

EMERGING REAL ESTATE MARKETS IN METROPOLITAN TIRANA, ALBANIA

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1. BACKGROUND

Real estate markets function when people “own” land and buildings attached to the land. Private ownership based on law and defended by the State includes the notion that owners have the right to engage in real estate transactions. In 1991, after years of state ownership of all land and buildings, Albania joined other Eastern European countries in transition to a market-oriented economy by privatizing the ownership of many state properties. In cities, including the capital Tirana, privatization was done through: (1) the sale of retail store space, businesses, and vacant land beginning in 1991; (b) the rapid sale of state-owned apartments (Law 7652, 23 December 1992, “Privatization of State Housing”); (c) the restitution and compensation of former owners of urban immovable properties (Law No. 7698, 15 April 1993, “On the Restitution and Compensation of Ex-Owners”); and (d) the privatization of state enterprises and business space, mostly through the National Agency for Privatization.

In 1993, the Government of Albania approved an “Action Plan for Immoveable Property Registration and Other Land Market Activities,” under the management of the Project Management Unit (PMU), an independent entity chartered by Government Decision, with the responsibility for implementing the Action Plan. The PMU is to coordinate the creation of land market institutions, particularly a new system for the registration of all immovable properties (Immovable Property Registration System, IPRS). As part of the Action Plan, the PMU periodically sponsors research activities on aspects of immovable property markets. One such activity is the description of the current situation of immovable property markets in urban and rural areas prior to full implementation of the IPRS. It is expected that a functioning

1. The survey data reported in Sections 3, 4, and 5 of this paper come from Margaret Moores, Malcolm Childress, Fioreta Luli, Dritan Caro, and Llukan Puka, “Emerging Uses of the Urban Landscape in Tirana, Albania, 1998,” a report prepared as part of the Land Market Action Plan, administered by the Project Management Unit. The comments in sections 6 and 7 come largely from Norman Flynn and Margaret Moores, “Real Estate Professionals and the Immoveable Property Markets in Albania,” Working Paper no. 11 (Madison: Land Tenure Center, University of Wisconsin, 1997).

and transparent registration system will provide secure and legal protection of private property, improving the market for immovable property in Albania.

As part of a larger research agenda for understanding the context and impact of title registration in urban areas, the Land Policy Department of the PMU/IPRS is conducting research in two phases on immovable property markets in cities:

Phase 1: Urban Land Studies, with principal lines of investigation that collect basic information such as property types, uses, occupancy types (owner-occupied or leased), ownership patterns, age of structures, and surface areas by type; and

Phase 2: Urban Land Market Baseline Study, which examines the effect of tenure status on indicators of real market behavior (such as transactions and investments).

Information resulting from the research is intended to assist in the development of policies and procedures for land market administration and, more generally, to determine the special aspects of Albania's evolving private property market in urban areas.

2. PURPOSES AND PROCEDURES

The purposes of this chapter are to use information from three empirical studies to describe:

- (1) how the physical space of the city of Tirana is presently organized,
- (2) how active real estate markets have been, after seven years of privatization and real estate market transactions..

Three empirical studies of real estate markets were done during 1997–1998. The first, fielded in December 1997 (completed in January 1998) by the PMU under the coordination of Margaret Moores, Llukan Puka, and Fioreta Luli, was based on an “area sample” of the city of Tirana. One-hectare grid squares were overlaid on the city's 3,060 hectares within the municipal boundary (yellow line), and a random sample was taken of these grids. Eighteen (18) grid squares within the ring roads (representing a total area of 340 hectares) and 14 grid squares between the ring roads and the outer municipal boundary (representing a total area of 2,720 hectares) were randomly selected. Within the selected grid squares of 1 hectare each, research teams visited each property and questioned the holders about its use, who owned it, when any building on a parcel was constructed, and other characteristics of the property. The sample values obtained from the questionnaires were then “expanded” by the sampling ratio to describe the physical space of Tirana within the city's municipal boundaries.

By late 1997, most of the private acquisition of space for housing and businesses had gone about as far as the state could go, so that it was possible to identify the property boundaries. A property was defined as a piece of the earth or building firmly attached to the earth, with a closed boundary, and with a single type of ownership across it. The Albanian term for this concept, as in other civil code counties, is “immovable property”.

Mr. Artan Dervishi did the second study of the real estate transactions recorded in the Ipoteka Office of Tirana in early 1998. This office, modeled on the French Ipotèque offices, had served as a depository for contracts of sale, inheritances, mortgages, gifts and other transactions where the property involved had been privately held and had been within urban boundaries. The Ipoteka Offices in Tirana was closed in 1982 after all private rights to land and buildings had been extinguished. The archivist at the time of the closing, Mr. Gezim Fifo, had the foresight to take all the documents from the office to his apartment, where he kept them until 1993 when the office re-opened and people began establishing rights to private property again.

The Dervishi study analyzed all documents describing various types of transactions pertaining to land or buildings or pieces of buildings, from 1993 through 1997, classified these documents according to type of property involved, and tabulated the number of transactions.

The third study of real estate prices from 1993 to 1997, also by Mr. Dervishi, was done based on the data of one real estate agency in February 1998. This agency's database represents approximately 70 percent of all offerings of real estate for sale done through real estate agencies in Tirana.

