

## **IMMOVABLE PROPERTY MARKETS IN KOSOVO**

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### **Abstract**

Private holdings of land and buildings as well as market transactions were common in Kosovo before and after World War II. The conflicts of the 1990s, however, severely disrupted people's relations with the land and the operations of property markets. There were legal constraints on market transactions involving Serbs and Albanians. People did not register transactions partly to avoid legal restrictions and partly to avoid payment of taxes. The violence of the conflicts of 1998-99 resulted in the destruction of many property archives and the removal of cadastral maps and property documents from the Municipal Cadastral Offices. A United Nations administrative and military structure was established in Kosovo after 1999 to re-establish peace. People and funds began to return to Kosovo. Serbian families returned to Serbia proper. These factors produced a boom in property markets in 2001 and 2002. However, using data primarily from the Municipality of Gjakovo, the year 2003 saw a significant stagnation in these markets. This paper presents transactions data to describe present-day trends in property markets and discover what factors are influencing this stagnation.

# IMMOVABLE PROPERTY MARKETS IN KOSOVO

by

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## **1. Background**

Land has long been privately held in Kosovo. Buying and selling of land has been continually carried out without the post-World War II interruptions seen in neighboring Albania and other Eastern European countries where land markets were repressed. Kosovo has an estimated 2 million land parcels, which are held by about 340,000 people (Andersson, 2002).

Despite widespread private holding of land, mechanisms for defining and recording people's rights to land have been notably weak. Whereas in other parts of Yugoslavia, legislation was passed to define ownership and to introduce systematic recording of land rights (the Land Book), such legislation was never implemented in Kosovo.

The procedures used to record rights to land were by no means modernized into a single administrative system. "Possession lists" showing the properties held by a single party were maintained in the Municipal Cadastral Offices (MCOs) while records showing rights to buildings, particularly apartments, were held by any administering agency. The MCOs did maintain cadastral maps, which delineated the boundaries of the building parcels, each with an identification number that was also referenced in the possession lists. But these maps often did not include the multi-unit apartment and office buildings located in urban centers.

Legal concepts have also been complicated. In strictly legal terms, people under the Yugoslav legal system did not own land; they possessed it. The Law on Basic Property Relations of 1980 was drafted when the government wished to limit the amount and scope of private ownership. That law allowed people in urban areas to own objects (i.e., buildings or houses) but granted only user rights to the land occupied. This concept was reinforced by the policy that rights to land were granted only as long as rights to the object created (SFRY 1980, Article 12). Thus, theoretically, the possession of urban construction land conferred less than full ownership because rights to transfer all or part of that land only existed if the object were transferred as well. Rights to use and enjoy the land could be lost if the

object owned ceased to exist. In rural contexts, the holders of agricultural land were listed as possessors of the land

Over time, however, the legal interpretation of the rights of possessors, including the procedures of expropriation, accepted the bundle of rights attached to “possession” as closely resembling “ownership.” Possession included the right to exclude others from use; the right to enjoy; and the right to sell, give or bequest the property.

Another legal complication derived from the introduction of the concept of social ownership, an idea that was unique to the Constitution of 1974 of the former Federal Republic of Yugoslavia (SFRY). Theoretically, social ownership meant that property was owned “by no one and by everyone,” or simply that society as a whole had vested ownership rights while natural persons or legal entities are users only.

In most cases, socially owned enterprises (SOEs), including unions, associations, and cooperatives, had a variety of ownership forms over the land assigned to them by municipalities. In agriculture, however, formation of such enterprises was limited in scope, in that only 9% of cultivated land was assigned to SOEs (SFRY 1997). Over 90% of the land continued to be privately held, even during the socializing experiments.

