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Immovable Property Markets in Metropolitan Tirana, Albania

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IMMOVABLE PROPERTY MARKETS IN METROPOLITAN TIRANA, ALBANIA¹

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1. BACKGROUND

Real estate markets function when people “own” immovable properties. Private ownership based on law and defended by the courts includes the notion that owners have the right to trade property rights to immovable properties. In 1991, after years of state ownership of all land and buildings, Albania joined other Eastern European countries in a transition to a market-oriented economy by privatizing the ownership of 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 and the Ministry of Public Economy and Privatization.

In 1993, the Government of Albania approved an “Action Plan for Immovable Property Registration and Other Land Activities,” under the management of the Project Management Unit (PMU). 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 and transparent registration system will provide secure and legal protection of private property, improving the market for immovable property in Albania.

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,” 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 Immovable Property Markets in Albania,” Working Paper no. 11 (Madison: Land Tenure Center, University of Wisconsin, 1997).

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. PURPOSE OF PAPER

The purposes of this paper are to use information from three empirical studies to describe, after seven years of privatization and real estate market transactions, (1) how the physical space of the city of Tirana is presently organized, and (2) how active real estate markets have been.

Three empirical studies were done during 1997–1998. The first, fielded in December 1997 (completed in January 1998), 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 (an area of 340 hectares) and 14 grid squares between the ring roads and the outer municipal boundary (an 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 it 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.

The second study of the transactions recorded in the Hipoteka Office of Tirana was done in early 1998. All documents from 1993 through 1997 were classified according to type of property involved, and the number of transactions were tabulated.

The third study of real estate prices from 1993 to 1997 was done based on the data of one real estate agency in February 1998. This 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 survey teams in Tirana encountered structurally different types of properties, varying from single-family freestanding houses to apartments to bridges and bomb shelters. Each of these physical

types was classified into eight discrete categories for the purposes of comparison. It is important to note that these categories are descriptive only and are not intended to represent rigorous legal definitions of property type for registration or other purposes.

1. A single unit within a larger structure (i.e., apartment unit)

Units and apartments under separate ownership from the larger structure in which they are located is the technical way of describing this physical type of property. From a development perspective, apartments were the preferred type of state housing for the population relocated to Tirana after 1944. This is not dissimilar with policies 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; their surface areas are relatively limited (normally in the range of 50 to 80 m²). The construction design allows for the joining of two apartments into one larger unit, and this is potentially going to be a frequent source of transactions in the future, as families seek to buy adjoining units to consolidate into one property.

2. A parcel with multiple property units (i.e., apartment building)

Multi-unit properties (*pallat*) 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 recent years, first-floor apartments have become increasingly desirable as families convert them into commercial space. As with physical type 1 (apartments), the multi-unit buildings in Tirana are mostly of standard design to minimize costs; traditionally, there have been few differentiating characteristics among properties.

3. 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 concentrated in Tirana in nodes, where they survived as low-density residential areas with low construction activity during 1945–1990, escaping the regulatory planning studies 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 protection of land is low.

4. 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.

5. A parcel with a kiosk, garage, or other semi-permanent construction

Land parcels with kiosks and other temporary structures have appeared following the end of central-planned economy. The collapse of the economy before and during transition led to private,

temporary solutions for the provision of space for economic activities. The preponderance of kiosks and other semi-permanent structures is a product of private attempts to generate income and has revitalized retailing and service markets. 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.

6. A parcel of vacant land

This category of property are 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 planned to use it for the future development of the city. During transition, parts of these vacant parcels were restituted to former owners by the Restitution and Compensation Commission. The rest 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."

7. Roads, sidewalks, and paths

Almost all of these properties are under state ownership. The majority of them were constructed during the communist regime, according to plans for the development of the city. Today these properties are in crisis due to uncontrolled construction occurring in Tirana.

8. Other types of properties

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

The properties in the sample were classified into three tenure forms: private ownership, state ownership, or private/state for those relatively few cases of joint ventures that combine state and private ownership. 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. The extent of the privatization effort during the past five years is demonstrated by the fact that 85 percent of all properties, including apartments, are now privately owned.