3. ORGANIZATION OF SPACE IN TIRANA

3.1 PHYSICAL TYPES OF URBAN PROPERTIES

The urban land survey teams in Tirana encountered structurally different types of properties within the sample squares, varying from single-family free standing houses to apartments to bridges and kiosks. The study identified two general types of properties—parcels and condominiums.

- **3.1.1 The parcel**

A parcel of land which may be vacant or may contain one or more buildings or other structures. The study team identified eight sub-types of such properties, and one miscellaneous category.

- **A parcel with a single structure under one ownership**

This category of property is characterized by a land parcel with one structure, both under one ownership. This was the dominant type of housing prior to 1944, reflecting a strong tradition and preference for families to live in detached one- or two-story buildings with a surrounding garden. Their distribution is typically concentrated in nodes, where they have survived as low-density residential areas with low construction activity during 1945–1990, escaping the regulatory planning studies and urban development for increasing densities and

standardizing housing. They have reappeared as a preferred form of housing after 1990, primarily in peripheral zones where the value and is low and land use regulations are very weak..

- **A parcel of land with more than one structure but under one ownership**

Multi-structure properties are distinguished as a separate category from the single structure properties because of their potential for informal and formal subdivisions, both within families and on the open market. As with single structure properties, they have been used predominately as residences for extended families, most originating from before 1944 but resurgent in the post-1990 transition period. In many cases, the addition of structures after 1990 has been for temporary or economic uses.

- **A parcel with a building on it, with multiple property units within it (i.e., an apartment building)**

Multi-unit apartment buildings (*pallati*) on a parcel of land are the most land-efficient physical type, allowing many properties (and families) on a small land parcel, thereby maximizing the density and use of land surface. In Albania these apartment buildings, used typically for housing have been privatized so that the building's common areas and a parcel of land one meter wide around the footprint of the building have become jointly owned by the owners of the units within them, proportionally to the area of each internal owned unit.

In recent years, first-floor apartments have become increasingly desirable as families convert them into commercial space. As would be logical to assume, the multi-unit buildings in Tirana are mostly of standard design to minimize costs; and there have been few differentiating characteristics among properties, except for age. Recently constructed apartments, however, done by private builders, have differed in design and materials, and are usually much more elegant in design than the earlier constructions.

- **A parcel with a kiosk, garage, or other temporary construction**

Kiosks and other temporary structures built on very small parcels of land have appeared following the end of central-planned economy. The collapse of the economy before and during transition led the government to help small scale entrepreneurs by providing them with temporary permits to use pieces of land for kiosks and shops. The preponderance of kiosks and other semi-permanent structures in retail marketing in the 90's is a product of private attempts to generate income and has been to a degree successful in revitalizing private retailing and other services. With a small average surface area and portability, they have been located everywhere, preferring the main access ways and open spaces. While the number of kiosks has steadily increased during transition, many have been converted to more permanent investments, and the future of this physical type is uncertain in Tirana's longer-term development.

- **A parcel with structures under construction**

Many pieces of land restituted to ex-owners have been sites for building new buildings. Exactly how they will end up is often difficult to determine, which led the study team to create this category of real estate.

- **A parcel of vacant land, which is potentially useable for building purposes (“trual” in Albanian)**

This category of property contains parcels of land free of structures, typically consisting of areas which serve as free space between multi-unit buildings or yards in front of multi-unit buildings. Before 1994, the residents of Tirana had access to large surfaces of land not occupied by structures. During the communist regime, this land was owned by the state, which often planned to use it for the future development of the city, or to leave as recreation or open spaces around the apartment buildings. During transition, parts of these vacant parcels were restituted to former owners by the State Committee for the Restitution and Compensation of Ex-Owners Properties. What has not been restituted is still vacant or has been gradually encroached upon by the inhabitants of first-floor apartments or other entrepreneurial individuals. This vacant land is highly desirable for occupation and is gradually being occupied with illegal buildings, gardens for first-floor apartments, kiosks and garages, and some cafe-restaurants and shops which emerge from the first-floor apartment “gardens.”

- **Green Space**

This category is usually a parcel of public land used as a park or recreation area or it also may be a parcel of land simply not appropriate for building and is left unused or unclaimed by private people or businesses.

- **Roads, sidewalks, and paths**

Public rights of way, roads, alleys, sidewalks, paths, are almost all under state ownership. The majority of them were constructed during the previous regime, according to plans for the development of the city. Today these properties are in crisis due to uncontrolled construction occurring in Tirana, which often spread into what in other countries would be considered public rights of way.

- **Other types of “parcel” properties**

This category includes other urban properties such as railways, a river, and bridges. These properties are also under the ownership of the state.

- **3.1.2 Condominium type of property**

Apartments and other types of units under separate ownership from the larger structure in which they are located are classified as “condominium”. The owners of the separate units within the building have the joint ownership of the building in which the units are located.

These properties are of two sub-types:

- **An apartment in a multi-story apartment buildings, built for this purpose,**
- **A housing unit which has been carved out of houses or other buildings not originally built as apartment buildings**

From a development perspective, apartment buildings were the preferred type of state housing in Tirana after 1944. This type of housing is common elsewhere in Europe during the period between the two world wars and the periods of reconstruction. In Albania, state-provided apartment units were standardized in form and construction, providing a low unit production cost. The surface area of these apartments are normally in the range of 50 m² to 80 m². The construction design allows for the joining of two apartments into one larger unit, and in many cases families have sought such arrangements for future consolidation into a single apartment.

