

PRIVATE PROPERTY AND URBAN LAND DYNAMICS IN TIRANA, ALBANIA

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**An important thing about social facts is that they can be carefully organized
without being understood.**

-- Leonard Salter, *Wisconsin Land Economist*, 1942 --

Urban Growth

Albania began disassembling state socialism in 1991 and took steps almost immediately to grant private property rights to farm workers and apartment dwellers. The first privatization act of August, 1991, divided and allocated cooperative farm land followed soon after with procedures for granting ownership to shops and business buildings, and later state-constructed apartment units. Subsequent laws provided occupancy rights to state farm lands and created a process for the restitution of urban properties that had been nationalized in the 45 years since WW II.

There was immediate enthusiasm for the new political and economic freedoms. Consumer markets for food and imported goods sprang up everywhere. As travel restrictions were lifted, there was a flood of rural migrants to the main cities--especially Tirana, the capital. Young people crossed over to Italy and Western Europe in search of higher wages and modern services. English became the second language; there was a genuine curiosity about everything Western. "We have lift-off," declared the *Financial Times* (Robinson, 1994) in a national review of business prospects.

At the same time, there was an assumption that political freedoms would also bring about economic growth (Zanga, 1994). Distributing property in private ownership was the first step; modern government was expected to follow. Institutional development, however, has been slow and difficult. While markets could be created by decree, supporting structures required to guide and sustain business investment required state institutions to standardized procedures--level the

playing field--and second, to protect individuals and groups from the abuse of power and privilege (North, 1995).

This paper examines Albania's ten-year experience in establishing private property rights in cities and suburbs, and subsequent processes of land development causing the capital city to spread far beyond its defined borders. The study reviews public responses to newly acquired ownership rights, and describes the national program to document and register rights to real property. The paper focuses particularly on urban and peri-urban land, buildings, and public services in and around Tirana and considers the impact of urban growth, new housing construction, and the rapid spread of informal land development and exchange practices.

Albania is a small mountainous country 29,000 square kilometers in size with approximately 3.1 million inhabitants. It is slightly larger than the state of Vermont with five times the population. Urban growth is a new phenomenon in Albania. It's first experiences with city planning was through Italian influences during the 1930s. Until the 1990s, Albania's population remained predominantly rural. Total population increased from 1.1 million at the end of WW II to 3.2 million in 1991, and then is believed to have fallen due to a large exodus of young people to Western Europe, Canada, and the United States.

The population of cities during the communist period increased more slowly than in any other Balkan country. The total urban population of the whole country in 1945 was only 160,000 of which 60,000 resided in Tirana. Until the 1990s, Albania lacked any significant urban centers around which to build a commercial and financial economy. Production centers remained scattered, focused primarily on food processing, mining, and light manufacturing (Frucht, 2000). Albania remained provincial and isolated throughout the 20th century while other Balkan regions developed into large metropolitan centers: Belgrade, 1.1 million; Bucharest, 2.2 million; Athens, 3 million. Even regional centers such as Skopje and Sarajevo doubled in size in the 25 years leading up to the 90s (Mazower, 2000). Lack of commercial and governmental activities, coupled with a long, historic dependence on land, has deprived Albanian decisions makers of the common experiences of working through government and business found in other countries.

TABLE 1. Growth in Urban Population of Tirana, 1990–2002

Population in 1990 under central planning	225,000
Population of total metropolitan area in 1995 (estimate)	425,000
Population of total metropolitan area in 1999 (estimate)	600,000
Current extended metropolitan area estimate, 2002	700,000

Source: District of Tirana; Structure Plan for Greater Tirana, 1995; urban feasibility studies, and Government of Albania reports.

Albania's urban transformation took place in one decade. When central government controls were lifted in 1991, Tirana's population swelled overnight as rural families left the primitive conditions of mountain farms and villages to gain access to urban wages and services. In 10 years, the rural-urban balance of the country completely reversed. Tirana's population, counting suburban zones, doubled from 225,000 at the end of the communist period to an estimated 450,000 five years later and rose to more than 600,000 by the end of the century. The majority of new settlement formed outside of traditional city boundaries in unplanned and unmapped peri-urban areas creating huge new unaddressed urban land tenure problems.