TABLE 1. Estimates of surface area by physical type and ownership

TYPE OF PROPERTY	OWNERSHIP	N	%	INDICATOR	MEAN (m ²)	SUM (m ²)	% TOTAL LAND AREA
Apartments		87,458	100	Floor space	66	5,768,600	n.a.
	Private	80,899	93	Floor space	66	5,368,675	
	State	6,559	8	Floor space	61	399,926	
	State/private	0	0	Floor space			
Multi-unit building (assumed private)		4,178	100	Surface area	460	1,923,275	7
Property w/ single structure		26,706	100	Surface area	242	6,474,184	22
	Private	24,348	93	Surface area	250	6,032,065	
	State	2,339	5	Surface area	146	341,267	
	State/private	19	1	Surface area	5,308	100,852	
Property w/ multiple structures		12,880	100	Surface area	787	10,140,601	34
	Private	11,784	63	Surface area	542	6,387,970	
	State	902	31	Surface area	3,533	3,185,771	
	State/private	194	3	Surface area	2,922	566,860	
Kiosk, garage		9,040	100	Surface area	31	278,715	1
	Private	9,021	100	Surface area	31	277,751	
	State	19	-	Surface area	50	964	
	State/private	0		Surface area			
Vacant		6,530	100	Surface area	868	5,671,061	19
	Private	1,275	10	Surface area	447	568,883	
	State	5,255	90	Surface area	971	5,102,178	
	State/private	0		Surface area			
Roads/throughways		7,332	100	Surface area	493	3,616,876	12
	Private	410	5	Surface area	425	187,635	
	State	6,922	95	Surface area	495	3,429,240	
	State/private	0		Surface area			
Other		1,913	100	Surface area	731	1,398,289	5
	Private	382	1	Surface area	32	17,632	
	State	1,337	98	Surface area	1,024	1,369,018	
	State/private	194	1	Surface area	60	11,639	
Total number of properties		156,037	100				
	Privately owned	132,297	85				
	State owned	23,333	15				
	Joint ventures	407	-				
TOTAL PRIVATE LAND AREA		51,398	52		300	15,395,211	
TOTAL STATE LAND AREA		16,774	46		801	13,428,439	
TOTAL STATE-PRIVATE LAND AREA		407	2		1,669	679,350	
TOTAL LAND AREA in properties		68,579	100		430	29,503,000	

Source: Urban Land Study (Tirana), January 1998.

The predominant **type of property** is the apartment (a property within a larger structure, with separate ownership) with about 56 percent of all immovable properties in the city of Tirana.² Kiosks and other temporary structures account for 6 percent, while single and multiple structure properties combined account for 26 percent of the total.

The apartments are located within 4,178 buildings which occupy about 7 percent of the land area of the city. Vacant land, roads, and other types account for the remaining 10 percent of properties. Apartments are mostly privately owned, though for some the privatization process has not been completed. Properties composed of a parcel of land with a single structure occupy 22 percent of the area of the city of Tirana, and most of the land in this category is privately owned (93%).³

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 state enterprises. 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.

As shown in Table 1, 52 percent of the land area (excluding apartments, since they are “vertical” properties) is privately owned while 46 percent is state or publicly owned, and 2 percent of the land area is held by joint private/state ventures. Most of the state-owned land is classified as “vacant,” meaning land between the apartment buildings and other structures which has not yet been privatized or otherwise appropriated for private use, or used for roads, for other thoroughfares, and for governmental buildings and state-owned enterprises.

4. PRINCIPAL USES OF URBAN PROPERTIES

The uses of to which people put their properties depend on a variety of factors, and there can be multiple uses at different times. For purposes of the survey, eight pre-coded, discrete categories of property uses were developed to comprehensively classify the main uses of properties in Tirana. These categories were derived from various case studies which were done during the elaboration of the property questionnaire and methodology for sample selection:

- ◆ residential; that is, a property used only as a place of residence;
- ◆ commercial, industrial, or other trade enterprises for market-related activities;

2. 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-hectare blocks was chosen. The rest of the city comprises 2,720 hectares. In this area 14-hectare blocks were chosen for the sample. To arrive at the overall city estimates, observations within the center ring were weighted by $340/18=18.888$, and observations from outside the center ring were weighted by $2,720/14=194.286$.

3. The 1976 Constitution abolished private property. In actual practice, however, single-family dwellings which had been privately owned before the 1976 Constitution were considered as owned by the occupants. These houses have not been required to undergo a privatization process.

- ◆ mixed use (i.e., residential and commercial);
- ◆ state or public administration uses, institutional (such as hospitals, schools), foundations, not-for-profit organizations;
- ◆ religious (mosques, churches);
- ◆ vacant (vacant parcel of land, not used for building or structured recreation).
- ◆ thoroughfare (street, alley, boulevard, driveway access); and
- ◆ other.

Tabulating the structural types of properties shown in Table 1 by these eight uses produces Table 2, which shows how space in Tirana is distributed among different uses. Apartments, single buildings on a parcel of land, and multiple buildings on a parcel have been almost completely used for residences in the past. The market economy is rapidly being inserted into the urban environment, however, with business being conducted from apartments, houses, and, more importantly, kiosks and other temporary structures.

