Housing Market in Albania

Elvis Bregu, Bitila Shosha, Armela Anamali

Abstract— The purpose of this study is to analyze the housing pricing trends as well as the immovable property market development and problematics in Albania. The data on the immovable property market over a given period of time constitutes a crucial progress indicator of the country's economic performance. Potential investors find immovable property attractive as it provides capital gain in the long run and a good barrier to inflation. Some of the immovable property market functions such as the valuation, renting, mortgaging, construction and others, are of a great importance because they generate a countless number of transactions and high financial values. On the other hand, the devaluation of foreign currencies in the country has increased the housing sales price. For many years now, the immovable property in Albania is sold in Euro. The main reason for using Euro as the main currency for immovable property transactions is its stability in the domestic market.

This study is supported by secondary data obtained by public sources, Bank of Albania, Albanian Statistical Institute (INSTAT), desk review, and SWOT analysis of other authors' studies. Based on the secondary sources and SWOT analyses, the authors have concluded the study with some important conclusions.

Index Terms— Housing market, Immovable property, Interest rates, Property valuation, Investment, Collateral, SWOT Analysis.

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1 INTRODUCTION

The immovable property market is open, easily accessible by anyone with enough liquidity to acquire immovable property. This market has been very profitable for a large number of smart buyers who have learned to navigate the market fluctuations to obtain the best possible profit margins from their investments.

Many of the immovable property buyers use their personal intuition or random indicators - not confirmed by official sources, to predict the future rental rates of their accumulated properties as well as the right time to buy or sell immovable properties. Certainly, in these cases, the errors are inevitable. Therefore, when an investor chooses to invest in immovable property, the actual market development analyses are critical. Throughout Albania's political and economic transition to date, the immovable property market has been characterized by continuous expansion, both in terms of investments as well as contribution to country's economic growth and development.

Functions executed in the immovable property market such as the valuation, renting, mortgaging, construction and others are of a great importance, as they generate a countless number of transactions and high financial values.

2 THE PURPOSE AND THE OBJECTIVES OF THIS STUDY

The purpose of this study is to research and introduce an overview of Housing Market in Albania, its growth and development as well as the problematics it faces.

- Elvis Bregu: PhD Candidate, University of New York Tirana, Albania; Convergence Program Lead at Vodafone Albania Sh.A.
  E-mail: Elvis.Bregu@vodafone.com
- Bitila Shosha: Lecturer, Department Finance and Accounting, Faculty of Business, University Aleksandër Moisiu, Durrës, Albania.
  Email: bitilashosha@uamd.edu.al
- Armela Anamali: Lecturer, Department Finance and Accounting, Faculty of Business, University Aleksandër Moisiu, Durrës, Albania.
  Email: armelaanamali@uamd.edu.al

- To identify and analyze the immovable property market issues in Albania.
- To identify the residential real estate market segments in Albania
- To identify the role played by the sales' factors on the housing prices performance in Albania.

3 METHODOLOGY AND DATA

The literature selection is one of the main and most important steps. It consists in identifying and reviewing the existing literature on the purpose and objectives of the study.

In selecting the research tools and techniques it was of paramount importance to intertwine both the existing literature on the topic of research, as well as the data collected from the publications of Bank of Albania, INSTAT, domestic Real Estate agencies and "Monitor" Magazine.

SWOT analysis technique was used to analyze the data collected and to identify the Immovable Property Market Strengths, Weaknesses, Opportunities and Threats in general, and its ability to determine the housing price performance.

The conclusions drawn at the end of this study - a result of authors' analyses and work will serve primarily to the policymakers, researchers and all other actors who operate in the housing market, and more widely in the immovable property market.

4 LITERATURE REVIEW

The immovable property is of great importance to the individuals, businesses and financial institutions. Individuals view immovable property as a good opportunity to invest. The immovable property trading and its pricing trends have a direct impact on the financial system.

Herring & Wachter [1] point out that increased prices of immovable property will increase the banks' capital, since the

bank owns immovable property. It will at the same time increase the value of the property provided as collateral, leading to a lower level risk of mortgage loans. Construction companies decide to increase their production volume, based on the public or private sectors' demands [2].

The volume of the new purchase orders is tightly connected to the market's conditions and could explain the construction sector's dynamics. The improved conditions for investments (connected to the productivity growth) in immovable property sector should lead to increased production in the construction sector. During periods of economic boom, the development of construction sector is stimulated by an elevated public and private demand. Public expenditures in the construction sector are higher in these periods, relying on additional funding sources [3].