Emerging Nation

Albania's development path through the 20th century has been slow and difficult. At the beginning of the 1990s, Albania ranked as the poorest country in Europe (Kaser, 2001). Albania depended on mountain agriculture, mining, grazing, and hydro power. Until independence in 1912 (ratified in 1920), Albania was an administrative district of the Ottoman Empire and paid taxes to Istanbul. There were no modern cities--Tirana was a rural settlement in the southern Alpine foothills. Independence in 1920 marks the real beginning of a national effort to modernize. The country, dominated by Italian influence, began to introduce western practices. In 1912 there were 34 industrial enterprises in the whole country; the number grew to 244 by 1938 financed by European, mainly Italian, investors (Kaser, 2001). Four primarily foreign owned companies dominated industrial production: petroleum, metallic mining, cement, and coal. Agriculture employed the vast majority of the population and was the main contributor to GDP.

Industrialization and business investments stimulated the growth of cities for the first time

and supported improvements in infrastructure, education and health. Tirana greatly benefited from new government building programs and redesign of the central square directed by the Italians during the 1930s. After WW II, Enver Hoxha, impressed with Soviet thinking, modeled the city center after Red Square, built a national museum, performance center, and large monuments. The first modern university of Albania was located at the other end of the grand boulevard leading away from the center. Almost all urban land and buildings were nationalized during the Hoxha era. The city was managed as an urban enterprise with strict boundaries and allocated spaces. Population growth remained concentrated around the center in a dense pattern.

TABLE 2. Tirana Land and Population under Central Planning.

Tirana inside official boundary (yellow line): in hectares	3,500
Densely built Old City Center: in hectares	1,500
Tirana population in 1990	225,000
Population density: persons/hectare within city boundary	64
Population density in Old City Center (approx.)	120

Source: District of Tirana Cadastre Office, and Urban Planning Department projections.

Tirana under communism was a highly compact city with streets radiating out from the main square. Neighborhoods were within walking distance of the center. There were few vehicles due to restrictions on the ownership of private automobiles. These conditions changed rapidly after the collapse of central planning and the opening of national borders. Trucks and automobiles flooded into the country over night destroying the thin paving and choking city streets with noise, dust, and pollution.

Private Property

Pressure to return property to private owners came in response to long-standing frustrations with communist authorities. When the Albanian government privatized rural and urban properties in 1991 and 1992, those actions were in response to long-held views about the importance of being master of one's own house--views that contributed to Albania's struggle for independence and survival through many generations (Korra, 1998). Individuals and families, after years of central direction, demanded control over their own land and the freedom to make independent lifestyle choices.

In December 1992, occupants of state-constructed apartment buildings (mostly in cities and villages) were authorized to purchase for modest fees the apartments they occupied. By the end of 1994, approximately 96 percent of 205,000 eligible apartment units had been converted to private ownership. Besides these units, an estimated 400,000 farm and village dwellings were transferred to local residents in the process of granting land. Privatization of land and buildings was carried out through four major public actions (Stanfield and Raço, 1994):

- Distribution of ex-cooperative agricultural land to rural households, 1991.
- Authorization of occupancy and use rights to ex-state farm land, 1992.
- Sale of business sites in 1991-92, and sale at modest prices of state-constructed apartment units, 1993.
- Restitution to former owners and heirs of property taken without compensation or consent.

Following the restoration of private property rights, the United States and Western European nations pledged to support a property market development plan. The U. S. Agency for International Development (USAID), with cooperation from the European Economic Commission (EEC) and the World Bank, enlisted the Land Tenure Center at the University of Wisconsin to devise a strategy for creating a socially and environmentally sustainable real estate system (Jazoj, Stanfield, Barry, 1997).

The Land Tenure Center proposed a Land Market Action Plan and helped form a Project Management Unit (PMU) under the Albanian Council of Ministers to implement the plan. A nation-wide institution building program was undertaken called the Immovable Property Registration System providing expertise, program management, and funding administration to create a computerized property records system, a standardized parcel mapping system, and real property registration offices throughout the country (Jazoj, Stanfield, Barry, 1997).