These legal and administrative confusions were made more serious by conflicts of the past few decades in and around Kosovo. Up to 1989, Kosovo was an autonomous province of the Federal Republic of Yugoslavia, and was administered mostly by Provincial government units. In 1989, this autonomy was revoked and most administrative functions were moved from Pristina to Belgrade. Parallel with this change, many Kosovo Albanians were dismissed from their jobs at provincial- and municipal-level government units and socially owned enterprises. Laws were implemented that resulted in not only a limitation of land sales between Albanians and Serbs but also a lack of access to housing and agricultural land by the Albanians. The situation erupted in ethnic conflict between Albanians and Serbians in the spring of 1999.

Prior to this open conflict, but even more systematically afterward, many of the property maps, cadastral books, possession lists, and transactions document archives, which comprised the “authoritative” identification about who had what rights to what land and buildings in Kosovo, were removed to Serbia.

Adding to the confusion, people avoided the formal system of recording transactions for years even prior to the conflict of 1999, choosing instead to carry out transactions informally in part due to taxes but in part due to the legal prohibition of Serb/Albanian transactions. In addition, people often delayed processing inheritance because holders did not make wills or because the familial urgency to execute their terms did not emerge until there was a need (i.e., to sell or mortgage the properties). Even if the documentation of rights to properties had not been destroyed or shifted to Serbia, a gap had emerged between information in the official property-recording archives and facts on the ground.

After formal termination of fighting in 2000, it was estimated that official records of privately held land rights corresponded to actual possession and claims in only 30% of the cases (UNMIK/PISG 2003, p. 5). Despite substantial effort by the Kosovo Cadastral Support Program (KCSP) between 2000 and 2003 to reconstruct official records, the gap between official property records and facts on the ground was still quite wide. Boundaries of properties and identification of names of their possessors, based on legally acceptable documents, corresponded to actual boundaries and names as of 2001 for about 55% of the land parcels (Hoxha, 2003, p.22).

Displacement of people due to conflict added to the difficulty of documenting rights to land and buildings. An estimated 300,000 homes were damaged or destroyed and as many as 75,000 properties were abandoned (UN, 2000). Under a special program enabling displaced persons to return to their homes, claims were filed at the UN-created Housing and Property Directorate (HPD) for about 29,000 abandoned or illegally occupied housing units (50% rural, 50% urban) by the holders of legal rights to possession. About 42% of these claims were resolved within six months of the cutoff date (1 July 2003). The resolution of these claims did contribute significantly to social peace and documentation of valid claims to disputed housing.

As part of the agreements to end the conflict, UN Resolution #1244 established the UN Interim Administration Mission Kosovo (UNMIK) on 10 June 1999. UNMIK was charged with rebuilding the administrative framework, promoting peace and democracy, and providing justice and security. UNMIK still retains direct responsibility for certain reserved governmental functions, including matters pertaining to property rights, and performed a monitoring role over the Provisional Institutions of Self-Government (PISG) established in 2001.

Initially the establishment of the PISG and the division into transferred and reserved functions of responsibility increased the political and administrative complexity of operations. Experience from municipalities showed that implementation of policies and decisions was seriously constrained not only by the remnants of ethnic conflicts, but also by the lack of trained, experienced local staff at all administrative levels.

The interpretation of property laws has plagued the fledgling land administrators who assumed more responsibilities in recent years. The lack of training is part of the problem, but even the keenest legal minds are confounded by the several bodies of law that affect property rights in Kosovo. These include the pre-1989 Yugoslav law, only the non-discriminatory laws issued between 1989 and 1999, UNMIK regulations, and laws passed by the new Kosovo Assembly. Although UNMIK has issued guides to which body of law should prevail, there continue to be gaps and ambiguities with respect to property-related matters.

## **2. Property Rights and Property Markets**

Although people generally exchange privately held rights to property in market-oriented economies, it would be misleading to speak of a single, homogeneous property market in such economies. In most countries there are a variety of such markets, each with its own dynamic. Regional property markets are influenced by economic and political factors peculiar to the region. Within regions, markets in housing units, agricultural parcels, and commercial/office or industrial properties may show varying levels of dynamism and price volatility. While there may be forces that move these markets in similar directions (an hypothesis that deserves testing before acceptance), there also may be underlying factors that influence all property markets in similar ways. One such factor is the legal security by which people in any region hold rights to land and buildings.

