



Photo: bulFoto
Cover Design: Elena Stoykova

**THE
REGION**

ISSN1312-6830

PUBLISHER

Southeast Europe Economic Forum

ADDRESS

86, Vitosha Blvd.,
4th floor

1463 Sofia, Bulgaria

tel.: +359 2 951 52 59

+359 2 951 57 59

fax: +359 2 953 29 24

E-MAIL

theregion@seeforum.org

TheRegion June 2006

2 In Brief

18 Standpoint

Geoffrey Van Orden, MEP:
Give Clear Lead on
Bulgarian Accession



19 Topic in Focus/

Construction Market
A Peninsula Under
Construction



**28 Topic in Focus/
Real Estate Market**

Bulgaria
Great Expectations and
Bright Prospects

32 Greece
Expected Boom

33 Croatia
Growing Homes in Croatia

35 Kosovo
Demand, Obstacles, Sales

39 Romania
Investors: "Thirsty for More"

40 Slovenia
Strong Influence of Transition

42 Survey of the Month

The Competitiveness of the
Southeast European
Economies 2006

44 Finance

Bank Industry Risk
Analysis: Bulgaria

48 Politics

Montenegro - The
Independence
Scenario



47 Finance and Politics

Steve H. Hanke:
Inflation Nation

50 Natural Disasters

The Waters Do Not Run Dry

53 Institutions

Serbia Foreign Investors
Council

54 In Advance

Moldova's Wine Under
Russian Blockade

55 Featured City

Skopje - a Mixture
of Occident
and Orient



**57 Economic and Financial
Indicators**

**Forthcoming
Events / Announcements**

Kosovo

Demand, Obstacles and Sales

By David Stanfield, Terra Institute, Wisconsin and
Skender Tullumi, Land Tenure Centre

Kosovo is on the path towards a market-oriented political economy. Unfortunately, the rights of people to landholdings and buildings are neither clear nor secure for a large proportion of Kosovar properties.

Despite the difficulty of poorly documented rights to land and buildings, people do engage in transactions – sales, gifts, leases and mortgages. Unclear and/or undocumented rights to property that holders want to sell or otherwise transact complicate these dealings and result in high transaction costs. In such situations, some people engage a lawyer to clarify and document rights to property. Other people are willing to go forward without the security of legal documentation, thus producing “informal” transactions. The combination of attorney and other costs to clarify legal rights to property can be substantial. But the costs of ignoring the legal documentation of rights can also be substantial, especially when disputes arise. Besides, the cost of no legal documentation is usually a lower market value set for the property being traded.

Market constraints

There are likely to be constraints on the operations of property markets where such direct and indirect costs of transactions are high, as expressed presumably in higher prices. Such constraints can be overcome when the demand for properties is relatively high compared to the higher costs. Structural factors, however, can limit the demand. The demand for land will be relatively low under four specific situations:

When the returns to landownership are low compared to interest rates on capital, people will deposit their excess capital in banks rather than invest that capital in land. In Kosovo, however, prices that people were willing to pay for land close to roads and cities (which can be used for housing or such services as gas stations and retail stores) had risen dramatically after 1999. So the “returns” to land possession were high as long as values were increasing. Long-term credit had been lacking in Kosovo. But the lack of formal credit did not seem to be a major constraint on land purchases, since people were able to secure funds from savings, international remittances or even black market activities.

In Kosovo, restitution claims have not appeared to be major constraints on land markets. Albanians bought land offered for sale by departing Serbs, at times at very low prices. In instances where people considered Serbian possession “illegitimate”, they simply occupied properties previously possessed by Serbs.

The high fragmentation of landholdings in agriculture makes the assembly of large parcels of land very costly and difficult. This situation certainly held in Kosovo where farm sizes of privately owned agricultural land, which occupied 86% of all agricultural land, averaged 2.2 hectares divided into 8 parcels. About 80% of the farmers in Kosovo held less than 2 hectares.

The lack of official documentation of rights to properties can inhibit the dynamism of property markets, or at least yield high transactions costs.