In numerical terms, the dominant type of use of urban properties is residential: 75 percent of all properties are used primarily as residences. A further 10 percent of properties are used either entirely or partly for economic reasons (8% exclusively and 2% mixed use). The remaining 15 percent of properties are distributed between religious, institutional, vacant, and other uses.

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 83,063 apartments and 30,851 houses currently used as residences, for a total of 114,065 housing units. This number is somewhat higher than the estimate of the ministry. Since many residences get electricity from informal means without meters, it seems likely that the sample estimates may be valid. 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. These appear to be significant underestimations.

TABLE 2. Property units by type and use in Tirana

Structure type	Use of property units								
	Residential	Commercial	Mixed	Institutional	Religious	Unused	Transport	Other	Total
Apartment	83063	2631	364	0	0	1098	0	302	87458
Row pct	95%	3%	0%			1%		0%	100%
Pct of total	53%	2%	0%			1%		0%	56%
Apartment building	3430	251	459	0	0	0	0	38	4178
Row pct	82%	6%	11%					1%	100%
Pct of total	2%	0%	0%					0%	3%
Single unit structure	22205	2793	610	345	57	445	0	251	26706
Row pct	83%	10%	2%	1%	0%	2%		1%	100%
Pct of total	14%	2%	0%	0%	0%	0%		0%	17%
Property with multiple structures	8646	1085	2145	753	38	0	0	213	12880
Row pct	67%	8%	17%	6%	0%			2%	100%
Pct of total	6%	1%	1%	0%	0%			0%	8%
Kiosk or other temporary	19	5000	38	0	0	213	0	3770	9040
Row pct	0%	55%	0%			2%		42%	100%
Pct of total	0%	3%	0%			0%		2%	6%
Vacant parcel	0	19	0	213	0	3826	0	2472	6530
Row pct		0%		3%		59%		38%	100%
Pct of total		0%		0%		2%		2%	4%
Road, alley, path	0	0	0	0	0	0	6498	834	7332
Row pct							89%	11%	100%
Pct of total							4%	1%	5%
Other	132	19	0	0	0	213	194	1355	1913
Row pct	7%	1%				11%	10%	71%	100%
Pct of total	0%	0%				0%	0%	1%	1%
Total	117495	11798	3616	1311	95	5795	6692	9235	156037
Row pct	75%	8%	2%	1%	0%	5%	4%	6%	100%

Source: Urban Land Study (Tirana), January 1998.

5. REAL ESTATE MARKET INDICATORS

Table 3 shows the year buildings were constructed and the year the present occupants of the properties acquired them. Within the sample, the oldest building was constructed in 1650 and the newest in 1997. Old Tirana families have been quite stable—one residence had been in the family since 1910. 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.

TABLE 3. Year of construction and acquisition

	CONSTRUCTION	%	ACQUISITION	%
Before 1945	400	21.7	142	8.1
1945 to 1990	1186	64.4	1001	56.8
1991 to 1997	257	13.9	619	35.1
1991	33	12.8	67	10.8
1992	30	11.7	82	13.2
1993	18	7.0	52	8.4
1994	67	26.1	96	15.5
1995	28	10.9	85	13.7
1996	58	22.6	99	16.0
1997	23	8.9	138	22.3
TOTALS	1843	100.0	1762	100.0%

Acquisition information excludes Type 2 (*pallat*) and Type 7 (roadway) properties.

Approximately 22 percent of properties surveyed were constructed in the pre-1945 era, with the majority of properties being constructed during the years of centrally planned urban development (1945–1990). The approximately 65 percent of properties constructed in that period can be assumed to roughly coincide with the strategy of providing state-built standardized apartment housing.

As a confirmation of the very visible levels of construction in Tirana since transition to a market economy and private property regime, almost 14 percent of the properties in the study blocks have been constructed since 1990, compared to 65 percent of the present stock built during the 1944–1990 period. The average age of the capital stock is approximately 30 years, again probably

dominated by the large number of state-built apartment units originating from the planned development period.

Of properties constructed between 1945 and 1990, 82 percent are apartment units (972 of 1,186 buildings), with the remaining 18 percent distributed among the other types of properties. This reflects the housing and development priorities of the planned economy and contrasts with the post-transition pattern of construction. While apartment construction and other constructions destined for residential uses remain at high levels, the majority of constructions in the transitional era were found to be kiosks, garages, and other semi-permanent structures. This probably reflects not only the lack of planning control and regulation in the development process, but also the high demand for space for basic economic activities.

