

*Aims & Scope (Economics)*

*Article*

## HOW THE REAL ESTATE MARKET PRICE IN ALBANIA WAS AFFECTED FROM COVID-19 PANDEMIC AND UKRAINE WAR?

**Ardi Bezo,**  
PhD.

University College of Business, Albania

*Received: 21 March 2023; Accepted: 25 March 2023; Published: 27 March 2023*

**Abstract.** Since the early times, there has been an important relationship that exists between the performance of the real estate market and the economic condition of the financial system. Studies and analyzes on this connection in most cases have highlighted the progress of financial economic cycles, the stability of the respective indicators and the possibility of their improvement. This analysis of the consequences that the performance of these markets brings on economic and financial operators.

The real estate market presents a number of regional and local markets that differ from each other regarding the level of prices and risk, also related to the efficiency of real estate investments, as well as its trends in different periods. Data on the real estate market in a given period are a critical indicator of the progress of a country's economy.

The real estate market is an open market, easily accessible by anyone with sufficient liquidity to become a real estate owner. It turns out to have been very profitable for a large number of smart buyers who, by learning how to exploit market fluctuations, have gotten the best possible return on their investments. This study aims to analyze and compare the effects of the real estate market in the post-pandemic period and during the Ukrainian war.

**Keywords:** Real-Estate market price, Alternative Investment, pandemic-Ukraine war effects.

**Citation:** Ardi Bezo. (2023). HOW THE REAL ESTATE MARKET PRICE IN ALBANIA WAS AFFECTED FROM COVID-19 PANDEMIC AND UKRAINE WAR? *Conferencii*, (5) 2. [http://doi.org/10.51586/Conferencii\\_5\\_2\\_2023](http://doi.org/10.51586/Conferencii_5_2_2023)

### Introduction

Investing in real estate is the investment that has aroused great interest among investors, which in the financial world is known as an alternative investment and has experienced growth during the last decades. Investing in real estate is an investment with lower volatility compared to other traditional investments and is used by investors for portfolio diversification. We know that when inflation is low, it is difficult to predict what kind of effect this will have on real estate assets in the future. With low interest rates, the investor can invest even more in real estate. Low interest rates make it possible for investors to borrow more at a lower cost and thus invest more. The opposite happens when due to extreme price increases in popular metropolitan areas, investors are overwhelmed and may think twice before deciding where and when to invest their money. Uncertainties in the market bring questions for investors, who think how this will affect the markets in the future, or how the trend of real estate prices will be if this extreme situation continues in the future.

### Literature Review

The overall reason for investors to include real estate in their investment portfolio is, according to (Andonov, 2013) mainly for three reasons. The first reason is that they contribute with diversification and thereby also a reduction of the overall risk of the portfolio due to the low correlation towards stocks and other securities. Secondly, real estate has the positive feature that

they provide a hedge against inflation and the final reason is that real estate delivers a stable income to the portfolio through their cash flows (Andonov, 2013).

Real estate prices as well as stock and bond prices are all affected from the interest rates and by the economic activity level on the market which Quan and Titman (1996) argued about in their report. In their study it is argued that the expected level of economic activity also has a positive impact on these markets (Quan & Titman, 1996).

At the same time the further away an economy is from a crisis, the more positive is the economic factors on this market. This can be explained by the more positive future expectations that exist when the current situation on the market is positive (Fredriksson and Winkler, 2015)

Nordlund & Lundström (2011) discusses in their research that the economic growth is by itself the most important variable that has an influence on rents, real estate prices and the development activity. They argue that the economic growth can explain variations in real estate returns and price changes by 70 % in some cases.

Real estate is a good investment complement and is today considered to be one of the best investment alternatives to stocks and bonds by many institutional investors (MSCI, 2014). There are several upsides that real estate investments will bring with them to investors. During periods with inflation, real estate tends to outperform stocks and due to the hedge against inflation, real estate is suggested to be a good long-term investment (Greer & Kolbe, 2003). Previous studies argues that commercial real estate offers a number of advantages compared to common stocks when looking closer on the expected returns and the growth of the cash flows paid (Plazzi, Torous, Valkonov, 2010). However, direct real estate is known to be very illiquid and comes with rather high transaction costs.

Nowadays investors can access the real estate market in two ways, through either direct or indirect investments in real estate. While both of these types of available assets classes have the same underlying asset base they differ in the performance and in characteristics. The ownership of direct real estate is through directly owning the property and the values are mainly based on valuations through future cash-flow analysis, potentials and market expectations. (Holland, 2006).