Housing and other types of units are also found in buildings originally built for purposes other than apartments. We have separated out these units from the normal apartments, since they represent what may be temporary arrangements or if made permanent structures which may need infrastructure investments to make them appropriate for multi-family housing.

In summary, then, in the field study we have distinguished 11 types of property which have become established in metropolitan Tirana, nine of which are “parcel” subtypes, and two are “condominium” sub-types.

In addition, the field teams determined the ownership of each property, whether it was privately owned, or at least privately held (since many claims by private holders to be owners may not be legally based), or owned by a joint venture between the State and private investors, or State owned (a residual category in Albania).

3.2 RESULTS OF THE AREA SAMPLE SURVEY

- **3.2.1 Physical organization of urban space—public/private**

Based on the sample data, Table 1 shows the estimated number of properties and the area they occupy, according to physical type and tenure category for the city of Tirana.

TABLE 1. Number of properties and surface area by physical type and by ownership*

Physical type	Ownership	Number	% of type	% of total number	Area (ha)	% Area	Mean (m ²)	% of total area
1. Parcel/structures								
1.1 Single-structure	Private	17,201	86.0	16.1	398.9	63.0	231.9	20.9
	State	2,718	14.0		233.4	36.0	858.6	
	Mixed	15	0.0		8.0	1.0	5,333.3	
	Total	19,934	100.0		640.3	100.0	321.2	
1.2 Multiple-structure	Private	8,153	88.1	7.5	568.5	39.6	697.3	46.7
	State	938	10.1		826.2	57.6	8,804.4	
	Mixed	161	1.7		40.2	2.8	2,500.0	
	Total	9,252	100.0		1,434.9	100.0	1,550.9	
1.3 Multiple-unit structure	Private	2,378	93.7	2.1	102.0	99.1	428.9	3.4
	State	161	6.3		0.9	0.9	55.0	
	Total	2,539	100.0		102.9	100.0	405.3	
1.4 Temporary structures**	Private	8,535	181.2	6.9	22.4	100.0	26.2	0.7
	Total	8,535	100.0		22.4	100.0	26.2	
1.5 In construction	Private	486	100.0	0.4	14.7	100.0	302.5	0.5
	Total	486	100.0		14.7	100.0	302.5	
1.6 <i>Trull</i> (vacant lots)	Private	1,164	22.3	4.2	55.4	14.2	476.5	12.7
	State	4,045	77.7		333.9	85.8	825.5	
	Total	5,209	100.0		389.3	100.0	747.5	
1.7 Green space	State	703	100.0	0.6	116.9	100.0	1,663.8	3.8
	Total	703	100.0		116.9	100.0	1,663.8	
1.8 Roads	Private	15	0.3	4.5	0.1	0.0	45.0	10.6
	State	5,579	99.7		326.3	100.0	584.9	
	Total	5,594	100.0		326.4	100.0	583.4	
1.9 Other parcel/structures	State	482	100.0	0.4	23.0	100.0	476.7	0.7
	Total	482	100.0		23.0	100.0	476.7	
Total parcel/structures	Private	37,931	71.9	42.7	1,162	37.8	306.4	100.0
	State	14,626	27.7		1,861	60.6	1,272.1	
	Mixed	176	0.3		48	1.6	2,741.9	
	Total	52,733	100.0		3,071	100.0	582.3	
2. Condominium								
2.1 Apartments	Private	63,235	97.8	52.3	423.0	97.7	66.9	
	State	1,422	2.2		9.8	2.3	68.9	
	Total	64,657	100.0		432.8	100.0	66.9	
2.2 Other sub-units	Private	2,336	38.1	5.0	19.4	48.3	83.0	
	State	3,794	61.9		20.8	51.7	54.7	
	Total	6,130	100.0		40.2	100.0	65.5	
Total condominium	Private	65,571	92.6	57.3	442.4	93.5	67.5	
	State	5,216	7.4		30.6	6.5	58.6	
	Total	70,787	100.0		473.0	100.0	66.8	
Total properties	Private	103,502	83.8	100.0				
	State	19,842	16.1					
	Mixed	176	0.1					
	Total	123,520	100.0					

* Estimates derived from area samples in the Urban Land Study (Tirana), 1998. Estimates for cases where data were not available—mostly apartments—were done by assigning these cases (5.7%) proportionally to the other categories.

** Temporary structures include kiosks (4,711 units, occupying 15.1 ha, or 32.1 m² on the average) and garages (3,824 units, occupying 7.3 ha, averaging 19 m² each).

The extent of the Albanian privatization effort 1992 through 1997 is demonstrated by the fact that 83.8 percent of all properties, including apartments, though state owned in 1991 are now privately owned. Apartments are almost entirely privately owned, though for some the privatization process has not been completed.

Properties composed of a parcel of land with a single structure—including private houses—occupy 21 percent of the area of the city of Tirana, and much of the land in this category is privately owned (63%).²

However, it is still the case that a substantial area of the city—60.6 percent of the total urban area—is not privately owned, and remains in the public sphere, under the administration of public agencies, at least theoretically. The effectiveness of this public administration of public land certainly could be improved.

The predominant **type of property** is the apartment (a property within a larger structure, with separate ownership) with 52.3 percent of all immovable properties in the city of Tirana.³ Single and multiple structure properties combined account for 23.6 percent of the total number of properties. Single and multiple structure properties, however, occupy over 67 percent of the city's land area, much in large units which are still state owned. Kiosks, garages and other temporary structures account for 6.9 percent of all properties. Vacant lots, lots under construction, and green spaces represent 5.2 percent of the properties in the city.

