

ALBANIA'S EMERGING HOUSING MARKET

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EXECUTIVE SUMMARY

This paper updates a housing sector review that took place in late 1992¹, and makes suggestions for improving the USAID technical assistance program. It is based on a review of existing data sources and extensive interviews with employees of government institutions, private sector firms, and international aid organizations.

The housing sector has changed a great deal since the last sector review took place, and it is continuing to rapidly evolve. The components of housing demand are difficult to unravel because large scale emigration and rural-to-urban migration have upset long term trends in population growth and household formation. Once one of the fastest growing countries in Europe, Albania has now experienced a sharp decline in its population growth rate because of emigration. However, even with the overall population steady, urban areas have continued to grow.

Many households live in overcrowded and poor conditions. The country's reputation for having overcrowded housing is well-deserved, but the problem may not be as serious as some widely-cited figures would indicate. Overcrowding persists even though average household sizes have been quickly falling. Inadequate basic services and deteriorating units are among the biggest programs with the housing stock. The lack of basic infrastructure is especially a problem in the informal settlements that have appeared on the periphery of major cities.

The government waged a successful privatization campaign, and about 98 percent of the housing stock is now in private ownership. It was unsuccessful, however, in implementing an effective condominium law, which has left many residents in multifamily buildings without a legal mechanism for maintaining common property. Many of the purported benefits of privatization have yet to materialize.

The construction sector is thriving in both its legal and illegal forms, and is second only to services in terms of importance to the economy. Most housing is being built by the private sector, but the government continues to be a major developer of new units. With the high cost of new construction, it may be true that the lack of formal financing constrains housing demand, but limited institutional interest, subsidized government competition, questionable ability to foreclose, and the more intractable problem of low incomes, suggest that mortgage financing will not be widely available any time soon.

The USAID technical assistance program (which has focused primarily on privatization, condominiums, land management, infrastructure development, land development, and housing policy) is generally on the right course. The assistance has followed a logical progression and has been responsive to rapid changes in the economic and political environment.

See Mikelsons et al. (1993).

ALBANIA'S EMERGING HOUSING MARKET

*Overview of the Sector*²

Albania has developed a reputation for having some of the lowest quality and most overcrowded housing in Eastern Europe. Multi-family buildings have visibly deteriorated as residents have deferred routine maintenance and capital improvements. Informal housing developments have consumed public land surrounding major cities, and are aggravating infrastructure and service problems. The rapidly growing urban population must cope with electricity shortages during the winter and an intermittent water supply that worsens during the summer. The environment is suffering as trees are cut down for fuel and raw sewage flows untreated into rivers.

Despite budget problems, the government has been pursuing expensive strategies aimed at directly providing housing for its "homeless" population, which consists of ex-political prisoners, tenants occupying restituted properties, overcrowded households, and households occupying dilapidated units. These groups are not literally homeless, and include households with widely varying living conditions.

On a more positive note, the government has taken several major steps to create the foundation for a market-driven, private sector housing market. Starting in 1993, the government rapidly privatized nearly all of the state-owned stock and gave owners the right to sell or rent their units for any amount they wish.³ By achieving a high level of privatization so quickly, the government has managed to avoid the thorny problems associated with partial privatization, such as rent adjustments and maintenance responsibilities in mixed-tenure buildings. The government has also passed various laws intended to protect owners' interests in common property. Efforts are also underway to improve basic services by privatizing utilities, investing in trunk infrastructure, and upgrading existing residential units.

The country is experiencing a surge in commercial and residential construction activity that is one of the leading contributors to recent economic growth. Construction volume rose 30 percent between 1994 and 1995. This growth in building activity has spurred the creation of many new small- and medium-sized firms. At the end of 1995, a remarkable 35 percent of all licensed private firms were engaged in construction-related activities.⁴ Following the collapse of the residential construction market in 1990, about 50,000 units were built through 1995. About 70 percent of these were privately built. The government's tolerance of informal housing development has contributed to a more fluid supply of housing.

² Unless otherwise indicated, all housing and population figures in this report are from Republic of Albania National Committee for Statistics (1996).

