff that will be happy to advise you personally. Combining our experience, we are able to provide you with relevant information for your decision making, as well as links to businesses and government.

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