The apartments are located within 2,378 buildings which occupy 2.1 percent of the land area of the city. Just 0.5 percent of the city's land area is under construction. Vacant lots appropriate for building occupy 12.7 percent of the city's area, while green spaces occupy just 3.8 percent of the total urban area.

Roads and other types of properties account for about 5 percent of the properties, and over 11 percent of the total urban area.

The category of property “multiple structures on a parcel” is particularly interesting due to the large area of land, both state and privately owned, in this category. The state-owned properties are administrative building complexes as well as enterprises still under state

2. The 1976 Constitution abolished private property. In actual practice, however, single-family dwellings which had been privately owned before the 1976 Constitution continued to be “owned” by the occupants for all practical purposes, and in the minds of the holders and their neighbors. These houses have not been required to undergo a privatization process in the “democratization” period after 1991, although the First Registration procedures of the Law for the Registration of Immovable Properties (of July 1994) are required to provide legal documentation of the ownership of these properties..

3. To expand the sample frequencies into estimates of the frequencies for the city as a whole, the sample areas were multiplied by the inverse of the sample proportion. The sample was taken from two areas, the center “ring” and the noncenter area. In the center ring of 340 hectares (measured by planimeter from maps available at the PMU), a sample of 18 blocks was chosen, with a total area 22.65 hectares. The rest of the city comprises 2,720 hectares. In this area 14 blocks were chosen for the sample, with a total area of 16.93 hectares. To arrive at the overall city estimates, observations within the center ring were weighted by $340/22.65=15.01$, and observations from outside the center ring were weighted by $2,720/16.93=160.66$.

ownership. The privately owned properties of this type are relatively small (averaging 542 m²), while the state-owned properties of this type average 3,533 m².

The Department of Housing at the Ministry of Public Works and Transport uses the number of electric meters with residential rates to estimate that there are 106,925 housing units in Tirana, that is, apartments and houses currently used as housing. Depending on the definition of terms, the sample yields an estimate of 70,787 apartments and 25,354 private houses and family compounds, for a total of 96,141 possible housing units.

This number is somewhat lower than the estimate of the Ministry. Since many residences get electricity from informal means without meters, it seems logical that the sample estimates should be higher than the official estimates. Another official estimate, however, that of the tax office of the municipality estimates that there are only 48,018 housing units (apartments and separate houses) in co-ownership and another 11,000 housing units in individual ownership, for a total of 59,018 housing units. About all we can say is that the number of residences is probably somewhere around 96,000 units.

• 3.2.2 Historical Construction Rates

The age of capital stock based on year of construction reflects the overall development history of Tirana and the physical impact on the Tirana landscape of its various twentieth-century economic regimes. The year of construction of the various types of property which presently exist in Tirana is shown in Table 2.

For single structures, basically houses on a plot of land, there was a large construction boom in the 1950s, with nearly 30 percent of these structures being built in that decade. Clearly there has been a second boom in the 1990s, with the building of private houses.

Multiple structure properties still in existence, mostly state owned and representing state enterprises and government compounds, were built throughout the 1930s, 1940s, and 1950s, dropping off in the 1960s and 1970s when Albania's external support from the Soviet Union and China had largely ended. The resurgence of this type of building in the 1990s is largely due to private family housing compound constructions.

The emphasis on apartment building construction began in the 1960s, and hit its peak in the 1970s, falling off somewhat in the 1980s. The 1990s have seen the emergence of privately constructed apartment buildings and in a few cases the completion of state buildings begun before 1991.

TABLE 2. Construction of physical structures, by decade of construction

Year	Number of physical properties by type											
	Single structure		Multiple structure		Multiple unit structure		Temporary structure		In construction		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Before 1920	331	1.7	270	2.9							601	1.5
1920–1929	1585	8	827	8.9							2412	5.8
1930–1939	2450	12.3	1701	18.4	336	13.2					4487	10.9
1940–1949	937	4.7	1974	21.3	30	1.2					2941	7.1
1950–1959	5980	30	1381	14.9	30	1.2					7391	17.9
1960–1969	1950	9.8	1174	12.7	341	13.4	18	0.2			3483	8.4
1970–1979	263	1.3	206	2.2	1039	40.9					1508	3.7
1980–1989	1122	5.6	336	3.6	572	22.5	379	4.4	176	36.1	2585	6.3
1990–1997	5316	26.7	1382	14.9	191	7.5	8139	95.3	311	63.9	15,339	37.2
Total*	19,934	100.0	9251	100.0	2539	100.0	8536	100.0	487	100.0	41,247	100.0

* Unknown cases were classified into the other categories proportionately. There were a total of 2258 cases (5.5%) with unknown year of construction, of which 42% were single structures and 56% were temporary structures.

The “kiosk economy” of the 1990s had its physical expression in the building of over 8,000 temporary structures, giving some employment to their builders and access to consumer goods previously mostly unavailable to the population of Tirana.

4. INSTITUTIONAL FOUNDATIONS OF THE REAL ESTATE MARKET

4.1 RECORDING AND REGISTRATION OF PROPERTY RIGHTS

The Ipoteka offices in the major cities, usually the district capitals, prior to 1976 operated as simple document depositories for deeds of sale and gift, mortgages, and inheritances for urban properties. A registry book was maintained in each office, and a copy of the recorded transaction was kept in the Ipoteka archives. These Ipoteka offices were depositories for transaction contracts and had functioned in most cities until the 1976 Constitutional provisions for state or cooperative ownership of all immovable property largely eliminated market transactions.

