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Real Estate Professionals and the Immovable Property Market in Albania

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by

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REAL ESTATE PROFESSIONALS AND THE IMMOVABLE PROPERTY MARKET IN ALBANIA

by

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The experience of other Eastern and Central European countries would suggest that in Albania, as the market for real property develops, there should also be developments in services that support real property transactions. A competitive and transparent market is usually facilitated by the presence of real estate professionals who bring buyers and sellers together to maximize the opportunities of both. These specialists work primarily through the collection and management of market information relating to real estate and profit through the administration of the process of submitting offers, acceptances, and contracts of sale. The appearance of such real estate professionals began in Albania in 1991, immediately following legal reforms allowing individuals and groups of individuals in society to own real property.

This report will examine the development of the real estate profession in Albania from 1991 to 1996. The information is based on the research and consultative analysis of Norman Flynn, formerly president of the National Association of Realtors in the United States, and currently president of the Eastern European Real Property Foundation.¹ Mr. Flynn visited Albania for a one-week period (5–12 September 1996), holding interviews and meetings with representatives of the key actors in any real property market: realtors, builders, urban planners, architects, lawyers and notaries, appraisers, and construction companies. His visit was sponsored by the Land Market Development Project² for the combined purpose of (a) providing insight on the evolution of Albania's urban real property market prior to full implementation of the Immovable Property Registration System³ and (b) assisting with the establishment of an Association of Real Estate Professionals, which could improve the

¹ The Eastern European Real Property Foundation is a USAID-funded organization.

² A USAID-funded project contracted to the Land Tenure Center, University of Wisconsin–Madison.

³ The Immovable Property Registration System (IPRS) is the new national system of registering rights to ownership of property along with map-based property identification. It is being established as part of the Land Market Action Plan, accepted by decision of the Albanian government, November 1993, and administered by the Project Management Unit (PMU) of the IPRS (jointly funded by USAID, EC-PHARE, the International Bank for Reconstruction and Development (IBRD), and the Government of Albania).

professional expertise of realtors and encourage nongovernmental legal and policy research relating to real estate market development.

REAL ESTATE MARKET IN ALBANIA

The first identifiable real estate professional in post-communist Albania began to provide services to buyers, sellers, and renters of real estate five years ago (1991) when the legal basis for the ownership of private property returned to Albania after an absence of fifteen years.⁴ The legal and policy framework for ownership and transfer of real property has evolved considerably since then as a result at least nine major privatization programs, transferring state property to private entities.

The current real estate market in Albania is difficult to determine because so many 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 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 Tirana alone over the last 3 years a total of 50,000 residential units have been constructed to house a population which is thought to have doubled since 1991 (from 250,000 in 1991 to over 500,000 today). At the same time, vacancy rates and opportunities to “move-up” or “move-over” appear to be greater in Albania than in neighboring countries due to high levels of out-migration.

Housing and rental prices in Tirana and Durres (which are reported to be up to double the prices in other areas of Albania) are comparable with prices in capital cities elsewhere in the Balkans. Tirana and Durres are clearly the most active markets for real property where demand is highest. Prices for apartments in Tirana, in the range of 75 to 90 meters square, average between \$25,000 and \$40,000 (in U.S. dollars) (depending on size and quality) and can run between \$40,000 and \$80,000 for newly constructed apartments. Activity outside of the Tirana-Durres region is reported to be low. In contrast, prices for apartments in Elbasan range from \$4,000 to \$10,000 (possibly the lowest in the country).⁵

Expectations are that prices will continue to rise in Tirana and Durres for both rentals and sales. This is due primarily to the fact that 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 along with weakening of the domestic currency against currencies of countries from which building materials are imported (namely, the Greek drachma and the Italian lira).

Within the market itself, there presently appears to be a bad match between what buyers are seeking 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 urban residents seeking larger living arrangements for their extended families.

⁴ All private ownership of land was disallowed following ratification of the Constitution of 1976.

⁵ Aleko Likaj, journalist, in the newspaper, *Koha Jone*, 28 August 1996.

Sellers tend to be either (1) owners of older apartments requiring investment or (2) persons wishing to sell real property which has been restituted to them or which has been left behind following emigration. Of potential concern is the fact that growth in the sales market (the supply) is 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).⁶

On the rental market, families are finding income opportunities by moving in with family members and renting out their vacated houses and apartments to others (preferably foreigners). Consequently, the cost of renting is increasing along with the demand for rental properties, as reflected in the increase in the relative cost of renting versus buying from 12% of the value of the real property on an annual basis in previous years to a current level of 16% (this is an estimate based on interview data—precise calculations are not possible due to lack of available standardized market information).