Kosovo is on the path toward a market-oriented political economy. In such a system, clear and secure private and public rights to land and buildings are necessary to encourage investment in fixed assets. Clear and secure rights to land and buildings are necessary for potential buyers and lenders to be assured that claimants do possess the rights to transfer the properties. 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.

The following case demonstrates how a particular tenure difficulty was resolved legally although with substantial cost and complexity.

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**Description of the case (from the case files of Attorney Betim Shala, Pristina)**

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 authorizations 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 cooperative 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, €3.00.

Copy of the possession list and copy of plan, €10.00.

Verification of the authorization, €5.00 each.

Request for changes in the cadastral books, €20.00.

Copy of the possession list/plan with the names of the new owners, €10.00.

Approval that the municipality and cooperative are not interested to buy the property, €10.00-30.00.

Court verification of the purchase contract, €50.00-100.00.

Payment for the tax on property, €150.00/unit.

Request for changes in the cadastral records, €20.00.

Copy of possession list and copy of plan with names of new owners , €10.00.

Lawyer fees, €35 per hour (according to Bar Association Fees; if court appearance is required, approximately €65 per hour).

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The case illustrates the complexities of a typical transaction, and the costs that buyers and sellers have to bear.

## 2.1 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, as Duke et al. (2004) point out for agricultural land in Slovakia. The demand for land will be relatively low under four specific situations (ibid., p. 59).

- 1) 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.

When long-term credit for financing property investments is limited and/or interest rates for loans are higher than expected returns, the demand for the purchase of land will be relatively low.

Such 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.

- 2) Restitution demands from people who feel they have been deprived of their properties under duress or without compensation under the previous regime will threaten present claims to land.

There were discussions in Kosovo about claims to land that people said was taken from them illegally, particularly agricultural land. Such demands, at the political level at least, appeared to be limited to

certain regions of the country and aimed at influencing the privatization of agricultural enterprises (Arnolli 2003, p. 8) rather than being strongly felt claims for actual restitution.

The turmoil over rights to land and housing immediately following the withdrawal of the Serbian army and the loss of authority and power by the Serbian ethnic groups certainly led to a re-shuffling of rights. 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. In Kosovo, restitution claims have not appeared to be major constraints on land markets.

- 3) The high fragmentation of landholdings in agriculture make the assembly of large parcels of land very costly and difficult.

This situation certainly held in Kosovo (Kosovo 2003, p. 8), 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.

However, reports like RAISE (2002) supported the argument that products such as vegetables, milk, and farm-produced fish, where Kosovo had a comparative advantage, were being supplied to the domestic and export market largely by small farmers. Documentary evidence and direct observation at processing-industry and product-market levels showed the importance of small farmers to the production of these crops. Small holding size did not seem to be a constraint.

Thus the structural factors that Duke et al. (2004) identify as relevant for constraining the agricultural land market in Slovakia did not seem to be significant in Kosovo, at least at the beginning of 2004.

The lack of official documentation of rights to properties can inhibit the dynamism of property markets, or at least yield high transactions costs. 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. There may be limits, however, to this willingness to pay

high transactions costs for poorly documented properties or for poorly administered registration services.

## **2.2 Market dynamics**

There are several arguments for “market-dynamizing” rather than market-constraining influences being dominant in post-1999 Kosovo:

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 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 non-governmental organizations (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. This situation could have contributed to higher prices for the land that was available and led to repressed property markets.

What evidence can be compiled about the dynamism of Kosovo land markets in recent years?

### **3. 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 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 (according to staff of the Ministry of Housing and Spatial Planning estimates, February, 2004). 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. But the fact remains that people built houses in Kosovo with or without 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. Moreover, housing prices, as based on anecdotal accounts in the major cities, are at levels comparable to those of other countries. 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 characterized the Kosovo property markets in the past two years? As in most countries, systematic and comprehensive data on property markets are hard to come by in the region. Data are available from municipal court reports, since all property transactions should have the parties' identities validated in court before being recorded at the Municipal Court Office (MCO). But 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.