As private rights to urban properties were gradually re-established beginning in 1991, *Ipoteka* offices began to re-open. The Tirana Ipoteka Office was closed in 1985, and the files were kept in the house of one of the employees; it re-opened in late 1991 near the municipal court, under the jurisdiction of the Ministry of Justice, and the historical archives were retrieved. In other cities as well, these offices were re-opened but in some cases without the retrieval of the registry books or the historical archives.

A number of commissions and agencies worked on the privatization of urban property beginning in 1991. It has not been obligatory, however, for new owners to record privatization documents in the Ipoteka, although without such registration transactions would legally be unsupported in the case of conflicts.

The old agricultural cadastre offices at the district level which organized the distribution of allotment certificates for privatized agricultural land under Law 7501 of July, 1991, were originally supposed to keep track of transactions involving these lands, but had little ability to record transactions. The Ipoteka offices were not authorized to record transactions of agricultural land, even when such transactions were legalized in 1995.

In the Tirana Ipoteka Office, working conditions are extremely cramped, the office is very busy, and the records are not easily accessible. Documents are filed according to the date they are deposited at the Ipoteka Office and grouped according to year in the archives. A daily log book is kept in which the names of the buyers and sellers, the address of the property, and a description of the type of transaction are written. A number is assigned to each document and is noted in the log book. In many instances, the number of the document which describes how the present owner came into possession of the property is noted, but in many instances that number is not noted. Title searches are not easy to do, and lawyers or notaries typically do not do them. This system is clearly inadequate for protecting rights of the thousands of new property owners which have come into existence in the past few years.

In order to establish a more adequate registration institution, in July 1994, Parliament approved Law 7843 for the creation and operation of an Immovable Property Registration System, which is designed to protect recorded rights and to facilitate transactions. Shortly after the approval of this law, in August 1994, Parliament approved the new Civil Code containing extensive provisions for the definition of basic concepts concerning ownership, lease, and transfer of rights to immovable property. With the approval the Registration of Immovable Properties Law, the country began the construction of a new system for the recording and displaying of rights to immovable properties. There are 24 registration offices functioning at the moment, and there will soon be 33 to cover the entire country, one for each district, except for four of the smaller districts which have been combined, and the Tirana District, where two offices have been established.

Each registration office maintains a *kartela* or registry page for each immovable property in its jurisdiction. Once there is a valid initial registration which creates a *kartela* and an index map showing the boundaries of the property, every subsequent transaction involving rights to it must be registered. When a valid registration exists, what is recorded on that *kartela* is a complete, legally valid description of the rights which pertain to the property. In addition to the *kartela* and index maps, the registration office maintains archives with copies of contracts which modify the *kartela* or index maps in some way and copies of the original privatization documents. About 25 percent of the properties, publicly and privately owned, in rural and in urban areas are presently recorded in the registration offices; it is estimated that by the end of the year 2001, all such properties will be incorporated into the new immovable property registration system.

4.2 NOTARIES

Parallel with these privatization of land and buildings and various legal activities, in 1994 Parliament also approved a law for the creation of private, state-chartered notaries, charged with preparing contracts for sale, lease, mortgage, and other transactions relating to immovable properties. There are now 75 notaries in Tirana and 140 in Albania, and the number is growing.

Notary services are in great demand, since notarization of documents is a required step for almost every real estate transaction. The rapid expansion of the market for notarial services probably best reflects the overall expansion of real estate markets. Even those who decide not to register property transactions appear to use notarial services. In contrast to the Bar Association, the Chamber of Notaries appears to be a valid and active association, approving membership, performing legal and regulatory analysis, organizing training programs, and liaising with international notarial associations.

Notaries in Albania follow the Austrian and similar legal systems. They are responsible for full validity of every aspect of a contract which they prepare. They are subject to the Law on Notaries and to the Civil Code's articles concerning notaries and their activities. The Chamber of Notaries has joined the Union of Latin Notaries. Notaries keep a protocol of the

property documents signed before them and give two copies to the concerned people, one of which is to be turned into the registration office.

The selection of notaries is made by the Ministry of Justice in collaboration with the Chamber of Notaries. Although there is a limit in the number of notaries, most of the people who take the examination every year pass it. There is no requirement for subsequent monitoring of their activities, though the Chamber of Notaries organizes informational workshops.

Once notaries have been appointed by the Ministry of Justice, they set up and operate offices independently, and it is quite common that they work alone or with one or two assistants. They are paid according to fees established by the ministry. Notaries are independent agents, nominally under the supervision of the Ministry of Justice and the Chamber of Notaries. The ministry can revoke their licenses in cases of misconduct.

4.3 REALTORS

A few real estate agencies have been established in Albania, the first in 1991 in Tirana. At first glance, it is somewhat surprising that (a) there is so much real estate market activity given such low levels of formal finance and security, and (b) there are still so few full-time professional real estate agencies. In the capital city of Tirana, there are approximately 10 full-time agencies employing a total of 20–25 people. Of these 10 agencies, only 2 or 3 can be considered to have consolidated their position in the market. Few of the others represent significant investments (in that they have no accessible office space, automobile, or telephone). Perhaps only the top 5 businesses are specialized, with the remainder combining real estate, import-export, trade, tourism, and other services with their agency services. There are reported to be 3 or 4 full-time agencies in other cities, including branch offices of Tirana companies. Cities of comparable size to Tirana in other Central and East European countries average 20–30 agencies, each employing 15–20 agents.