Land parcels on which to construct single-family residences are in constant demand, and there have been numerous problems with illegal construction on formerly state-owned land in urban areas. Illegal construction on privately owned land is reported to be a rare occurrence but, pending resolution of all restitution and compensation claims, the difference between state and private property may be one of timing.

CONSTRAINTS TO REAL PROPERTY MARKET DEVELOPMENT

Several constraints to the development of a well-functioning property market are emerging and 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 mortgage finance for purchase of real estate has meant that only those with sufficient cash savings can enter the market. Housing mortgages have been available through the state-owned National Savings Bank, but these are rumored to have been granted on a “political” or personal basis (rather than on the basis of personal finance), and the interest rates tend to be high (in the range of 17% per annum amortized over 15 years). All banks suspended residential mortgage in 1996 due primarily 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; for example, 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 without authorization by them to an individual member of the family.

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 high. All state banks (excepting the National Bank of Albania) are scheduled for privatization. The few private banks that have begun operations in Albania have restricted their lending activities to commercial loans and have not

⁶ The potential for these credit windows (understood to be pyramidal schemes) to destabilize the financial sector at a minimum or the general economy at the maximum has been causing increasing concern in the donor community (see World Bank, “Aide Memoire,” October 1996).

seriously entered the personal credit and mortgage market. They deal mostly in savings and checking accounts (with all but a small reserve of the asset base held offshore) or profit from service fees for currency exchanges, transfers, and other transactions.

The general macroeconomic constraint facing the real property market (and the mortgage market) is the limited opportunity 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 trade entrepreneurs, remittances from relatives working abroad, informal and illegal activity, and gains from money market speculation in the private savings schemes mentioned above. None of these would normally be considered proof of ability to maintain a mortgage, nor do they reflect long-term economic development or stable movement toward the higher incomes and standards of living that would drive the real property market. A reduction or collapse in these current sources of income, without stable alternatives in place, will be reflected in a reduction or virtual collapse of the real property market.

The issue of outstanding 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 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. The process of privatization in Albania's urban areas is recent and still evolving, having begun in earnest after the 1993 housing privatization program. Most apartments, houses, and small businesses are now clear of the privatization process, but a few, together with parcels of land and larger state enterprises, continue to be affected by either restitution and compensation issues or by the consolidation of enterprise privatization vouchers. These vouchers have been trading on the street for as low as 10% of face value and have proved to be the most straightforward and inexpensive means for some investors (including holding companies such as Vefa) to acquire real estate.

CURRENT SITUATION OF REAL ESTATE AGENCIES

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 so few full-time professional real estate agencies. In the capital city of Tirana there are approximately ten full-time agencies employing a combined total of twenty to twenty-five people. Of these ten agencies, only two or three can be considered to have consolidated their position in the market. Few of the others represent significant investments (most lack accessible office space, automobile, and even telephone). Perhaps only the top five 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 three or four full-time agencies in other cities, including branch offices of Tirana companies. Cities of comparable size to Tirana in other Central and Eastern European countries average twenty to thirty agencies, each employing fifteen to twenty agents.

The low number of specialized agencies in Albania may be due to the relatively low commissions that can be charged for services rendered. Commissions and fees charged by

Albanian realtors are substantially lower than those charged by their counterparts in Central, Eastern, and Western Europe and in North America. Most of the realtors interviewed charge standard commissions. On sales within the resale market the agencies generally receive 2% of the sale price from the seller and 1% from the buyer. These commissions are often reduced for sales of new housing or construction under contract with the developer. In neighboring countries, agencies get a 6–7% commission from the client represented (the buyer or the seller). With the lower commissions, the industry can support fewer companies and attract fewer entrants. Agents employed by the agencies operate on a combined salary/commission basis. A monthly wage of \$100.00 is normal, combined with a 5% share of whatever commission the agency has received for the transaction.

Commissions for rentals varied somewhat, but were in the range of 40–50% of the first month's rent from the owner for short leases and up to 90% of the first month's rent for leases of one year or more. The tenant is charged 10% of the first month's rent regardless of length of lease.