## **Methods**

The objective of this paper is to compare the factors and indicators that have influenced the period (6 months) from the second 6 months of 2021 and 2022 of the real estate markets. The selection and data of these factors, as shown in the paper, was made using survey among the operators of this market as well as comparative statistics of the data analysis periods collected in some of the companies and agencies that trade real estate in the city of Tirana.

The objective of this study consists of a survey that collects regular information (every six months) about 230 construction companies and agencies that trade real estate. The field interview and the selection of subjects are carried out by the Institute of Statistics according to the relevant methods. The information collected is both qualitative and quantitative, and the questions cover past, current and expected performance in the country's real estate market.

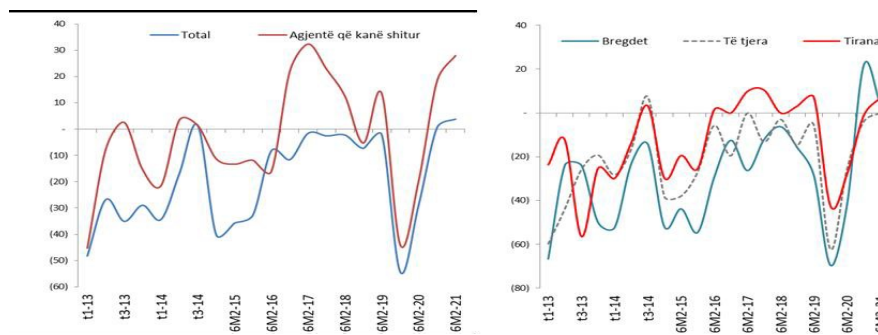
Based on the information gathered from this survey, the Housing Price Index is drawn up, which contains information that is currently not provided in an aggregated manner by official data. The information collected through the survey aims to respond to the public's interest in the progress of the real estate market and the implications of the developments of this market in their activity.

## **Results**

### ***Year 2021***

According to the interviewees, the general situation in the real estate market has improved slightly compared to the last six months.

The net balance of responses (+4) shows that the assessment of agents for the situation during the second half of 2021, was more optimistic than that of the period of previous when the balance marked +0.5%, and significantly above the long-term average net balance of -21%. The response indicators for the area of Tirana and the coast recorded positive values, while the agents have given a neutral assessment for the performance of the market in "Other Areas".



**Figure 1. Net balance on the overall situation of the real estate market during 2021**

Source: (Financial Stability Department, 2021)

The same indicator evaluated only for subjects that reported sales during the period, presents a much more positive assessment; the net balance of responses on the general situation from the subjects that have reported sales is +28%. The same indicator evaluated only for subjects that reported sales during the period, presents a much more positive assessment; the net balance of responses on the general situation from the subjects that have reported sales is +28%. This development shows that the agents' assessment is significantly more optimistic than the very pessimistic assessment of 2020 and the general assessment of 2017-2019.

**Sales**

The number of entities that made sales (75 entities) was lower than last six months (93 entities), and the total number of properties sold fell slightly to 685 from 709. Ratio of the number of entities that made sales to the total number of valid responses decreased to 40% from 50%. This ratio has marked a gradual decrease from a maximum of about 70% estimated in the first half of 2017. The average number of properties sold by each subject during the second half of 2021 was about 4, not changing with the previous period. The ratio of properties sold with mortgage to the total number of properties sold is reported at 50%.

About 68% of the sales realized during the second half of the year in the entire territory are represented by properties located in the most preferred areas within the city, from 50% during the previous period; 22% of properties sold were properties built on the outskirts, within the city (up from 26% in the previous period), and around 10% of properties were properties built outside the city, up from 24% the previous six months.

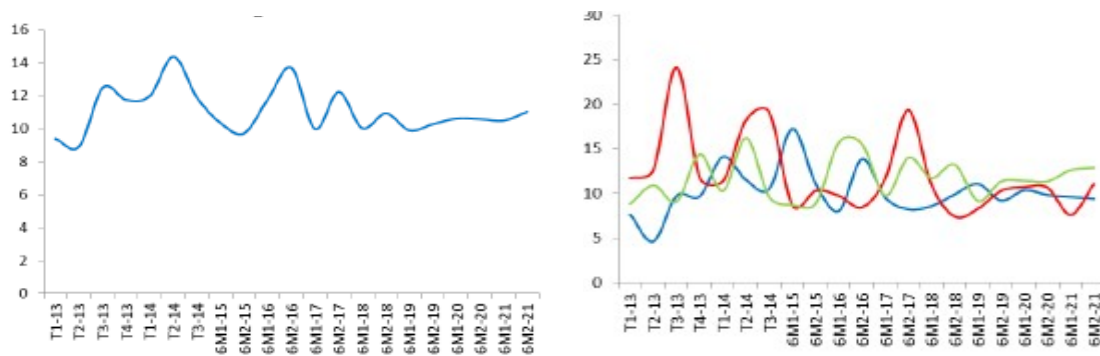


**Figure 2. Data on the number of agents according to their sales' situation (agents reporting sales and agents with no sales reported)**