4.4 RELATED PROFESSIONAL SERVICES AND ACTIVITIES

In general, professions which are active in real estate markets are experiencing many of the same constraints and opportunities reported by the real estate agencies, namely, weak regulation of the profession (in terms of both expertise and ethics). Some have responded by developing effective professional associations, while other professions have yet to do so.

Within Tirana, there appear to be 30–40 legal practices which deal regularly with property market transactions and conflicts. From the lawyers' perspective, difficulties in determining land-use and ownership are of great concern. Restrictions on foreign investments in real estate are also constraining the development of the real property market. There is a Bar Association regulating legal services, but those interviewed consider it to be ineffective.

Architectural services are reported to be at a depressed level, despite the considerable amount of construction taking place over the past five years. Most trained architects (formerly employed by the state) have now left the profession and have neglected their professional association. Those remaining (estimated at 100) work primarily in medium-sized residential or commercial projects. One of the greatest challenges facing the architectural profession is the nonenforcement of land-use, site-plan, and building-code regulations, which has resulted in a widespread market for self-built, unauthorized constructions using inferior building materials and methods.

Construction companies, not surprisingly, are numerous and busy. In Tirana, there are approximately 150–200 active construction companies, of which only about 10 are capable of large, commercial projects. In general, the Albanian construction companies do not act as developers per se, choosing to only operate with their own equipment and expertise rather than becoming involved in buying land and raising capital. A typical relationship is to enter into a co-ownership arrangement with a landowner, pre-selling units of a residential development, and giving 20 percent of the proceeds from the sales to the landowning partner and retaining 80 percent for the construction company. These sales generally do not involve real estate professionals.

Urban planners in Tirana are overwhelmed with permit applications and approval procedures. Their work is made more difficult by a lack of clear land-use planning and by confusion caused by ownership conflicts and restitution claims. Complexities in the regulatory environment in general, and the lack of enforceability of existing rules in particular, have severely limited the role of the urban planners in the real property market. Attempts to enforce and evict those who contravene or ignore planning requirements have resulted in public outcries. Political sensitivity to these outcries has reduced the political will to enforce regulation, eliminating whatever control the overburdened planners may have previously enjoyed over development of the urban real property market.

The realtors and all other actors in the real property market interviewed suggested that the solution to these issues may be to have more and better planning studies and to enforce existing planning controls. There was little indication that this belief is rooted in concerns about protecting the value of existing properties by regulating future developments. Realtors and planners are nonetheless aware of considerable conflicts over land-use changes (for example, neighbors building billiard halls, bakeries, and bar/cafes next to apartments and single-family residences).

The professionals specializing in the valuation or assessment of value of real estate are emerging, thanks largely to a course taught at the Polytechnic University of Tirana on valuation techniques. A Ministerial order is in place which gives these graduates (who are also members of a Valuation Association) a monopoly on real estate assessment in the country.

5. ACTIVITY AND PRICE CHARACTERISTICS OF THE URBAN REAL ESTATE MARKET

The current level of real estate market activity is difficult to estimate precisely because many of the transactions take place outside of formal mechanisms for registering such transactions. Nonetheless, in Tirana at least, there is a staggering amount of construction and renovation taking place, with numerous new business units and dwelling units being completed every week. Much of this activity is occurring through self-built development, although developers who put up buildings and then sell the units are numerous and busy as well. It is estimated (by a city planner interviewed) that in the greater Tirana area (including areas outside the municipal boundaries) alone, over the last 5 years a total of 50,000 residential units have been constructed to house a population which is estimated to have doubled since 1991 (from 250,000 in 1991 to over 600,000 by mid 1998). At the same time, vacancy rates and opportunities to “move up” or “move over” appear to be higher in Albania than in neighboring countries due to higher levels of out-migration.

The yearly total number of transactions recorded at the Tirana Ipoteka Office is shown in Table 3, broken down by apartments, houses, stores, storehouses, and land transactions.

TABLE 3. Recorded transactions, Tirana Ipoteka Office, by year

YEAR	TOTAL RECORDED TRANSACTIONS	APARTMENTS (including privatizations)	HOUSES (including restitutions)	RETAIL STORES	STOREHOUSES	LAND (including restitutions)
1993	18,471 (100%)	14,820 (80.2%)	2,202 (11.9%)	621 (3.4%)	551 (3%)	277 (1.5%)
1994	35,510 (100%)	29,981 (84.4%)	3,406 (9.6%)	603 (1.7%)	415 (1.2%)	1,105 (3.1%)
1995	16,246 (100%)	10,071 (62%)	2,878 (17.7%)	766 (4.7%)	531 (3.3%)	2,000 (12.3%)
1996	15,934 (100%)	7,509 (47.1%)	2,890 (18.1%)	682 (4.3%)	219 (1.4%)	4,634 (29.1%)
1997	13,570 (100%)	6,618 (48.8%)	3,288 (24.2%)	633 (4.7%)	494 (3.6%)	2,537 (18.7%)
Total	99,731	68,999	14,664	3,305	2,210	10,553

Source: Tirana Ipoteka Office Log Book.