The immovable property market is the venue where buyers and sellers exchange assets, services or information on assets. It consists in a framework of institutions, social practices, relations, regulations and actors, who perform in the market in different ways. The price of property, services, or information related to them is imposed by demand and supply, which operate alike if the market is formal or informal.

The market cannot be solely considered a mechanism to regulate the trade. The market is formalized by governmental laws, the principles of demand and supply, the policies and norms on immovable property [4].

According to Brueggeman & Fisher [5], the classification of the immovable property is very important for a series of reasons among which:

- The performance of the immovable property is different and depends on the nature or function it has. For example, if during a certain period of time there is a positive development in the housing market, this will not automatically mean the same for other properties that are used for business purposes.

- Every property has a specific valuation method, which cannot be used for others.

- The risk of investing in immovable property is different from other types of long-term investments.

The housing market has a series of distinctive features and similarities with other sectors of the immovable property market (offices, shops, garages, etc.) [6], [7].

- Housing has a dual role, as an asset for the purpose of personal use and as an investment for the purpose of financial profits.

- Housing is an expensive investment compared to the average income of a regular family. As such, the demand for housing is closely related to prior decisions on savings and the functioning of a credit system.

- The housing supply is conditioned by the long duration of the construction process and the availability of construction land.

- The housing market can be sub-segmented in smaller markets based on the type (new building, old buildings, historical buildings and so on) and the internal characteristics (size, structure, number of rooms, construction materials, supporting services, etc.) of the housing.

- The housing price is closely related to the geographical position - location of the housing (for example the distance from the urban centers, nature of the area, size, view, etc.)

The SWOT analysis method was created by Albert Humphrey, who led a research project at Stanford University in the 1960s and 1970s, that used the profit data of 500 companies [8]. According to Rais [9], the SWOT analysis is considered a fundamental analysis method, useful to analyze a topic or a problem from four different aspects or angels. The results of this analysis are usually directives or recommendations to maintain the strengths and increase the benefits from the existing opportunities, by reducing the weaknesses and avoiding threads. If used correctly, the SWOT analysis will help identify information, ideas, opportunities and potential risks that were invisible or ignored before. The analysis reviews four components which are:

Strengths: Strengths are the qualities that enable the companies to accomplish their mission. They are the base on which the continuous success can be built and maintained. Strengths might be tangible or intangible. The strengths are the useful aspects of a company, or the competence of a company which encompasses human resources, processing abilities, financial resources, strong products and services, the goodwill of clients and the brand loyalty.

Weakness: are the qualities that hinder the process and prevent the company from accomplishing its mission and achieving full potential. The weaknesses negatively impact the organization success and growth. Examples of weaknesses could be improper use of resources, insufficient research, poor decision-making etc. Weaknesses are controllable. They must be minimized and ideally eliminated.

Opportunities: come from the external environment where the company operates. The opportunities enable the company to benefit from the external environment conditions to plan and implement strategies that generate profitability. The opportunities may come from the market, the competition, the industry / government and the technology.

Threats: Threats arise when the conditions in the external environment undermine the reliability and the profits of the company. The threats are uncontrollable. When a threat arises, the stability and survival of the company can be at risk. Examples of threats can be political instability, everchanging technologies, competition increase that leads to a surplus of capacities, price fluctuations, profit decrease in the related industry, etc.

5 THE HOUSING MARKET IN ALBANIA

Since 2013, the immovable property market in Albania has experienced a considerable growth. Globally this market has overcome the 2008 crises and every year has experienced improvement both in terms of elevated demand and competitive prices. The consolidation of economic growth in country, the emigrants' remittances, the positive dynamics of economic indicators in the real estate sector as well as the continuous legislation improvement in favor of business climate, have increased the level of domestic and foreign investments in the immovable property market.