Source: (Financial Stability Department, 2021)

The average time of sale of apartments in the country is reported to be an average of 11 months, increasing slightly compared to the previous six months. For Tirana, the subjects interviewed reported an average sales time of 9.4 months, or almost the same as that reported in the previous six months. For the coastal area, the average time to sell was 11 months, significantly higher than the 7.6 time reported for the first half of 2021, but close to the long-term average of

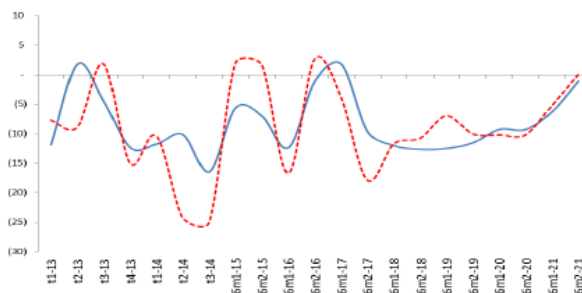
12.1 months. For "Other Areas", the sales time increased slightly to 12.9 months. For all three areas, the majority of sales are reported to have been made within a period between 1 and 12 months.



**Figure 3. Sales duration across the country and by region (by months)**

Source: (Financial Stability Department, 2021)

Agents report an unchanged balance of the number of dwellings recorded on their books; the net balance between those who report an increase in the number of registered dwellings and those who report a decrease in their number, was almost neutral (-1%) and higher than the value (-6%) of the previous period. For commercial properties, the net balance was also neutral. It is worth emphasizing the fact that 75% of the answers were neutral, while those of the form "more/less" made up a small part of them. The number of unsold properties, both for apartments and commercial buildings, has decreased. The net balance for the number of unsold properties has continued to register a positive value, and this phenomenon has started to be observed since the beginning of 2016. This trend shows that the number of unsold properties has recorded a continuous decrease in each of the six months of this period.



**Figure 4. Net balance of recently registered properties**

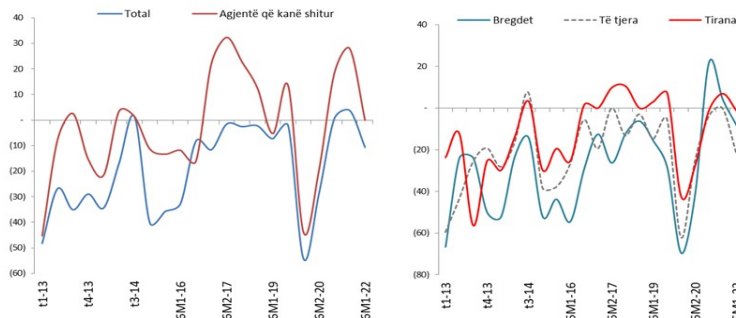
Source: (Financial Stability Department, 2021)

Over 50% of agents have sold at the same price or up to 5% less than the asking price. About 39% of agents have reported sales at the same asking prices; 13% of them sold at a price up to 5% lower compared to the asking price; and 42% reported selling at a price between 5% and 20% lower than the original asking price. In comparison to the previous period, it is observed that the distribution of responses is more concentrated towards price ranges close to the initial asking price, which reflects increased demand for real estate purchases. According to the agents, about 30% of the residential and commercial properties sold by them were bought with bank loans. Half of these properties are purchased with loans covering up to 60% of the value.

**Year 2022**

According to the interviewees, the general situation in the real estate market has slightly worsened compared to the last six months.

The net balance of responses [-11%] shows that the agents' assessment of the situation during the first half of 2022 was more pessimistic than that of the previous period when the balance marked +4%, but still higher compared to the long-term period for which the indicator average is [-20%]. About 2/3 of the answers of the subjects interviewed were neutral "without change".