The relatively high number of recorded transactions between 1993 and 1995 reflect the massive privatization of state-owned apartments during 1993, 1994, and part of 1995. If we consider those in the apartment column between 1993 and 1995 to be mostly the recording of privatization sales contracts, people have recorded in the Tirana Ipoteka Office something less than 54,871 such contracts for apartments. For discussion purposes, we estimate that around 50,000 privatization sale contracts for apartments have been recorded in the Ipoteka.

From 1994 through 1996, the statistics also include the recording of restitution decisions (mostly for houses and land) as well as other privatizations and private transactions. By 1996 and 1997, the recorded transactions largely reflect market exchanges, mostly sales, since rentals are not usually recorded in the Ipoteka office. In 1996 and 1997, an average of 7,063 apartments were sold yearly, so we estimate that about 14 percent of the recorded apartments in Tirana change hands yearly.

Housing and rental prices in Tirana and Durres are reported to be up to double those in other areas of Albania and are comparable with prices in capital cities elsewhere in the region. Tirana and Durres are clearly the most active markets for real property. Activity outside of the Tirana-Durres region is reported to be low. Prices for a 75 m² to 90 m² apartment in Tirana average between US\$25,000 and US\$40,000 (depending on size and quality) and can run between US\$40,000 and US\$80,000 for newly constructed apartments. In contrast, reported prices for an apartment in Elbasan range from US\$4,000 to US\$10,000 (possibly the lowest in the country).

Table 4 shows the average prices of different types of properties, according to information from a real estate agency. The average price for apartments/houses increased from US\$200/m² in 1993 to US\$340/m² in 1998 and US\$370/m² the first quarter of 1999. Rentals were averaging US\$4.50/m² in 1997. In 1998, retail store space cost on the average US\$500/m², storage space cost US\$240/m², and land cost US\$100/m², a significant increase from US\$20/m² in 1993.

TABLE 4. Average market prices for real estate sales in Tirana, by year

YEAR	APARTMENTS AND HOUSES (US\$/m²)	RETAIL STORES (US\$/m²)	STORAGE (US\$/m²)	LAND (US\$/m²)
1993	200	300	120	20
1994	250	360	150	30
1995	270	450	220	50
1996	280	460	240	70
1997	280	480	250	80
1998	340	500	240	100
1999*	370	530	240	120

*Data from January-March 1999.

Source: Real Estate Agency in Tirana, 1998.

Expectations are that prices will continue to rise in Tirana and Durres for both rentals and sales, primarily because demand and competition for residential and commercial properties are expected to increase in those cities over the near to medium term. It is also likely that construction costs will rise due to increasing costs of energy, labor, and materials. The significant upward pressures on price due to the Kosovar immigration are not included in the data gathered for this analysis. But such factors can be quite important in a relatively small market.

Within the real estate market itself, there appears to be a bad match between what buyers are looking for and what sellers are supplying. Buyers tend to be looking for up-market properties (single-family residences or newly constructed apartments) in major cities like Tirana and Durres. Anecdotal evidence suggests that buyers in these areas are generally urbanites seeking larger living arrangements for their families.

Sellers have been responding to these demands for “modern” housing, by re-modeling the older apartments, or building modern and comfortable units. Table 5 shows the proportion of properties for rent and for sale which are categorized as “modern” (remodeled and new) for the years 1993 through 1999. In the rental market, people have been investing in remodeling quite extensively, with the proportion of “modern” housing units listed for rent rising from 5 percent in 1993 to 15 percent in 1994 to approximately 80 percent in 1999. A similar pattern

holds for sale listing rising from 3 percent in 1994 being modern to about 70 percent so classified in 1999. Investments in housing by the owners have been quite significant in the past 6 years.

TABLE 5. Percentage of properties for sale and for rent which are “modern” (renovated or new)

	Year						
	1993	1994	1995	1996	1997	1998	1999
Percentage of properties offered for rent which are “modern”	5%	15%	30%	60%	50%	60%	80%
Percentage of properties offered for sale which are “modern”	0	3%	10%	20%	30%	45%	70%

Source: From a database of listings of the largest real estate agency in Tirana (60–70% of all listings).

Sellers tend to be either (1) owners of older apartments requiring investment, or (2) those wishing to sell real property which has been restituted to them or which has been left behind following emigration. Of concern during 1996 was the fact that growth in the sales market (the supply) was in large part driven by the desire to liquefy real assets in preference for cash holdings or relatively liquid investments in high-interest term-deposit savings “schemes,” such as Vefa, Populli, Xhaferi, Kamberi, and Gjallica (yielding 8% to 50% per month). Obviously, after the crash of February 1997 and the subsequent chaos, such strategies changed dramatically.

Alternatively, at least since 1996, families were finding income opportunities by moving in with other family members and renting their vacated houses and apartments to others (particularly foreigners). Consequently, the price of rental units was increasing along with the demand for rental properties, as reflected in the increase in relative cost of annual renting versus buying from 12 percent of the value of the real property in previous years to the 1996 level of 16 percent.⁴

In 1997 and 1998, the building boom of the previous years continued unaffected by the chaos of 1997. In fact, people seemed to take advantage of the collapse of government and regulatory agencies to increase their rates of building and remodeling, using savings and remittances to build or remodel while they waited for the political situation to stabilize. As a

4. This is a crude estimate based on interview data. Precise calculations are not possible due to the lack of available standardized market information.

result of this increased supply of housing units, relative to the slowly increasing demand from foreigners returning after the evacuations of 1997, 1998 rental prices at the upper end of the apartment housing market have fallen back to about 12 percent of the value of the property. Migrants from the north and refugees from Kosovo streaming into Tirana have influenced prices for moderately priced apartments.