To test for a more satisfactory methodology for generating data on land transactions, a special study (described in Annex 1) was devised for the Municipality of Gjakova. That study, carried out in February 2004, produced data on all immovable property transactions recorded in the Municipal Cadastral Office for 2002 and 2003. Data were also produced for mortgages recorded in the Gjakova MCO for 2003 (the new mortgage law was approved in late 2002) and the first two months of 2004.

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 (Table 1). (See Section 3.6 below for a discussion of recorded mortgages.)

(Table 1 near here)

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.

(Table 2 near here)

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.

### **3.1 Apartment sales**

Table 3 shows changes in price per square meter for apartments in Gjakova between 2002 and 2003. (Outlying cases were verified and the data proved correct)

(Table 3 near here)

There were many fewer sales of apartments in 2003, and the average price per square meter 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 m<sup>2</sup>) than others.

Comparable data from Tirana show substantially higher prices for apartments, but with trends toward increasing prices in 2003. One large real estate agency in Tirana estimated the following range of prices (per m<sup>2</sup>) for apartments in the city: 2002, €500– €875; 2003, €625– €1,125 (personal communication from Artan Dervishi, Tirana, February, 2004).

### **3.2 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.

(Table 4 near here)

As for apartments, the market for house plots was much less dynamic in 2003 in that the number of sales was about 45% of the number in 2002. However, the price per square meter for house/yard parcel was higher than in 2002.

Considering only the area of the houses sold, and excluding the “yard” around the house, produced the price (per m<sup>2</sup>) shown in Table 5.

(Table 5 near here)

Comparable figures from Tirana show the following range of prices: 2002, €75– €1,250; 2003, €875– €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.

### **3.3 Location of Houses/yard parcels sold in 2002 and 2003**

Table 6 shows the number of sales in the Gjakova municipality by cadastral zone. 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 6 near here)

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 was much more active. A decline in such sales was seen in both urban and rural areas in 2003 (see Table 7).

(Table 7 near here)

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 totaled 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.



### 3.4 Sales of only agricultural land parcels

For agricultural land parcels in Gjakova (i.e., with agricultural use only and excluding houses, forests, pastures, and unused land), there were 115 sales agreements (with prices noted) recorded in the MCO in 2002 and 2003 (Table 8). The number of sales dramatically declined in 2003, but the price of agricultural land (per m<sup>2</sup>) rose about 40% in that one-year period.

(Table 8 near here)

An important feature of these sales figures was the high variability of price. Within these markets, there were some properties that sold for substantially more than others of the same type. For land parcels classified as agricultural, the mean sale price for the two years was €15.5 (per m<sup>2</sup>), while half of the sales were for €9 (per m<sup>2</sup>) or more, and 30% were for €19 (per m<sup>2</sup>) or more. Clearly agricultural land was being sold for more than it could produce agriculturally, meaning that its use after sale would probably be a non-agricultural, “higher value” purpose (or perhaps the land use had already changed and there were already buildings on the land, but the classification in the Possession Lists had not been altered).

Table 9 shows the amount of agricultural land sold (excluding sales involving other types of property) in 2002 and 2003. The average area sold in 118 transactions<sup>1</sup> was 4,933 m<sup>2</sup> in 2002 and remained practically the same in 2003, though the number of sales transactions declined dramatically. A total of 37.5 hectares were sold in 2002, while only 20.3 hectares were sold in 2003. The median size of parcel sold during these two years was 1,924 m<sup>2</sup>, meaning that half of the sales were for less, and half for more. Just 13% of the sales involved more than 1 hectare. That small parcels of land classified as agricultural were being purchased is consistent with the hypothesis that the intended use of these parcels was for non-agricultural purposes.