(from the case files of attorney
Betim Shala, Pristina)

The case illustrates the complexities of a typical transaction, and the costs that buyers and sellers have to bear. Twenty-five years ago, village property was purchased informally by verbal agreement between buyer and seller. After payment, the buyer took possession of the property, which has been used by his family since that time with additional houses being built. Once the buyer took possession, there were no further formal procedures for concluding the purchase contract or verifying it as required by law. In the interim, both buyer and seller died, both leaving heirs. The original seller of the property was recorded as legal owner in the local cadastral office. The heirs of the seller initiated the inheritance procedure, including division of the inherited property. The heirs and the buyer were in a difficult position. Both legal owner and informal buyer of the property were dead, and the inheritance procedure included no provisions for the property in question. ■

Legal solutions for the case

First, request from the heirs of the legal owner the inheritance decision issued by the court, where the heirs are declared as owners. Based on this decision, the appropriate changes could be registered in the cadastral office. Then the new owners (the heirs) could conclude a new sales contract with the informal buyers (possessors). ■

The procedure followed in this case

Contact the heirs of the seller. Get a copy of the inheritance decision. Get court-verified authorisations from the heirs of the property to register them as

the owners in the cadastral office. Obtain the possession list and a copy of the plan from the cadastral office. Deliver the request for the appropriate change in the cadastral books. Obtain the possession list and copy of the plan with the name of the new owners.

Complete a purchase contract for the property between the new owners and the heirs of the buyer. Deliver the proposal for sale of the house and yard to the municipality for approval. Deliver the proposal for sale of agricultural land to the agriculture co-operative operating in the municipality for approval. Receive the approvals for the proposals. Verify the purchase contract for the property in the municipal court, after which the request for evaluation of the tax on property can be delivered to the municipal tax office. Once the decision is approved and the taxes paid, deliver the copy of the contract, the possession list, and the plan for the property to the cadastral office with a request to make the appropriate changes in the cadastral books. Finally, obtain the new possession list and copy of the plan with the names of the new owners. ■

The expenses

Photocopy of the decision of the court and verification of the copies, EUR 3. Copy of the possession list and copy of plan, EUR 10. Verification of the authorisation, EUR 5 each. Request for changes in the cadastral books, EUR 20.00. Copy of the possession list/plan with the names of the new owners, EUR 10. Approval that the municipality and co-operative are not interested to buy the property, EUR 10-30. Court verification of the purchase contract, EUR 50-100. Payment for the tax on property, EUR 150/unit. Request for changes in the cadastral records, EUR 20. Copy of possession list and copy of plan with names of new owners, EUR 10.00. Lawyer fees, EUR 35 per hour (according to Bar Association Fees; if court appearance is required, approximately EUR 65 per hour). ■

People may be willing to pay those costs if other factors produce a great demand for properties, as observed in property markets with both high numbers of transactions and rising prices.

Market dynamics

There was pent-up demand for land and buildings, which increased in intensity since the late 1980s. The Yugoslav policy of encouraging Serbian presence in Kosovo made it difficult for Albanians to acquire property. In particular, young people desiring to establish families could not find housing or land to buy. The pressures on Albanians since the late 1980s led many people to migrate for work in Western Europe or the United States. After the withdrawal of the Serbian army and the installation of the UNMIK administration, many Albanian migrants returned with a desire to invest their accumulated capital in Kosovo. The installation of the UNMIK administration contributed to significant a demand for housing by foreign employees and consultants (and their families) who worked for those concerns.

The funds from international agencies and NGOs for construction and repair of housing greatly increased in availability after 1999, stimulating people to acquire land to build houses.

Yet land parcels under the control of socially owned enterprises, particularly in or near urban areas, remained inaccessible to the general public. The land assets of the SOEs were typically well endowed with infrastructure (electricity, streets, water, sewer, heating and telephone), yet most were bankrupt or on the verge of bankruptcy. These well-placed parcels, which were unavailable on the market for future housing or commercial or industrial development, limited the supply of land for market transactions.

Land Market Data

A high demand emerged for housing construction after 1999, as can be seen by the sprouting of houses on the perimeters of the major cities and



Photos: The City of Gjakova

throughout the countryside since the end of the conflict. At least 30 000 housing units had been illegally constructed in Kosovo, mostly during the past four years. Part of this explosion of informal housing construction was due to the inability of the urban land administration to respond to requests for housing permits.