Those who are seriously in the real estate business (and who are financially able) have invested in attractive, permanent offices, some with computers (for managing property databases), telephones, and the like. They have learned the technical and legal procedures for transferring real property and liaise with notaries and lawyers to deal only in transactions for properties for which there appear to be no ownership conflicts. The agencies have developed good techniques for advertising properties available for sale and rent, including weekly listings in local and national newspapers, sidewalk billboards, and, in one case, publication and free distribution of 4,000 copies of an attractive monthly handout.

The serious professionals clearly sense that they could benefit from developing some sort of association which would regulate their activity, organize training and professional development activities, improve the professional image of their services, and provide a framework for consultation with regulators of real property markets on future needed developments. A few mentioned that the association could be used to either elevate the black-market traders to a professional level or else eliminate them, to both their own and the public's interest.

RELATED PROFESSIONAL SERVICES AND ACTIVITIES

In the process of developing a picture of the Albanian real estate market, interviews were held with representatives of professions which are also active in the real estate markets: lawyers, notaries, planners, architects, assessors, and construction companies. In general, these professions 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 others have yet to do so.

Within Tirana, there appear to be 30 to 40 legal practices that deal regularly with property market transactions and conflicts. From the lawyers' perspective, the difficulties in determining land-use and ownership are of great concern, and ongoing 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 considered it to be ineffective.

The services of notaries appear to be in greater demand, because notarization of documents is a required step in almost every transaction in the country. The rapid expansion of the market for notarial services probably best reflects the overall expansion of the market. Even those who decide not to use legal and real estate services 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.

Architectural services are reported to be in a depressed condition despite the considerable amount of construction taking place over the past three 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 the 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 to 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 use only their own equipment and expertise rather than becoming involved directly 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, giving 20% of the proceeds of the sales (or 20% of the units) to the land-owning partner and retaining 80% for the 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 lack of clear land-use planning and by confusion of conflicting ownership 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 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 power the overburdened planners may have previously enjoyed over development of an urban real property market.

The realtors and 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. The 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).

CONSTRAINTS TO DEVELOPMENT OF REAL ESTATE PROFESSION

The real estate profession is emerging with many of the challenges experienced in the rest of the unregulated labor market. A lack of licensing requirements and regulations has permitted a large number (anywhere from 200 to 700 in Tirana) of part-time black-market traders to enter the real property market. These traders vary from casual, untrained amateurs who are generally either unemployed or underemployed to outright cheats and frauds who can sell the same real property twice in the same day. Numerous stories about such deals in other Central and Eastern European countries have driven serious customers toward professional real estate services, whose businesses depend on their reputations. It is to be expected that this will happen in Albania as well. Until then, the large numbers of black-market traders in real property take a considerable amount of business away from the professional agencies, and they enjoy a competitive edge by having lower overhead costs (no office space nor staff) and escaping the tax and regulatory costs of operating a legal business.

Perhaps a more long-term challenge is the extensive use by prospective buyers of personal networks to locate properties. These have the advantages of saving the buyer or seller the commissions which realtors charge and may have some benefits in terms of a sense of trust and security. Knowledge about the benefits of paying for professional services, such as those provided by real estate agencies, is limited among the general population. The costs seem obvious (commissions and fees), while the benefits (greater choice and access to a larger market of buyers, sellers, renters, and properties) are more abstract. However, individuals and organizations who are regularly active in the real property market, or who are dealing in upper-end rental and sales properties, will probably learn the limitations of personal networks and the benefits of using brokers in terms of real financial and personal gains.

In general, there is the problem of a lack of sophistication among buyers and sellers, which is not surprising since the activity is relatively new to this generation of Albanians. Sellers tend to be “greedy,” overvaluing their properties based on long-term potential and in some cases pricing themselves entirely out of the market while waiting for the “golden egg.” One client of an interviewed realtor had insisted on listing his commercial property for sale at a price which was only later discovered to be 33% higher than the price he would have been happy to receive. The inflated price had discouraged the realtor from bringing clients to see the property, knowing that they would see its true value to be substantially less. In this case, the original asking price cost both the owner and the realtor time and money by pricing the property “out of the market.”