(Table 9 near here)

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<sup>1</sup> The number of sales in Table 9 is higher than in Table 8, because three cases were eliminated from the previous statistics due to lack of price information.

### **3.5 Inheritances and gifts in Gjakova**

The number of inheritances and gifts recorded in the Gjakova MCO in 2002 and 2003 is shown in Table 10. 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 (UN 2000, p. x). 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.

(Table 10 near here)

### **3.6 Mortgages**

As reviewed in previous sections, commercial banks became increasingly interested in extending this type of loan following passage of legislation covering mortgages on immovable property. A review of the data available from the municipal courts in Kosovo provide a possible explanation.

The number of mortgages filed with the municipal courts increased from 1,259 in 2002 to 3,907 in 2003 (Kosovo 2004). Although this increase varied by municipality, data available from Pristina point to an accelerating growth trend: More than 42% of the mortgages filed in Pristina in 2003 were filed in the final quarter of the year.

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, totaling €19,277,892 lent (Table 11). Most mortgage lending was done by the Bankë Ekonomike (39.1%), MEB (26.7%), and Raiffesen Bank (16.6%). Half of the loans were for €5,000. 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 €35,243, and the median lent being €15,000.

(Table 11 near here)

Table 12 shows the mortgage contracts recorded in the Gjakiovo MCO in the first two months of 2004. 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 €1,364,000 lent. Both number and amount of mortgaged loans would have been down in 2004 from what was reported in 2003.

(Table 12 near here)

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.

#### **4. Conclusions**

Analysis of property markets can give an indication of how people are deciding to use their capital, which in turn can reflect the more general economic and political conditions as well as the costs of transactions. These conditions and costs can combine to motivate buyers and lenders to buy land or lend money mortgaged by land, or can repress such actions. Separating the influence of various factors on the dynamism of property markets is difficult, but we can at least identify trends in market dynamism and then speculate on what might be causing these trends.

In the case of post-conflict Kosovo, there appears to be a significant stagnation in property sales, gifts, and inheritances in one year, 2002-2003. Data on mortgages showed increases in lending in the

Municipality of Gjakova between 2002 and 2003, but there could be stagnation starting in such lending based only on the first two months of 2004.

It is clear that the lack of clear and documented rights to property was widespread in Kosovo, but people were willing to spend substantial sums on getting the documents for formal, recorded transactions, at least through 2002. But something happened to tip the property market into a more repressed state in 2003. The “dynamizing” factors declined in force compared to the “repressing” factors. What do we conclude?

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. This explanation deserves further research.

Another factor could be the decline in number of people desiring to sell their properties, since overall population movements had started to run their course by 2003.

The decline in recorded inheritances gives support to another factor, namely, 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.

## **Annex 1. Methodology of Tullumi Study of Property Markets in Gjakova, February 2004**

As a first step, the study team first prepared a list of the characteristics needed in all the records of transactions involving land and buildings/apartments. For sales, these specifics included the type of property transacted, the use of the land and its location, the area of the property in square meters, the type of transaction, the location of the [*non-land? buildings?*] property, and the price paid in cases of sale. For inheritances and gifts, details noted were date of the transaction and date of its entry in the Municipal Cadastral Office records. For mortgages, the team took the name and city address of the borrower, the name and city address of the lender, the mortgaged property's number on the possession list, the amount lent, the interest rate, and the date of the loan.

Once access to the MCO in Gjakova had been negotiated and approved, the project team carried out the following activities.

It made photocopies of transactions (sales, gifts, inheritances) recorded in the Change Book (approximately 600 pages) for the years 2002 and 2003.

For sales, the team checked the actual sales contracts (approximately 700) to get exact information on the prices and areas by use in 2002 and 2003. The price information recorded in these contracts may be less than the prices actually paid, even though there are no transactions taxes based on prices paid. On the other hand, people intending to use the property to guarantee a loan would not want to have a low price recorded in the sales contract.