Limited analysis can be done in an environment of profound scarcity of documents concerning property rights. In Pristina, for example, only 139 attorneys report income from work done to facilitate documented transactions in land. There are also indicators that the dynamism of property markets is not on a steady upward climb in terms of either number of transactions or increase in property values.

What has characterised the Kosovo property markets in the past two years? National tabulated data on municipal court activities do not distinguish sales from other transactions recorded (including name changes), nor do data contain the required information on valuation. In addition, not all municipalities maintain complete court records.

There were dramatic declines in frequencies of recorded sales of all types of property between 2002 and 2003 as well as in recorded inheritances and gifts (Tbl 1).



Photos: The City of Gjakova

Table 1 Transactions recorded in Gjakova Municipal Court Office, 2002–2003

Types of transactions	Types of transactions		Types of transactions	
	2002	2003	Types of transactions	Types of transactions
Sales				
Agricultural and garden land	87	46	-47.1	133
Forest	18	4	-77.8	22
House	175	80	-54.3	255
Retail	11	10	-9.1	21
Office	11	9	-18.2	20
Apartment	81	38	-53.1	119
Vacant land	28	9	-67.9	37
Subtotal	411	196	-327.5	607
Mortgages	NA	562	NA	NA
Inheritances	205	123	-40	328
Gifts	75	61	-18.7	136
Total	516	1,117		1,633

The areas of the properties recorded with sales (Table 2) show a similar dramatic decline in frequency between 2002 and 2003 for most types of holding, except for offices, which was at practically the same small number in both years. It should be noted that the number of sales involving forests and pastures is substantially higher than that shown in Table 1; such land uses were the second or third usage listed in the database so were not detected in the first table. Thus in Table 2, the amount of land in forest and pasture incorporated into the area sold declined only slightly between 2002 and 2003.

To get a more precise estimate of the recent evolution of land and property markets, at least in the municipality of Gjakova, the special study performed separate analyses of house, apartment and agricultural land sales. For these examinations, “pure”

transactions were used, that is, properties that did not include uses other than that selected for analysis.

Apartment sales

There were many fewer sales of apartments in 2003, and the average price per square metre was slightly lower. The variation in prices paid is high, however, indicating that further study of factors affecting apartment prices is needed to explain why some apartments cost more (per m²) than others.

Location of houses/yard parcels sold in 2002 and 2003

Practically all of the house/yard sales in these two years were in and around Gjakova city, that is, in the urban and peri-urban cadastral zones 7, 22, 23 and 26. Average prices did increase in 2003, though transactions numbered less than half.

Table 2 Area (in m²) of property sold in Gjakova, 2002–2003

Year of transaction	Houses	Yard of Houses	In agriculture	In forest & pasture	In retail spaces	In offices	In apartments	Vacant land
2002	18,394	45,251	501,774	295,683	329	328	4,948	10,602
2003	8,295	20,647	321,047	241,832	435	172	2,310	10,385
% change	-55	-54	-36	-18	32	-48	-53	-2
Total	26,689	65,898	822,821	537,515	764	500	7,258	20,987

Table 3 Number and price (per m²) for apartments sold in Gjakova, 2002–2003

Year of transactions	Average price (EUR)	N	Standard deviation
2002	445.45	79	213.8
2003	420.48	35	128.8
Total	437.78	114	191.5

Few “pure” house/yard properties were for sale in rural areas. Perhaps most house/yard parcels included “garden” and other agricultural land. Including all parcels with a house produced 14 sales for the two years, but clearly the urban and peri-urban market in house parcels were much more active. A decline in such sales was seen in both urban and rural areas in 2003.

Although the yearly trends in these markets were informative, estimating the overall dynamism of property markets was difficult. In the Kosovo Atlas (UN 2000, p. xi), the table on “Residential Housing Damage” from the 1999 conflict indicates that there were 17,080 housing units in Gjakova (calculated by dividing the 1998 population estimate by the 1981 average household size recorded in the census). As of 2003 the Property Tax project estimated that there were 16,510 houses and 1,842 apartments in the Gjakova municipality, or a total of 18,352 housing units (personal communication from Sally Powers, chief of party for the Property Taxation Project, 6 May 2004). The 2002 sales of houses and apartments totalled 254, or just 1.4% of the total number of housing units. This relatively low rate of turnover could mean either that the

property market was not very dynamic, or that many sales were occurring through informal agreements not documented in the MCO records.