Chart 1. Yearly remittances flow in millions EUR in Albania.
Source: Bank of Albania, 2019
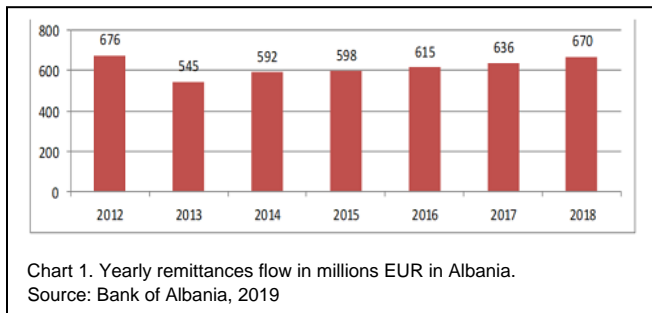
According to the Bank of Albania, in 2018, the remittances (money brought in country by emigrants) amount to the value of 670 million Euro, marking an increase of 5.3% compared to the previous year (2017). This is the highest level since 2012, while a year later, in 2013, the inflow from emigrants reached the lowest level since the '90ties, dropping to 545 million Euros. However, after 2013, the inflow from emigrants started to increase again, reaching a maximum in 2018, where the increase in absolute value was approximately 34 million Euros, the highest in the last six years.

The immovable property market faces a multitude of issues related to information coordination and the management of activities that affect the distribution of construction permits and the implementation of these latter ones in conformity with well-researched territorial development plans, both in local and central level; the ongoing legalization process of informal properties; the incomplete property restitution process to the former owners; designing and maintaining a unique register for all immovable property at the Immovable Property Registration Office.

Chart. 2. Number of permits granted for buildings
Source: INSTAT, 2019
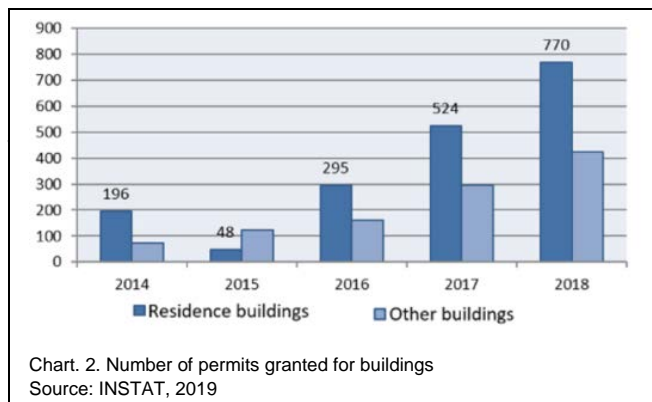
As shown in the Chart 2, the number of constructions permits granted since 2014 demonstrates an upward trend. We see a small decline in 2015, however, from 2016 onwards, the number of granted construction permits has increased. This has led to a growth in the construction sector and housing market, an elevated demand for housing and increased housing prices.

The problems identified in the immovable property market such as the sale of a property more than once by the same owner, inaccurate property data in the Immovable Property Register and the lack of an updated cadastral system have re-

sulted in a situation where ownership tittles are unreliable and asymmetric information is provided in absence of transparency.

As a result, the unreliability of ownership titles damages the immovable property market.

Another challenge faced by the immovable property market in Albania is informality. This is observed especially with lease agreements which do not get properly registered as well as fictitious transfers of ownership titles. Moreover, the contractors do not reflect the sale's true value in the sales contract, in order to avoid or minimize property transfer's related taxes.

6 HOUSING MARKET IN ALBANIA SWOT ANALYSIS

In the immovable property sector, the SWOT analysis is used continuously to study a variety of factors that affect immovable property exchange. As a methodology for analysis, SWOT is efficient when we need to clearly identify the weaknesses and strengths of the housing market and to discover potential threats and opportunities.

The weaknesses and strengths of the housing market are considered internal factors and characteristic, while threats and opportunities are external factors. SWOT Analysis is a model based on clearly defined strategy, where the following areas of analysis are created through a double entry table (also known as a SWOT Matrix).

6.1 Strengths of the housing market

The value of property increases with time: The housing market prices, with the exception of 2008 crisis, have steadily increased, elevating this way the value of immovable property.

Low risk investment: Investing in housing market is considered one of the lowest risk investments compared to investing in financial tittles.

Benefits from ownership: The owner of an immovable property has the right to utilize the property and invest additional capital on it in order to increase its value.

Protection from inflation: The housing and immovable property market in general is one of the less impacted markets by inflation.

Housing as a collateral: The housing market is closely connected to the financial system. They both push each-other to further develop.

Housing trade development: The housing market in Albania is developed not solely through the exchanges between buyers and sellers but also through auctions and open markets created by the immovable property' agents and brokers.