**Figure 5. Net balance overall situation of the real estate market during 2022**

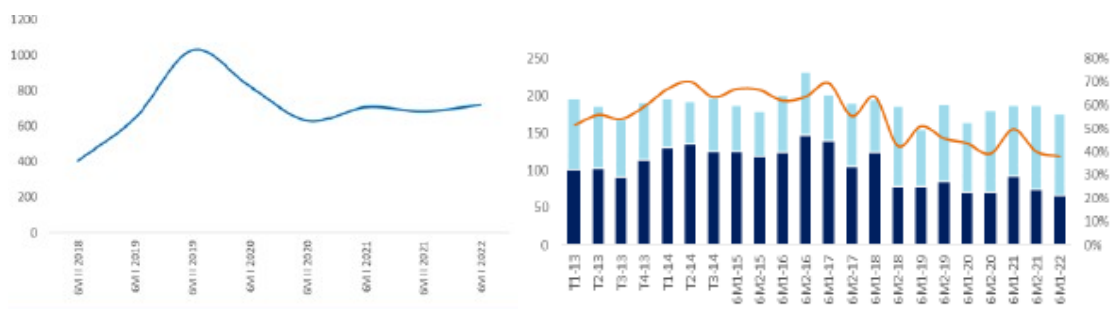
Source: (Financial Stability Department, 2022)

The net balance of responses [-11%] shows that the agents' assessment of the situation during the first half of 2022 was more pessimistic than that of the previous period when the balance marked +4%, but still higher compared to the long-term period for which the indicator average is [-20%]. About 2/3 of the answers of the subjects interviewed were neutral "without change". It is also worth noting that pessimistic responses are concentrated in other areas, while the situation for the capital area is assessed as unchanged compared to the previous six months. The same indicator evaluated only for entities that reported sales during the period has a neutral net balance.

**Sales**

The number of entities that have made sales (67 entities) was lower than that of the previous six months (75 entities), but the total number of properties sold increased to 721 from 685. The ratio of the number of entities that have made sales to the total number of valid responses remained almost unchanged, at 40%. This ratio has marked a gradual decline from a maximum of about 70% estimated in the first half of 2017. The average number of properties sold by each subject during the first half of 2022 was about 4, not marking changes from the average of reported during the second half of 2021. The ratio of properties sold with mortgage to the total number of properties sold, as in the previous period, was equal to 50%.

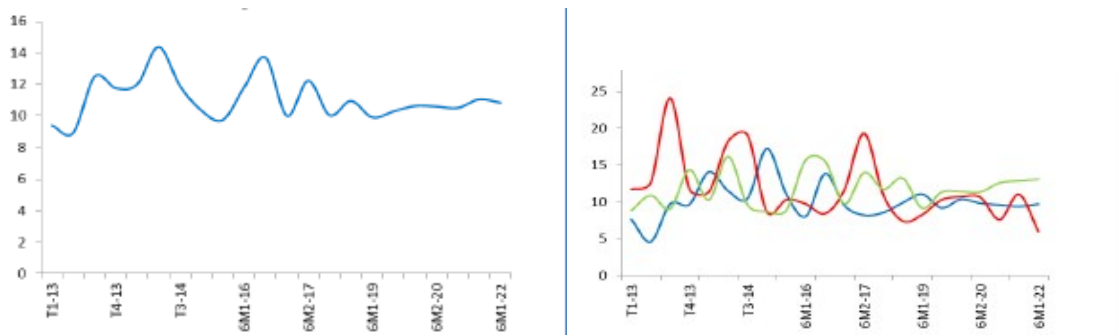
About 54% of sales realized during the first half of the year, throughout the territory, are represented by properties located in the most preferred areas within the city, from 68% during the previous period; about 23% of properties sold were properties built on the outskirts, within the city (up from 22% in the previous period), and about 23% of properties were properties built outside the city, up from 10% last six months.



**Figure 6. Data on the number of agents according to their sales' situation (agents reporting sales and agents with no sales reported)**

Source: (Financial Stability Department, 2022)

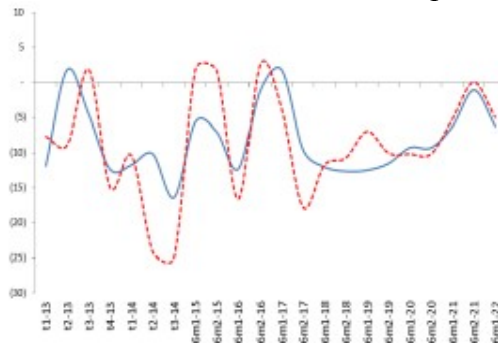
The average time of selling apartments in the country is reported to be an average of 10.8 months, and has slightly decreased compared to the previous six months. For Tirana, the subjects interviewed reported an average sales time of 9.7 months, from the value of 9.4 reported in the previous six months. For the coastal zone, the average sales time was about 6 months, and this value has decreased significantly compared to the 11 months reported for the second half of 2021. For "Other Areas", the sales time is increased slightly to 13.1 months. For all three areas, the majority of sales are reported to have been made within a period between 1 and 12 months.