House/yard sales

The sales of house/yard parcels only were separated from sales of house/yard parcels with additional land involved, as well as from sales of other types of property. The number of such house/parcel sales and the prices paid are shown in Table 4.

Comparable figures from Tirana show the following range of prices: 2002, EUR 750–EUR 1,250; 2003, EUR 875–EUR 1,250. It appears that despite the rapid rise in property values in Kosovo, especially for houses and apartments, the prices in Tirana for roughly comparable properties were higher.

Inheritances and gifts in Gjakova

Although the number of gifts seemed to be holding up from year to year, the number of inheritances dropped dramatically. Since it is unlikely that people were dying less frequently in 2003, there must be another

explanation, such as the slowing of court's processing of inheritances. The population of the Gjakova municipality was estimated in 1998 to be around 132,000. The death rate due to old age was estimated to be around 3-4% per year. It would appear that the observed rate of less than 0.1% meant that many families were not formally recording inheritances. This phenomenon is expected where the land market is not very active, and people are in no hurry to deal with the legal system.

Mortgages

In the Gjakova municipality, mortgages based on the new legislation began in 2003. During that year there were 547 mortgage loans that recorded immovable property as collateral, totalling EUR 19,3 mln lent. Most mortgage lending was done by the Banke Ekonomike (39.1%), MEB (26.7%), and Raiffesen Bank (16.6%). Half of the loans were for EUR 15,000. The amount lent varied considerably for all lenders, as indicated by the high standard deviations, with some loans being for substantial sums, the average lent being EUR 35,243, and the median lent being EUR 15,000. There was no way of knowing whether the rate of mortgage lending would remain the same for the remaining 10 months of the year; but, if so, there would have been approximately 258 mortgages altogether, for a total of EUR 11,4 mln lent.

The mortgage market was new for Kosovar banks, many of which were themselves of recent creation. Arrears rates, less than 1% at the beginning of 2004, were expected to rise, as banks moved to the more risky borrowers. It was an untested proposition that private land and houses in Kosovo would be seized when mortgages were unpaid by their owners. Traditionally banks in Kosovo had refused to take agricultural land as collateral, reportedly because the process for enforcing claims was lengthy and nearly impossible to win.

Conclusions

As seen in the Gjakova data, property prices were relatively stable between 2002 and 2003 for various types of property. But the number of sale and gift transactions declined significantly for all types of property, and even the number of inheritances declined between 2002 and 2003. Housing prices in Gjakova were a great deal lower than comparable data in Tirana.

Part of this stagnation could arise from reduced demand – due to the exodus of foreigners as UN and NGOs lessened their presence, or to the country's difficult economic circumstances, or to lower remittances as the European and American economies slowed down. Another factor could be the decline in number of people desiring to sell their properties. Another factor is the unclear documentation of property rights and a confused legal framework for property. This constraint had been overcome in 2002 by people with relatively clear documentation initially becoming involved in the property markets and the recording of inheritances.

Considering factors that the people of Kosovo can do something about, it seems that trying to reduce the costs of and facilitate the market for transactions deserves priority attention. Legal documentation of property rights would contribute substantially to reducing these land market constraints, if done concurrently making the MCOs and municipal courts more efficient, and the registration system simpler and more comprehensive. ■

Table 4 Number and price (per m²) for house/yard parcels sold in Gjakova, 2002–2003

Year of transactions	Average price (EUR)	N	Standard deviation
2002	128.05	143	96.4
2003	170.84	63	158.5
Total	141.14	206	120.16

Table 5 Price (per m²) for "houses only" sold in Gjakova, 2002–2003

Year of transactions	Average price (EUR)	N	Standard deviation
2002	416.0	143	385.4
2003	508.1	63	472.2
Total	444.2	206	414.9