³ There are restrictions on properties subject to restitution. Sitting tenants receive protection from rent increases.

⁴ Albanian Daily News (1996a, 1996c).

The housing sector has also benefitted from economic reforms and international assistance that have enabled the country to rebound from the severe economic downturn of the early 1990s. The unemployment rate peaked in 1992 at 27 percent, and fell to 18 percent by 1994. Annual

Table 1
Consumer Price Index, June 1993 to June 1996 (December 1993=100)

Month	Index	Period	Percent Increase
June 1993	85.41		
June 1994	117.68	June 1993 to June 1994	37.8
June 1995	120.15	June 1994 to June 1995	2.1
June 1996	131.69	June 1995 to June 1996	9.6

Source: Institute of Statistics

Inflation which used to exceed 100 percent has now dropped to single digits (see Table 1). By 1994 the share of the GDP being produced by the private sector—at 65 to 70 percent—was among the highest in Central and Eastern Europe (Hegedus, et al. 1996b). Foreign remittances have surged and are currently estimated to be about \$350-\$450 million per year. Household incomes, however, are still quite low, and this, along with the absence of formal financing, continues to constrain private investment in new units and maintenance.

Although the available data suggest that Albania's overall housing situation is less than ideal, good, reliable, data on recent economic and demographic trends are in short supply, particularly for rural areas. The 1989 census is the latest comprehensive source of information on the population and housing stock, and was the primary data source for the last USAID-sponsored sector review. Fortunately, Albania has had the opportunity to assemble more recent housing-related data as the result of its participation in the HABITAT II Conference and the regional housing indicators program.⁵ Some of the newer population and housing estimates, however, are inconsistent with each other and earlier estimates; this paper attempts to reconcile some of these figures, but in some instances this is not possible. The author believes the numbers in this report are among the best available. Despite these shortcomings, the new data provide useful insight into the trends shaping Albania's housing situation.

Population and Household Formation

⁵ The UNDP Office in Tirana supported the preparation of a national report on housing. The U.S. Agency for International Development is the main backer of the housing indicators project. Additional funding came from UNCHS/HABITAT and ECE. Most of the 1996 indicators are for all of Albania and metropolitan Tirana only. Rural data is generally only available from the 1989 census.

Albania has recently experienced dramatic population shifts as the result of rapid urbanization and workers seeking employment in neighboring countries, particularly Greece and Italy. Between 1979 and 1989 Albania's population grew at an annual rate of about 2 percent, which is high by European standards. A combination of high birth rates and low death rates fueled this growth.⁶ Emigration, however, has caused the population to level off between 1989 and 1994, at around 3.2 million people. With the opening of Albania's borders, an estimated 300,000 to 400,000 Albanians, most of them young men, have left the country in search of work and other opportunities.⁷ The population is expected to resume its growth and reach 3.4 million by the year 2000, a figure that corresponds to an annual growth rate of about one percent through the end of the century.

Although the majority of the population is still rural, urbanization has accelerated in recent years following the removal of restrictions on movement. The population residing in urban areas increased from 36 percent in 1989 to 39 percent in 1994. Between 1945 and 1989, the urban share of the population grew from 21 percent to 36 percent—only about 1 percentage point every three years. Metropolitan Tirana grew tremendously even prior to 1990; between 1979 and 1989, its population grew about 26 percent (from 297,700 to 374,500). Although the country's population leveled off between 1989 and 1994, metropolitan Tirana's population continued to grow, reaching over 400,000 by the end of this period.

The urban population is scattered across 70 cities, but the bulk of it is concentrated in a small number of cities. Table 2 shows that, in 1994, ten percent of the cities accounted for almost three-fifths of the urban population. Only three cities had populations exceeding 100,000, but these accounted for over a third of the urban population. About 61 percent of the country's population lived in rural areas in 1994, occupying 2,923 villages and 314 communes. Albania remains one of the least urbanized countries in Central and Eastern Europe.⁸

The large population shifts caused by work-related emigration and rural-to-urban migration are having a substantial effect on housing needs. With roughly ten percent of the adult population going abroad, new household formation and average household sizes are likely to have fallen in recent years. Given that most emigrants are males in the 15 to 34 age group, it is clear that these individuals either left existing households or would have been the source of new households if they remained in Albania. Despite this downward pressure on housing demand caused by emigration, rural-to-urban migration continues to stimulate demand

⁶ See Enyedi (1994). Albania experienced a baby boom that peaked in the early 1960s; but continued through the 1970s. Relative fertility rates in recent years has not prevented a "baby boomlet" from forming as a result of the baby boom generation having children.