Acquisition statistics reveal a high proportion of acquisitions after 1990. A small number of properties have been held by their current occupants since before the communist era, while the majority were acquired between 1945 and 1990 (57%). Post-transition acquisitions have outpaced construction during the period, indicating a significant market for conveying and transferring property. Of interest is the jump in acquisitions from a level of 10–15 percent during 1991–1996 to a level of 22 percent in 1997. Evidently the crisis of 1997 motivated some people to acquire properties while others abandoned the country.

Not surprisingly, 96 percent of economic use properties were acquired after 1990 during the transition to a market economy. The acquisition of the remaining 4 percent during the planned economy period may reflect the privatization of small enterprises to employees; the current owners (former employees) may have been in “possession” of or located in the economic unit prior to transition.

5.1 FREQUENCY OF TRANSACTIONS

The number of apartments bought and sold since 1993/94 provides a rough estimate of the percent of total units transferred since privatization. There are a total of 942 NHA⁴ apartments in the survey blocks. Of these, 231 (24.5%) have been acquired since 1991, including approximately 10 percent rentals. Purchase transactions since 1993, where the user is also the owner, yield the results shown in Table 4.

Clearly a steady increase occurred in acquisitions of apartments post-1993 and declined in 1997, indicating that the higher number of overall acquisitions in 1997 (see Table 3) includes both sales or rentals and also the informal occupation of land during the financial and political crisis. Overall, as many as 11 percent of apartments built during the socialist regime has changed hands.

4. The NHA (National Housing Authority) is a provider of public housing built during the 1944–1990 period.

TABLE 4. Transactions in NHA apartment units since 1993

YEAR OF ACQUISITION	NUMBER OF ACQUISITIONS	PERCENT OF ALL NHA UNITS	CUMULATIVE PERCENT
1993	12	1.3	1.2
1994	16	1.7	3.0
1995	21	2.2	5.2
1996	33	3.5	8.7
1997	18	1.9	10.6

Source: Urban Land Study (Tirana), January 1998.

6. INSTITUTIONAL FOUNDATION OF THE REAL ESTATE MARKET

6.1 RECORDING AND REGISTRATION OF PROPERTY RIGHTS

The *hipoteka* offices in each district operated as deeds and mortgage registries for urban properties, but most were closed for the last 15 years of the socialist regime. These offices were depositories for transaction contracts and had functioned in most cities until the 1976 Constitutional provisions for state ownership of all immovable property largely eliminated market transactions. As private rights to properties were re-established in 1991, *hipoteka* offices began to re-open. The Tirana Hipoteka 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 seldom with the retrieval of archives.

A number of commissions and agencies worked on the privatization of urban property beginning in 1991. It is not obligatory, however, for new owners to record privatization documents in the *hipoteka*. The old agricultural cadastre offices at the district level receive copies of the titles for agricultural land, but these cadastre offices are not organized to record subsequent transactions.

In the Tirana Hipoteka 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 Hipoteka 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.

6.2 NOTARIES

Parallel with these privatization and 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 all of Albania.

Notary services appear to be in greater demand, since notarization of documents is a required step for almost every transaction. The rapid expansion of the market for notarial services probably best reflects the overall expansion of the market. 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 Latin system. 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 with no 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.

6.3 REALTORS

A few realtor 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 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.

6.4 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).

7. STATUS OF THE REAL ESTATE MARKET

The current level of market activity in real estate is difficult to estimate precisely because so many of the transactions take place outside of formal mechanisms. Nonetheless, in Tirana at least, there is a staggering amount of construction and renovation taking place, with countless new business units and dwelling units being completed every week. Much of this activity is occurring through self-built development, though construction companies 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 today). 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 Hipoteka Office is shown in Table 5, broken down by apartments, houses, stores, storehouses, and land transactions.

TABLE 5. Recorded transactions, Tirana Hipoteka 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 Hipoteka Office Log Book.

The 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 only the recording of privatization sales contracts, people have recorded in the Tirana Hipoteka 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 Hipoteka. 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 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 6 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\$280/m² in 1997. Rentals were averaging US\$4.50/m² in 1997. In 1997, retail store space cost on the average US\$480/m², storage space cost US\$250/m², and land cost US\$80/m², a significant increase from US\$20/m² in 1993.

TABLE 6. Average market prices for real estate sales in Tirana, by year

YEAR	APARTMENTS AND HOUSES (US\$/m ²)	RETAIL STORES (US\$/m ²)	STORAGE (US\$/m ²)	LAND (US\$/m ²)
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

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.

Within the 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 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.⁵

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 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 will most likely put pressure on 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.

7.1 CONSTRAINTS TO REAL PROPERTY 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 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.

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

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 few controversial cases where Restitution Commission decisions have contradicted other claims of ownership 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 “un-owned,” 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.

8. 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.