Informal Economy

Western nations moved in to assist what they saw as an emerging free market economy (Economic Commission for Europe, 1998). Assistance from the United States was motivated both by previous cold war experiences as well as growing pressures at home to promote free enterprises models. Albania was totally unprepared for the dynamics of an open market system.

Western governments were equally naive about the futility of expecting farm families using WW II technologies to compete on world markets or for manual laborers to keep primitive factories open. Neither side anticipated the flood of workers that would be released as a result of shutting down traditional production systems nationwide (Economic Commission for Europe, 1998).

Removal of restrictions on travel allowed young people to seek wage jobs abroad and to send earnings back home. Tirana became the bedroom community of Europe. Remittance income was soon the primary factor in Albania's economic development. An exceptionally large percentage of Albania's population has been working abroad--an estimated 450,000 to 600,000 persons from a total population of 3.1 million (Kaser, 2001; Papapanagos & Sanfey, 2001). Bank of Albania data indicate that one-fifth of Albania's GDP is from remittance income (Kaser, 2001). Wages sent home generate an estimated half billion dollars a year.

It is spread across thousands of families and is linked up with the privatization of property to fuel a large real estate and construction boom in and around Tirana. This has happened because all other economic sectors stagnated. Land development, housing, and commercial construction provided the most secure and accessible savings and investment option available to working class families.

Remittance income plus investments from previous generations of emigrants living abroad has supported a ten-year urban building boom. Commercial buildings and high-rise apartments are usually built within the city. Squatter housing and upscale country houses are often located outside of city boundaries. Former peri-urban lands once part of state-run farms and enterprises have been taken over by squatters. Most of these transactions take place without permits or legal documents.

The construction boom started in Tirana after 1992. Street frontage, parkways and empty lots were first claimed for shops and restaurants, often through temporary structures, later replaced with permanent buildings. Land outside the city but near transportation routes was occupied by rural migrants because it was accessible and had the highest probability of being connected to water and electricity (Driscoll, Ersenkal, and Iadarola 1994). Urban and near-urban areas also provided opportunities for rural migrants to send their children to school.

TABLE 3. Ten-Year Expansion in Land Area Occupied by Tirana.

Old City Center of Tirana: 1990	1,500 ha
City of Tirana within official boundary: 1992	3,500 ha
Metropolitan Tirana counting new construction areas: 2000	10,000 ha
Contiguous metropolitan area with communities and villages	21,000 ha

Source: District of Tirana Cadastre Office; and map projections.

As soon as land was claimed and built on, even if illegally, it was sold or exchanged through informal land markets. Squatters and land developers often responded to rising land prices by claiming as much land as possible, constructing houses for their own families, and then for sale to others, and upgrading their own houses as capital was accumulated (Felstehausen, 1999). Extensive areas many times the original size of Tirana were claimed and occupied in this way. Informal properties could not be recorded in the new public registry because they were technical the result of illegal transactions. Legal and institutional failures in developing the property laws of the 1990s forced the majority of peri-urban land claimants to fall back on the informal economy and apply customary methods of documentation and exchange.

Albania operates with two kinds of land markets, one informal based on customary family relationships and practices, the other formal following corporate and government regulatory rules. Investments in an informal economy tend to be focused on land and buildings, the only resources that are both accessible and durable for ordinary, working class people. For wealth holders in a formal economy there are options to land investments: stock markets, savings banks, pension funds, and new businesses. Within the informal economy, land and buildings often constitute the only stable means for preserving and deferring economic value. It is critical that land and property systems be designed to accommodate these traditional goals and recognize family practices that function on the basis of community rules and trust. They may deliberately avoid formal laws and contracts in cases where the participants have no access or influence over national legal institutions (Francis, 2000).

In Albania, when central authorities withdrew, urban populations began immediately to treat unoccupied land as a free resource. If governmental institutions did not function, family and clan practices were reinstated. The goal in occupying land was to increase wealth and

security. Land was valued both as a place to live as well as an investment that would increase in value over time. Often low-income families had no alternative savings options. Housing offered the possibility of making continuous incremental investment. Other family members could also participate as shareholders. Houses also had income potential when rented.