**Figure 7. Sales duration across the country and by region (in months)**

Source: (Financial Stability Department, 2022)

Agents report lower number of first-time listings on their books; the net balance, or the difference between those reporting an increase in the number of registered dwellings and those reporting a decrease in their number, was about [-6%], and this value has fallen slightly from the near-neutral balance of the previous period. For commercial properties, the net balance was also negative [-5%]. It is worth emphasizing the fact that 75% of the answers were neutral, while those of the form "more/less" made up a part their little one. The number of unsold properties, both for apartments and commercial buildings, has decreased. The net balance for the number of unsold properties has continued to register a positive value, and this phenomenon has started to be observed since the beginning of 2016. This trend shows that the number of unsold properties has recorded a continuous decrease in each of the six months of this period.



**Figure 8. Net balance of recently registered properties**

Source: (Financial Stability Department, 2022)

About 2/3 of the agents have made sales at the same price or up to 5% less than the asking price. About 43% of agents have reported sales at the same asking prices; 23% of them sold at a price up to 5% lower compared to the asking price; and 27% reported selling at a price between 5% and 20% lower than the original asking price. Compared to the previous period, it is noticed that the distribution of responses is still more concentrated towards the intervals with

price close to the initial asking price, which reflects increased demand for real estate purchases. According to the agents, about half of the residential and commercial properties sold by them were bought with bank loans. About 86% are purchased with loans covering up to 60% of the value.

This approach: it is not exhaustive, on the contrary, it is considered temporary until a more complete system is built in which public entities and private entities regularly exchange information on all the elements that affect demand and supply in the real estate market; the exchange of information in the necessary time and form will enable the production of real estate market statistics according to the methodological standards followed in the European Union; as such, it does not contain and does not enable conclusions to be drawn as to whether the movement of prices in the real estate market (their increase or decrease) is normal or excessive.

## Conclusion

The results of the study, which derive from the questionnaires of different periods every 6 months, show us that the post-pandemic effects in the period of the second 6 months of 2021 are visible, where through the data we see the contraction of investors in real estate investments due to the uncertainty of the future, there are few sales. According to my opinion, in the period of 2022, we see that the war in Ukraine has caused an increase in raw materials (Commodities) in the construction sector, and this has brought a direct effect on the increase in inflation and, consequently, a decrease as a chain effect in the real estate sector due to the increase in prices. But it should be noted that the investors of this sector are more reluctant to use their savings and liquidity in real estate investments. Even though we have such a situation where the terms of inflation keep increasing, we understand that real estate prices also increase. Most important for a skilled investor is knowing when to enter on the market and when to exit on it. Any investor who decides to choose to invest in real estate must learn not to be euphoric in his decision-making, but also not to fall prey to panic based on market trends, which can lead to hasty and wrong decision-making.

Buying a property requires a more detailed and careful analysis to make an important financial investment decision.

For an investor to be successful in the real estate market, he must be clear about what his financial goals are in order to maximize his profits as well as what makes a potential deal worth achieving those goals. It is always necessary to carry out a through study of what is happening in the specific area where it is intended to invest and how to make an offer suitable to the situation in which the real estate market is at that moment, in order to minimize losses financial from such an offer. All these are factors that must be carefully evaluated in order to make a profitable investment in the real estate market.

**Funding: Please:** This research received no external funding.

**Conflicts of Interest:** The author declare no conflict of interest.

## References

- Andonov, A. (2013). A Global Perspective on Pension Fund Investments in Real Estate . The Journal of Portfolio Management, 32-42.
- (2021). Financial Stability Department. Bank of Albania.
- (2022). Financial Stability Department. Bank of Albania.
- Greer, G., & Kolbe, P. (2003). Investment Analysis for Real Estate Decisions (Vol. 1). Dearborn Real Estate Education.
- Holland , N. (2006). Indirect Property Investing-An Alternative to Direct Ownership.
- MSCI. (2014). IPD indexes and benchmark methodology guide.
- Nordlund, B., & Lundström , S. (2011). Kommersiella fastigheter och finansiell stabilitet.
- Plazzi, A., Torous , W., & Valkonov , R. (2010). Expected returns and expected growth in rents of commercial real estate.
- Quan, D., & Titman, S. (1996). Commercial real estate prices and stock market returns: an international analysis. Financial Analysts Journal Volume 53, 53( 3).



© 2023 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC-BY) license (<http://creativecommons.org/licenses/by/4.0/>).