6.2 Weakness of the housing market

Informality: The housing market in Albania faces a high informality rate and this is due to individual constructions that have yet to be legalized.

The government intervention: The government approves periodically the housing reference prices, intervening in price setting.

Bureaucracy: In the housing market, the ownership right is not easily transferable.

High value investment: Participation in the housing market requires a large capital.

Liquidity: The housing market is a low liquidity market.

6.3 Opportunities in the housing market

Geographic position in the region: The housing market is developed in high demand areas such as the capital, coastal and touristic areas. This market is favorized by Albania's geographic position, by the coasts of Adriatic and Ionian seas, which attracts both domestic and foreign investors.

Remittances: Referring to secondary source data, there is an increase in the level of remittances and the number of granted housing construction permits, which positively impacts the growth of the housing market in Albania.

Tourism and foreign investors: The increase of tourists flux and foreign investment has increased the housing market demand.

Safe investment: The transition period in Albania has been very harsh. During this time, many Albanians lost their savings in different forms of investments, therefore they are hesitant to risk. As such Albanians prefer to invest their savings in immovable property, increasing this way the demand.

Mobility of Youth: The liberalization of universities brought forth a massive relocation of youth to bigger cities, increasing this way the demand for rental housing. Many of them, upon graduation choose to remain in the cities, bringing forward the rest of their family members. This phenomenon has continued to increase the housing demand.

A shift in family life culture: While before 1990, the Albanian families were traditional and the children were expected to continue live with their parents, in the parents' housing, nowadays this culture dynamic has shifted. Adult children in general do relocate to separate housing.

6.4 Threats in the housing market

Competition within Finance Market: Ever-growing competition from other investment instruments such as stocks and bonds.

Seasonality: Seasonal demands may cause price fluctuations in the housing market in Albania.

The loan costs and conditions: The difficulties to obtain a loan and the fluctuation of loan's interest rates have a direct impact on the housing and immovable property market in general.

Harsh and unfair competition: The unplanned development of new and competitive building has created a chaotic environment within the housing market.

High Construction Taxation: The constructors have transferred most of the taxes to the final housing price. Apart "infrastructure impact" tax, the constructors are expected to pay an "in kind" tax towards the social housing fund, which is made of 3% of their total construction surface area.

Political interference: The housing market succumbs to a lot of political and governmental interference, being it related to urban management, housing or social policies.

Devaluation of currency: Due to Euro devaluation, a process accelerated especially during 2008, the construction companies experienced a decrease in their revenues. As a result of the currency devaluation, the housing prices increased which led to a decrease in housing sales.

Law on property: Negligence in implementing the Law on immovable property in Albania hinders the process of price setting as a natural result of demand and supply interactions. This produces unrealistic housing prices.

7 CONCLUSIONS OF THE STUDY

Both local and foreign research in the field of immovable property show that this sector plays an important role in overcoming the transition and consolidating the economy, as it generates employment and economic growth.

If we considered all the revenues generated by the immovable property related activities such as: construction industry transactions, mediation, assets management, property tax and tariff's generated revenues, etc. we conclude that this sector plays an important role in country's economic recovery.

The property valuation process, as one of the main functions of the immovable property administration system requires a greater attention due to its importance and effect on increasing transparency and providing realistic information on the value of property in market.

This information serves to individual and businesses to make informed decisions on immovable property/housing investment; to credit institutions for the valuation of collateral and to government for taxation, public expropriation, property compensation and public property sales' purposes.

Informality is another main problem faced by the Immovable Property Market in Albania. This is observed especially with lease agreements which do not get properly registered as well as fictitious transfers of ownership titles. Moreover, the contractors do not reflect the sale's true value in the sales contract, in order to avoid or minimize property transfer's related taxes.

Housing costs are high compared to the average income of a regular family. The two main financing sources for housing investment remain remittances and bank loans.

The housing market is not regulated, and there is asymmetric information on prices. It is difficult for individuals to make preliminary valuation on potential, desired investments.

The Housing Supply depends on the construction sector rentability, as a function of housing prices, construction workers wages and real construction costs. At the same time, supply is very sensitive to politics and its instruments.

Market Demand for housing is a derivate of housing price changes, household income, real loan rates, deposit interest rates, demographic development and other factors connected to housing location.

The housing price could be stated as a derivate of the household income, real loan rates, deposit interest rates, demographic development, real construction cost and inflation rate.

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