⁷ The population of Albania was "closed" from 1945 to 1989.

⁸ In the region, only Albania and Bosnia-Herzegovina are places where less than 40 percent of the population resides in urban areas. In Bulgaria, Czech Republic, Hungary, Poland, and the Baltic states (Enyedi and Szige 4).

for units in urban areas. This urban demand, however, is probably much smaller than it would have been if there was less emigration. For example, the Institute of Statistics estimated that, of the 400,000 people leaving rural areas between 1990 and 1995, about 190,000 would go abroad, while 210,000 would move to cities. It seems reasonable that many rural households would seek new homes in Albanian cities if they could not emigrate.

Table 2
Distribution of Urban Population by City Size, 1994

Population Category	Number of Cities	Total Population in Category	Percent of Total Urban Population
Less than 2,000	4	4,100	0.3
2,000-4,999	15	45,800	3.2
5,000-9,999	24	176,100	12.3
10,000-19,999	12	171,300	11.9
20,000-49,999	8	223,000	15.5
50,000-99,999	4	302,200	21.1
More than 99,999	3	512,600	35.7
Total	70	1,435,100	100.0

Source: Republic of Albania (1996).

Table 3
Population, Households, and Dwelling Units, 1979, 1989, and 1994

	1979	1989	1994
<i>Population</i>			
Albania	2,670,500	3,255,900	3,202,231
Metropolitan Tirana	297,700	374,500	401,493
<i>Households</i>			
Albania	476,875	692,744	n.a.
Metropolitan Tirana	61,866	95,433	n.a.
<i>Average Household Size</i>			
Albania	5.6	4.7	n.a.
Metropolitan Tirana	4.8	3.9	n.a.
<i>Dwelling Units</i>			
Albania	474,000	674,600	700,000
Metropolitan Tirana	58,900	95,400	100,000
<i>Households per Dwelling Unit</i>			
Albania	1.01	1.03	n.a.
Metropolitan Tirana	1.05	1.00	n.a.

Notes

The author calculated average household size and households per dwelling unit.

Metropolitan Tirana includes the municipality of Tirana, which had a population of 250,220 in 1993.

The term "n.a." means not available.

Source: Duka, Kurti, and Ekonomi (1996); Hegedus et al. (1996); and Republic of Albania (1996).

No data is available on current household sizes; however, to the extent that emigration has reduced average household sizes during the first half of the 1990s, it would be adding to a drop in household sizes that occurred during the prior decade. Table 3 shows that between 1979 and 1989, the average household size in the country fell from 5.6 persons to 4.7 persons.⁹ A similar drop occurred in metropolitan Tirana, where the average household size dropped from 4.8 persons to 3.9 persons. In 1989, the average urban household size was 3.9 persons, while the average rural household size was 5.3 persons.

An implication of falling household sizes is that the number of households has been growing more quickly than the population. Table 4 shows that for the 1979 to 1989 period, the annual household growth rates for Albania (3.8 percent) and metropolitan Tirana (4.4 percent) were almost twice their respective annual population growth rates. Although the country's total population grew about 22 percent between 1979 and 1989, the corresponding number of households increased around 45 percent.

⁹ Some of this drop is due to urbanization, since urban households tend to be smaller than rural households.

Table 4
Annual Compound Growth Rates for Population, Households, and Dwelling Units,
1979 to 1989 (percent)

	Annual Compound Growth
<i>Population</i>	
Albania	2.0
Metropolitan Tirana	2.3
<i>Households</i>	
Albania	3.8
Metropolitan Tirana	4.4
<i>Dwelling Units</i>	
Albania	3.6
Metropolitan Tirana	4.9

Source: Author's calculations based on Duka, Kurti, and Ekonomi (1996); Hegedus et al. (1996); and Republic of Albania (1996).