Hendershott and White (2000) explain why working class families feel so strongly about the right to secure a piece of property, especially the property where they live:

1. Asset values of real estate tend to rise over time.
2. Accumulated capital gains are usually tax-free.
3. Utilities and services tend to be subsidized for owners.
4. Property owners are given more voice in government decisions and services.
5. Owners are given locational preferences.
6. Owners had higher savings rates, drive better cars, and sent their children to better schools.

Private Property Issues

In today's world, any country that wishes to achieve a Western lifestyle has no choice but to adopt a free market economy. Eastern Europeans have understood quite clearly that privatizing land, buildings, and businesses is a prerequisite to joining the Western community of nations. There were no integrated market models for Albania to follow when it embarked on a free market path in 1991. Albanians proceeded as if markets would form automatically. They did not realize that market economies also required permanent governmental structures to support and validate business transactions, supervise finances, and enforce contracts. "According to its proponents, private ownership will unleash the creativity of economic actors formerly suppressed by state regulation, revitalize the stagnant economy, and increase material prosperity...." (Pavlovskaya and Hanson, 2001; quoting Sachs).

The creation and expansion of private property rights involves a clear commitment to transfer at least two central rights of ownership from the state to private property owners: 1) the right of the private owner to the continuous and exclusive use and enjoyment of the property, and 2) the right to transfer some or all rights through court enforced contracts (such as sales, leases, inheritances) to other persons (Stanfield, 1999).

Placing complex property relationships into the public market place requires a series of institutional mechanism to maintain records, address disputes, and codify and integrate diverse activities such as mortgage finance, taxation, and inheritance. All of this is supposed to be done in public offices that are accessible and efficiently managed.

In Albania, government capacity to plan and manage the use of land was weak or nonexistent. The transition to a democratic government in 1992 occurred without giving mayors and village chief any clearly defined powers and certainly no resources. Land invasions were a predictable result. There simply were no rules in place to accommodate new population groups entering the city. There were not even established procedures for carrying on maintenance functions such as trash collection, water supply, and street repair. In the absence of new municipal institutions, Tirana mayors, to become effective, had to build personal alliances directly with national government ministers. The central city could be treated as a federal district in order to obtain revenues directly from the national government. But this did help the city to manage land use or to register property.

The government's role in handing out property and establishing market rules varied between rural and urban properties. Rural areas moved more quickly, and in general more democratically because built into the land law of 1991 was a specially created governance device called Village Land Distribution Commissions. Commissions were elected in each village and instructed by the 1991 Law on Land to follow two basic principles. These were to: "distribute the land on a per capita basis and do so without reference to pre-collectivization land claims" (Lemel, 1999). The village commission method produced an estimated 450,000 farms averaging about one hectare each.

It was assumed that creating land markets would stimulate borrowing and investment leading to faster economic growth. Market development and growth were associated with increased consumer spending. A household level survey carried out in Moscow by Pavlovskaya and Hanson (2001) reported that "the privatization of urban space ... failed to improve the quality of life of city residents. Urban change so far has produced mainly negative consequences and created barriers to household survival instead of responding to household needs."

In Russia the process of privatization is sometimes referred to as “creatively destructive capitalism.” According to the study based on an analysis of family earnings and expenditures from all sources, growth in the informal economy was greater than expansion in the formal economy. Moscow families are revising their survival strategies which also includes their goals regarding property ownership.

Albania’s experience with markets has typically been at the retail level where little supervision is necessary. On the other hand, capital markets, foreign exchange transactions, and labor markets require substantial state regulation and supervision. For these markets to support economic growth, new institutional structures must be designed and made operational. Such support structures in turn require reliable government inspection and correction plus courts of law with trained experts for administration and enforcement.

Property has unique market characteristics requiring special institutional arrangements. Richard T. Ely (1940), Wisconsin land economist, pointed out a century ago that property is not a collection of ‘things.’ Property is a collection of ‘rights’ to control and use ‘things. Property is the basis of more than food and shelter--it is also important to status and wealth. The societal functions of property force its interests beyond the individual. Thus, there is always some tension between the two sides to property--the social side and the individual side. Each limits the other. If property is more social, it will be less individual; if more individual, than less social. The historical record suggests that the social side must dominate--but not totally. If property is totally social, then there is no freedom. It is the role of government to create this balance.