An additional problem facing realtors (and their clients) is the limited supply of market information. An unknown number and value of transactions take place informally or are registered at the *hipoteka* (the Albanian deeds registry office), making access to statistics on market activity difficult. A few of the realtors have begun to share information about listings, but a comprehensive system for establishing and enforcing open versus exclusive listings has not yet been put in place. Consequently, the sharing of information has a potential to lead to a loss rather than a gain in revenue. However, few listings are believed to be exclusive, and when they are, they bring lower commissions.

One effect of the lack of a system for exclusive listings is that the realtor has little incentive to advertise or market the property aggressively on behalf of the client, who has shared his listing with other agencies or could eventually find a buyer on his own. Placing

signs on properties that are listed serves only to lead others to the property with no recourse to claim commissions. This means that the agencies are limited in their ability to provide a marketing and information service, which is a fundamental part of the value of the service they provide. Until the information system on real estate is well developed, market transparency will be low, making it difficult for buyers and sellers to reach the largest possible market and solicit competitive bids and for realtors to have a significant role in this process.

Apart from problems of self-regulation, most of the realtors interviewed attributed the fundamental problems they face in the market to a lack of proper regulation and enforcement of real property markets. The most critical aspects reflecting problems in regulation include conflicts over ownership of real property, difficulties and errors in registration of transactions, lack of transparency in the process of developing a property, unauthorized housing construction, and unenforceability of contracts.

A common problem shared by all interviewed was the difficulty of enforcing contracts. All agencies have experienced problems with the nonpayment or delayed payment of fees and commissions owed to them. In some cases, these have never been collected due to problems in locating clients and tenants. The agencies fear legal action relating particularly to transactions where ownership is in dispute (one agency was taken to court for selling a property on behalf of a client who had presented notarized, falsified ownership documents).

Finally, perhaps the most unusual aspect of the Albanian real estate industry, when compared with agencies in North America and Western and Eastern Europe, is that the agencies act as “mediators” for both parties in a transaction rather than as “representatives” for only one. Standard practice in other countries is to represent single clients (that is, a buyer *or* a seller) and to proceed to negotiate in consultation with them (but strictly on their behalf) to get the best deal possible. In Albania, the two parties meet face to face together with the agent, who acts only to facilitate and assist with writing the contract. This mediative role makes the relationship between realtor and clients more ambiguous. The realtors are no longer aggressively pursuing the interests of only one client (who in other places pays for this representation). Instead, they are being paid for their professional opinions (on contracts and values) plus a finder’s fee. This mediative role is reflected in the commission structure, by which both parties in the transaction (buyer and seller, landlord and tenant) must pay a nominal fee.

PROSPECTS FOR THE REAL PROPERTY MARKET AND REAL ESTATE PROFESSION

Despite peculiarities and constraints, the long-term prognosis for the development of a real estate service industry in Albania is good. Once the legal and regulatory environment is clearly in place and market activity becomes a more open process, there should be a rising demand for the services of realtors. Foreign clients continue to be good sources of business, and it is to be expected that among Albanians usage of real estate services will increase as benefits of that service become more apparent.

As indicated, construction of new residential and business properties is booming in Tirana and Durres. If real estate agencies are currently profiting little from this boom, then

they will likely reap more benefits in the future when these properties enter the resale or rental markets. The situation of those agencies that have consolidated their position in those markets is therefore promising.

Outside of the capital region there appears to be more interest in selling properties than in buying them. Anecdotal reports suggest that the volume of sales may be higher than expected in other cities of Albania, because many families sell their properties either to leave the city or to deposit cash from the sale with private savings schemes. Presumably the buyers are those who wish to remain in the city and are buying up income properties or are new families seeking their own home. The long-term effect of this trend on the real property markets outside of Tirana-Durres is difficult to assess, but prices tend to be low, and, for the time being, these markets are clearly buyers' markets.

Throughout Albania, prospects for the rural real property market are difficult to assess. To date, because of regulatory restrictions and other constraints, there has been only informal exchange, sale, and lease of agricultural land parcels. Farm holdings consist of numerous small, and often scattered, parcels, and it will likely take time and considerable transactions costs to consolidate these holdings into marketable properties. The parcels tend to be small and scattered due to the design of the 1991 privatization program, which attempted to distribute land of varying qualities proportionately to all rural households based on household size.