The team then entered the sales transactions data in Excel spreadsheets, allowing one line for every transaction and including data for cadastral zone, year of entry in the Change Book, sequential number within the cadastral zone, number of the document, price of sale, class of first use, area of first use (then second, third, etc.) for five uses, and date of transaction.

For mortgage loans recorded, the team put data for each loan into an Excel spreadsheet (in the Gjakova MCO, mortgages began to be recorded in 2003).

From the special books and files for apartments, the team entered the information of apartment sales in the Excel spreadsheets (in the Gjakova MCO, in addition to the traditional change books used for land parcels, special log books were used to record transactions involving apartments and other building sub-units).

The team checked SPSS-produced lists of possible errors (such as price per meter being too high) in the Excel spreadsheets by copying the contracts and reviewing each case for the price and area coded. No errors were found.

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

| Types of transactions                     | Year of transaction |       | % change from 2002 | Two-year total |
|---|---------------------|-------|--------------------|----------------|
|   | 2002                | 2003  |                    |                |
| Sales <sup>a</sup>                        |                     |       |                    |                |
| Agricultural and garden land <sup>b</sup> | 87                  | 46    | -47.1              | 133            |
| Forest and pastures <sup>c</sup>          | 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 <sup>d</sup>                    | NA                  | 562   | NA                 | NA             |
| Inheritances                              | 205                 | 123   | -40                | 328            |
| Gifts                                     | 75                  | 61    | -18.7              | 136            |
| Total                                     | 516                 | 1,117 |                    | 1,633          |

Source: Tullumi, op. cit.

<sup>1</sup> These sales transactions are classified by the main type of land sold. Of the 5 possible types of land to be coded within any particular parcel, only the first actually recorded was considered in this table.

<sup>b</sup> This category includes cultivated agricultural land as well as “garden” land, which is typically near the residence.

<sup>c</sup> Although coded separately, forest and pasture land were grouped for this table.

<sup>d</sup> The banks started using the new Mortgage Law in 2003, and the Gjakova MCO devised procedures for recording mortgage loans beginning in 2003.

**Table 2. Area (in m<sup>2</sup>) of property sold in Gjakova, 2002–2003**

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| <b>Year of transaction</b> | <b>of Houses</b> | <b>Yard of houses</b> | <b>of In agriculture</b> | <b>In forest &amp; pasture</b> | <b>In retail spaces</b> | <b>In offices</b> | <b>In apartments</b> | <b>Vacant land</b> |
|----------------------------|------------------|-----------------------|--------------------------|--------------------------------|-------------------------|-------------------|----------------------|--------------------|
| 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             |

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Source: Tullumi, op.cit.

**Table 3. Number and price (per m<sup>2</sup>) for apartments sold in Gjakova, 2002–2003**

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| <b>Year of transactions</b> | <b>Average price (€)</b> | <b>N</b> | <b>Standard deviation</b> |
|-----------------------------|--------------------------|----------|---------------------------|
| 2002                        | 445.45                   | 79       | 213.8                     |
| 2003                        | 420.48                   | 35       | 128.8                     |
| Total                       | 437.78                   | 114      | 191.5                     |

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Source: Tullumi, op.cit.

**Table 4. Number and price (per m<sup>2</sup>) for house/yard parcels sold in Gjakova, 2002–2003**

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| <b>Year of transaction</b> | <b>Average price (€)</b> | <b>N</b> | <b>Standard deviation</b> |
|----------------------------|--------------------------|----------|---------------------------|
| 2002                       | 128.05                   | 143      | 96.4                      |
| 2003                       | 170.84                   | 63       | 158.5                     |
| Total                      | 141.14                   | 206      | 120.16                    |

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Source: Tullumi, op.cit.