Land parcels on which to construct single-family residences are in constant demand, and there have been numerous problems with illegal construction on former state-owned land. Illegal construction on privately owned land is reported to be a rare occurrence, but may increase as resolution of restitution and compensation claims affect more and more state land.

6. CONSTRAINTS TO REAL ESTATE MARKET DEVELOPMENT

Several constraints to the development of a well-functioning market are impeding growth in the formal real estate market. Perhaps the greatest constraint is the virtual absence of a mortgage market. A lack of readily available and affordable credit finance for purchases of real estate has meant that only those with sufficient cash savings can hope to enter the market. Housing mortgages had been available through the state-owned National Savings Bank, but these were rumored to have been granted in most cases on political or personal basis (rather than on economic basis), and the interest rates tended to be high (in the range of 17% per annum amortized over 15 years). Mortgage lending has been suspended since 1996 due in part to high default rates. These high rates of default have been complicated by difficulties in enforcing foreclosure and eviction against mortgage defaulters. The legal environment for lending has yet to be fully worked out, and confusion about both law and correct procedure has resulted in at least one bank being sued by family members who share joint ownership of a property which was mortgaged by an individual member of the family without authorization from other family members.

The National Commercial Bank and the Rural Commercial Bank have traditionally provided loans for investment in commercial and agricultural properties, but access to these loans is notoriously limited and default rates are also high. All state banks (excepting the National Bank of Albania) are scheduled for privatization. The limited number of state-private joint venture banks and private banks entering the market have thus far not seriously gone into the lending market within Albania. They deal mostly in savings and checking accounts (with all but a small reserve of the asset base held offshore) or profiting from service fees for currency exchanges, transfers, and transactions.

The general macroeconomic constraint facing the real property market (and the mortgage market) is limited opportunities for stable, paid employment. Wage income remains low compared to prices, while levels of unemployment and underemployment remain high. The current boom within Tirana and Durres is fueled by commercial activities, remittances from relatives working abroad, and other informal and illegal activities. Many of the gains from money market speculation in the private savings “schemes” mentioned above were wiped out in the 1996–97 crash of the pyramid schemes. None of these can be considered long-term economic development or stable movement toward the higher incomes and standards of living

which would drive the real property market. A reduction or collapse in present sources of income, without stable alternatives in place, will of course be reflected in a reduction or virtual collapse of the real property market.

The issue of restitution claims is also a concern. It has the specific impact of making ownership and disposition rights to property more complicated. A growing number of controversial cases where Restitution Commission decisions have contradicted other claims of ownership established in most cases by court decisions, have had the additional effect of fostering insecurity about property rights, which is probably resulting in reduced market and investment activity and may also be leading those in possession of real property to dispose of it while they can. Most apartments, houses, and small businesses are now clear of the privatization programs, but some, together with parcels of land and larger state enterprises, continue to be affected either by restitution and compensation or by the consolidation of state-enterprise privatization vouchers.

These vouchers have been trading as low as 10 percent of face value on the street and have proved to be the most straightforward and inexpensive means for some investors (including the pyramid schemes) to acquire real estate from the state. With the collapse of the pyramids, the liquidators are attempting to locate the properties acquired and sort out their legal situations. A common problem is the acquisition in ownership of a building from the state in exchange for vouchers, but without the ownership of the land under and around the building being included. Such a situation makes it difficult to sell the properties for prices that would help repay the debts the pyramid companies have with their creditors.

The privatization process itself has created certain constraints for land market transactions. These include:

- ◆ conflicts between former owners of urban property, on the one hand, and persons with privatization documents and present occupiers, on the other hand;
- ◆ illegal construction on the periphery of the cities, within and outside the city limits;
- ◆ illegal construction on lands that have been newly privatized;
- ◆ contradictions in the laws and between acts of privatization;
- ◆ lack of land-use controls and zoning, leading to negative externalities;
- ◆ land which has not been privatized often being treated as “unowned,” leading to the degradation of the natural resource base; and
- ◆ errors and lack of clarity in many privatization actions threatening to produce future insecurities about who owns what.

7. SUMMARY AND CONCLUSIONS

The urban real estate market is clearly emerging out of the privatization of properties formerly held by the state. This process is being assisted by legal reform, the creation of the IPRS, and the professional development of notaries, lawyers, realtors, and architects/builders.

However, the overall impact of the emerging market on economic development is ambiguous and chaotic. On the one hand, there is a building boom in Tirana, rapid in-migration, and an apparent upward trend in price, suggesting a shift in the structure of the economy toward a Tirana-based service sector, away from secondary cities and villages that are reliant on dying heavy industry and low-profitability agriculture. This development appears positive in the sense that it apparently involves long-term investment, labor market restructuring, and a potential basis for future growth.

On the other hand, the real estate market is still plagued by problems of tenure insecurity and unenforced regulation. These problems are inhibiting the development of a mortgage market, which dampens the country's financial recovery, holds back labor market fluidity, and skews market entry toward those with ready cash, possibly leading toward wealth and power concentration effects which are inimical to broadly-based growth.

Lack of regulation and corruption in the real estate market and building industry are leading to a set of negative externalities (loss of public space, congestion, loss of agricultural land, complications for public infrastructure and utility provision, further tenure insecurity) which may ultimately reduce property value, ward off investment, and create major problems for public finance.