A research study conducted by PMU/IPRS in 1995 revealed that (a) the number of transactions in agricultural land, formal or informal, is reportedly low, and (b) the propensity for owners to sell or lease their properties varies widely across Albania.⁷ This tendency relates to opportunities for work elsewhere and whether the land received through privatization was ancestral or not. There is a lower propensity to sell or lease ancestral land than nonancestral land. In a few districts, land commissions distributed parcels solely on the basis of ancestral land rather than on the basis of household size and land quality as prescribed by law. Nonetheless, the real property market will experience a boon when the procedures for buying and selling agricultural land are fully implemented. Buying land in both urban and rural areas is currently both legally and logistically difficult. Should this situation change, investors, owners, and realtors alike will surely benefit.

A few of the agencies interviewed report that they have been required to turn valuable clients away in the past because of practical and legal constraints to buying and selling vacant land parcels. The difficulties are greater when the land is urban and the client is foreign. They repeatedly confront a lack of transparency and consistency in determining the uses for which a parcel of land has been designated and believe that these problems not only are limiting their own market, but also are constraining growth and investment in the economy in general. There is a mute acceptance that (though there is no role for real estate professionals in this option) the only way for builders and investors to proceed is illegally through unauthorized construction. This situation, of course, frustrates legitimate investors and professionals and favors smaller, informal developments rather than larger, long-term investments.

⁷ See Peter Bloch, "Potential for Rural Immovable Property Market Development in Albania," in "Immovable Property Registration System Baseline Impact Assessment Study," ed. Harry Lemel, draft report (Madison: Land Tenure Center, University of Wisconsin, and Tirana, Albania: Project Management Unit, Immovable Property Registration System, 1996).

In all cases, professional agencies felt that the new Immovable Property Registration System would facilitate their work, reduce their fears of liability for cases in which the client has falsified documentation, and increase public confidence in the real property market (which should be reflected in an increase in market activity). The ability to register legally purchased agricultural and nonagricultural land would, they report, greatly expand their own market opportunities.

In order to have a proactive role in development of the real property market in Albania, market participants would be well advised to strengthen their business associations. In the first instance, the associations will be concerned with self-regulation of the profession (providing licensing, training, and ethical criteria for membership). Clearly there is an important role for such associations in developing the legal and procedural environment for real property market transactions as well as developing a more functional and transparent real property market.

SUMMARY AND CONCLUSIONS

In summary, the Albanian real property market is experiencing many of the challenges arising in other sectors of the economy. While the market itself is rapidly expanding and opportunities are increasing, there are some serious constraints to the long-term development of a well-functioning real property market in Albania.

The first of these constraints is the challenge of developing a regulatory environment in which ownership, construction, and transactions of real property are consistently administered across the population. A lack of political will to enforce property rights and problems of enforcing contracts will keep judicious investors out of the real estate market for some time to come.

The market is also constrained by a limited financing market (outside of the potentially destabilizing private schemes). Mortgage lenders will probably not re-enter the residential mortgage market until such time as foreclosures and evictions can be entered and mortgage interest rates can compete fairly in an open financial market devoid of black market competition. More generally, wage incomes remain low compared with prices, and the ability of the public to enter the real property market will in the long term depend on stable prices, incomes, and fundamental lending criteria.

The development of professionals within the real property market has also been constrained by the regulatory environment. The lack of regulation and enforcement of rules and contracts affects planners, architects, and realtors. Real estate professionals have not yet organized their profession to develop ethical criteria and licensing, both of which could increase their credibility in the eyes of the public and improve usage of their services. Co-operative arrangements are needed to mutually enforce exclusive listings and to enter shared information agreements, which will increase the “inventory” of agencies and provide value to their clients.

Despite these constraints, market participants are optimistic that both the market and their own profession will provide good opportunities in the future. This optimism is reasonably based on the rapid expansion of the stock of real property in the last three years and the “boom town” atmosphere pervading Tirana and Durrës. There is a strong entrepreneurial

spirit driving the transition in Albania which, if it can be re-oriented away from trade, self-service, and informal activities, could result in more specialized and stable economic development. Actors in the markets are beginning to develop their professional associations, which will improve both quality and usage of their services. Such associations have an important role to play in addressing some of the regulatory problems their members face, including problems of contracts, transparency of market transactions, and legal issues such as liability, documentation of rights to ownership, registration of real property, and ability to buy, sell, and consolidate agricultural land.

It is therefore not unreasonable to conclude that once these regulatory problems have been addressed and the market functions with more transparency and competition, there will be good opportunities provided within the real property market for both investors and property market professionals.