**Table 5. Price (per m<sup>2</sup>) for “houses only”<sup>a</sup> sold in Gjakova, 2002–2003**

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| <b>Year of transaction</b> | <b>Average price (€)</b> | <b>N</b> | <b>Standard deviation</b> |
|----------------------------|--------------------------|----------|---------------------------|
| 2002                       | 416.0                    | 143      | 385.4                     |
| 2003                       | 508.1                    | 63       | 472.2                     |
| Total                      | 444.2                    | 206      | 414.9                     |

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Source: Tullumi, op.cit.

<sup>a</sup> Excluding land around the houses.

**Table 6. Number and price (per m<sup>2</sup>for house/yard parcels<sup>a</sup> sold), by cadastral zone in Gjakova, 2002–2003**

| <b>Cadastral zone</b> | <b>Year of transaction</b> | <b>Mean (€m<sup>2</sup>)</b> | <b>N</b> | <b>Standard deviation</b> |
|-----------------------|----------------------------|------------------------------|----------|---------------------------|
| 7                     | 2002                       | 59.2                         | 11       | 42.3                      |
|                       | 2003                       | 81.5                         | 2        | 41.8                      |
|                       | Subtotal                   | 62.7                         | 13       | 41.3                      |
| 22                    | 2002                       | 169.7                        | 70       | 115.3                     |
|                       | 2003                       | 215.0                        | 40       | 181.2                     |
|                       | Subtotal                   | 186.2                        | 110      | 143.7                     |
| 23                    | 2002                       | 98.4                         | 51       | 48.9                      |
|                       | 2003                       | 97.6                         | 20       | 55.9                      |
|                       | Subtotal                   | 98.2                         | 71       | 50.6                      |
| 26                    | 2002                       | 71.2                         | 10       | 32.4                      |
|                       | 2003                       | 47.2                         | 1        | .                         |
|                       | Subtotal                   | 69.0                         | 11       | 31.6                      |
| 60                    | 2002                       | 49.5                         | 1        | .                         |
|                       | Subtotal                   | 49.5                         | 1        | .                         |
| Total                 | 2002                       | 128.1                        | 143      | 96.5                      |
|                       | 2003                       | 170.8                        | 63       | 158.5                     |
|                       | Total                      | 141.1                        | 206      | 120.2                     |

Source: Tullimi, op.cit.

<sup>a</sup> Excluding parcels with agriculture, pasture, and forest.

**Table 7. Number of sales of parcels with houses, 2002–2003**

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| <b>Cadastral zones</b> | <b>Year of sale</b> |             | <b>Total</b> |
|------------------------|---------------------|-------------|--------------|
|                        | <b>2002</b>         | <b>2003</b> |              |
| Gjakova city area      | 163                 | 77          | 240          |
| Rural areas            | 12                  | 2           | 14           |
| Total                  | 175                 | 80          | 255          |

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Source: Tullumi op.cit.

<sup>a</sup> Including all such parcels.

**Table 8. Sales of agricultural land parcels, 2002–2003**

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| <b>Year of transaction</b> | <b>Mean<sup>a</sup></b> | <b>N</b> | <b>Standard deviation</b> |
|----------------------------|-------------------------|----------|---------------------------|
| 2002                       | 12.7                    | 74       | 13.7                      |
| 2003                       | 17.6                    | 41       | 18.1                      |
| Total                      | 14.4                    | 115      | 15.5                      |

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Source: Tullumi, op. cit.

<sup>a</sup> Price per m<sup>2</sup>.

**Table 9. Area (in m<sup>2</sup>) of agricultural land sold in Gjakova, 2002–2003**

| <b>Year of transaction</b> | <b>Mean</b> | <b>N</b> | <b>Σ (Sum)</b> | <b>% of total Σ (Sum)</b> | <b>% of total N</b> |
|----------------------------|-------------|----------|----------------|---------------------------|---------------------|
| 2002                       | 4933.22     | 76       | 374925         | 64.9%                     | 64.4%               |
| 2003                       | 4822.81     | 42       | 202558         | 35.1%                     | 35.6%               |
| Total                      | 4893.92     | 118      | 577483         | 100.0%                    | 100.0%              |

Source: Tullumi, op. cit.