There are five conditions that define property as an institution of the society and thus subject to legal and regulatory controls (Ely, 1940):

- 1) Property is a set of formal rules defining the **class of objects** covered--in this case, land, buildings, water, minerals, and other resources specified according to location, boundaries, and other characteristics (maps and GIS play a formal role in this process).
- 2) There are **situations and conditions** to which the rules apply.
- 3) There are **permanent records** kept at public expense showing where the property is located, how it was divided, assigned, taxed, and constrained.

- 4) There are **public procedures and specific bodies and agencies** empowered to review the judgments of officials who define and classify property.
- 5) There will always remain some **customary rights** that help define everyday practices and personal and societal values about possession, control and choice.

In a private property system, the state continues to play a key role. Bargaining and decision making processes are shifted to a court-based contractual relationship. If contracts are to have any meaning, the state must supervise the process to assure that there is a fair and open forum for private parties to review content and reach settlements according to additional sets of public rules and procedures.

The second role of the state is to service the property that is created. This is more than record keeping, documentation, and legal oversight. It implies a state obligation to provide physical access and infrastructure (public roads and streets are an assumed right) and to set standards for and manage the public services (water, sewers, and electricity, police protection, and environmental protection). Albania has yet to define the municipal role with regard to these functions not to mention their relationships to state owned property.

Transition economies cannot afford to follow a strict market path to development. This is because market processes, by their nature, open the system to raids by self-serving groups and individuals who can damage, even destroy, still emerging institutions. In Albania, land and buildings, the main sources of new wealth, were granted to individuals without being taxed for public infrastructure needs. Private property has generated personal wealth that often has not enhance the nation, a dramatic role reversal from the communist period.

George Soros (1997) makes a strong case for the idea that a market economy, if left alone, will be destructive of national development. He argues that "...We can have a market economy but we cannot have a market society." The global economy converts everything into money—including the social and cultural values embedded in land and society. The result is to under value social reforms and to tear down and sell off traditionally evolved village and community infrastructure and natural resources. The global economy forces tax collection on wages, but permits wealth to accumulate tax free.

De Soto (2000) claims that in many countries the working classes are blocked from participating in the formal economy. The potential for entrepreneurship and efficiency are thus stalled slowing economic growth for the whole economy. Private property rights are an important step, he argues, toward reducing the size and the drag of the informal economy. This includes: “informal housing” where people squat on land they do not own and build illegal houses and stores, and also work-places where people make everything from shoes to electronic devices. ‘Informal trading’ including street vendors and open-air markets that bypass government regulations and taxes. An ‘informal transportation’ network also typically develops, in which people with cars and station wagons and bicycles supply services to those who live in informal housing or run informal businesses ranging from hair-dressing to small factories. These activities have become important sources of income and innovation,” De Soto says, and wants their profits to enter the formal economy.

But this totally misses the point of why these activities emerged in the informal sector in the first place. Dozens of studies are now available (Africa, Russia, Latin America) showing that household survival depends on escaping the extractive forces of the formal economy which accumulate capital for global activities without returning comparable benefits to those who created the surplus in the first place (Francis, 2000).

Implications / Lessons

U.S. historical experience provides a useful illustration of how institutional and technical measures play very different roles in property development strategies. The Land Ordinance of 1787 (establishing the grid system of land survey) is often cited as a technological contribution to the development of an efficient private property system. It was actually more of a social contribution than a technological one. The purpose of the land law was to give soldiers of the Revolution a piece of property as quickly as possible to prevent rebellion against state governments. The strategy also supported occupation of Western territories to forestall competing claims from British and French traders. Yet, the main part of the Law of 1787 that is remembered are its technical features. Even they were strategically chosen. The grid system of land measurement was selected, not because it represented a technological breakthrough, but

because it was quick, cheap, and simple. The key idea was that settlers were on their own. The institutional and technical arrangements were worked out in the interest of families and communities, not in response to land markets.

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