**Table 10. Number of inheritances and gifts in Gjakova, 2002–2003**

| Type of transaction |                              | Year of document |        | Total  |
|---------------------|------------------------------|------------------|--------|--------|
|                     |                              | 2002             | 2003   |        |
| <b>Inheritance</b>  | Count                        | 205              | 123    | 328    |
|                     | % within type of transaction | 62.5%            | 37.5%  | 100.0% |
|                     | % within year of document    | 73.2%            | 66.8%  | 70.7%  |
| <b>Gift</b>         | Count                        | 75               | 61     | 136    |
|                     | % within type of transaction | 55.1%            | 44.9%  | 100.0% |
|                     | % within year of document    | 26.8%            | 33.2%  | 29.3%  |
| <b>Total</b>        | Count                        | 280              | 184    | 464    |
|                     | % within type of transaction | 60.3%            | 39.7%  | 100.0% |
|                     | % within year of document    | 100.0%           | 100.0% | 100.0% |

Source: Tullimi, op.cit.



**Table 11. Mortgage lending in Gjakovo, 2003**

| <b>Lenders</b>  | <b>Average lent (€)</b> | <b>Number of loans</b> | <b>Standard deviation</b> | <b>Total lent</b> | <b>% of total lent</b> | <b>Median sum lent</b> |
|---|-------------------------|------------------------|---------------------------|-------------------|------------------------|------------------------|
| ABK   | 19,968                  | 63                     | 36,530.9                  | 1,258,000         | 6.5%                   | 10,500                 |
| Pro Credit Bank                                       | 30,250                  | 20                     | 29,525.9                  | 605,000           | 3.1%                   | 25,000                 |
| Raiffesen Bank  | 30,734                  | 104                    | 37,903.9                  | 3,196,300         | 16.6%                  | 18,200                 |
| RBKO  | 16,606                  | 27                     | 14,321.5                  | 448,350           | 2.3%                   | 12,200                 |
| Banka Ekonomike                                       | 40,490                  | 186                    | 63,761.0                  | 7,531,066         | 39.1%                  | 15,000                 |
| B.Private e Biznisit                                  | 76,154                  | 13                     | 84,635.3                  | 990,000           | 5.1%                   | 50,000                 |
| Banka e Re e Kosoves                                  | 38,371                  | 35                     | 55,406.0                  | 1,343,000         | 7.0%                   | 20,000                 |
| BPB   | 16,286                  | 7                      | 15,195.6                  | 114,000           | 0.6%                   | 10,000                 |
| Financa Kosovo,<br>FINCA, KEP Kosovo,<br>B. Kreditore | 14,250                  | 4                      | 2,986.1                   | 57,000            | 0.3%                   | 15,000                 |
| Kasa Bank   | 67,857                  | 7                      | 68,608.6                  | 475,000           | 2.5%                   | 50,000                 |
| MEB   | 41,233                  | 78                     | 44,979.6                  | 3,216,176         | 16.7%                  | 25,000                 |
| Unknown   | 14,667                  | 3                      | 4,509.2                   | 44,000            | 0.2%                   | 15,000                 |
| <b>Total</b>  | <b>35,243</b>           | <b>547</b>             | <b>51,537.6</b>           | <b>19,277,892</b> | <b>100.0%</b>          | <b>15,000</b>          |

Source: Tullumi, op.cit.

**Table 12. Number of loans with immovable property mortgages, and amount lent, in Gjakova, January-February 2004**

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|                      | <b>Number</b> | <b>Total lent</b> |
|----------------------|---------------|-------------------|
| Bankë Economike      | 12            | €655,000          |
| Kasa Bank            | 6             | €130,000          |
| Pro Credit Bank      | 11            | €342,000          |
| Raiffeisen Bank      | 12            | €712,000          |
| Banka e re e Kosovës | 1             | € 50,000          |
| Unknown              | 1             | € 5,000           |
| Total                | 43            | €1,894,000        |

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