Housing Production and Housing Density

Given Albania's reputation for overcrowding, it is somewhat surprising to observe that housing production was able to accommodate such rapid household formation and thereby reduce population density in units. One might expect to find production lagging well behind household formation. Table 4, however, confirms that dwelling units roughly kept pace with the growth in households between 1979 and 1989. As a result, households per dwelling unit remained essentially unchanged during this period (see Table 3).

It is difficult to reconcile the available production and stock figures for the period since 1989. Following the construction downturn at the start of the 1990s, about 50,000 units were built from 1993 to 1995. The state constructed about 15,000 of these units while the remaining 70 percent was built by the private sector.¹⁰ Of the 50,000 units, about 60 percent were built in urban areas. Given this substantial production level, the total dwelling unit estimate for all of Albania in 1994 in Table 3 seems to be low. However, inventory losses could explain why dwelling units were expected to increase only about 25,000 units between 1989 and 1994. On the other hand, the total dwelling units estimate for metropolitan Tirana in 1994 is almost certainly low. Informal developments alone are responsible for about 4,500 to 5,000 new units in and around the Tirana municipality since 1990, making it highly unlikely that the area would grow by less than 5,000 units between 1989 and 1994.

¹⁰ Many of these units were started prior to 1990, but were never finished. With the assistance of a World Bank loan, these units were completed.

Even though the estimates for the growth of the housing stock between 1989 and 1994 may be imprecise, housing densities must have decreased during this period because the population did not grow due to emigration. Emigration, of course, is not a permanent cure for overcrowding since many of those working abroad are expected to return home some day. Nevertheless, a roughly ten percent drop in the population is going to manifest itself in some combination of lower housing demand and smaller households.

By heavily subsidizing the housing sector, Albania has, in recent years, maintained one of the highest new construction rates among the transitional countries of Eastern and Central Europe. Table 5 shows that while all countries experienced a sharp drop in production by 1994, Albania's rate of 3.3 new units per thousand population was well above the 1.8 average for all of the listed transitional economies, and was only exceeded by Slovenia. The government paid dearly for this distinction: about \$15-\$20 million per year over the 1993-1995 period. Earlier this year, the government allocated about \$12 million for housing.

Despite a strong government presence in the housing market, the amount of private construction in Albania has recently been high relative to other countries. Assuming the government was responsible for 30 percent of the new housing investment in 1994, the private construction rate would be around 2.3 new units per thousand people. This rate is still above the 1.8 average for the countries appearing in Table 5 (which includes public and private construction), and would probably have been even higher if an allowance is made for the private investment that would have occurred had the government not intervened in the market.

Table 5
New Housing Construction in Selected Transitional Countries: 1980, 1990 and 1994
(new units per 1000 population)

	1980	1990	1994
Albania	4.4	3.9	3.3
Czech Republic	7.8	4.3	1.8
Hungary	8.9	4.3	2.1
Poland	6.1	3.5	1.9
Slovakia	9.7	4.9	1.3
Slovenia	7.5	3.9	3.9
Bulgaria	8.4	3.0	1.0
Croatia	6.7	3.9	2.0
Romania	5.0	2.1	1.6
Estonia	9.8	4.8	1.3
Latvia	7.5	5.0	0.3
Lithuania	8.3	6.0	1.8
All	6.9	3.6	1.8

Source: Hegedus et al.

Overcrowding

Albania is probably the most overcrowded country in Central and Eastern Europe, but it is not as overcrowded as has been suggested by some widely cited figures. One key indicator used in international comparisons may not be appropriate due to a difference in definition, while other indicators require certain qualifications.

Several sources report that Albania has about 2.7 persons per room, which would be more than double the average of any other transitional country. This comparison, however, is not proper since the Albanian figure is actually the average number of persons per *bedroom*. Although direct information on total rooms is unavailable, the average number of persons per room in 1989 was probably in the 1.8 to 2.0 range.¹¹ A figure in this range is much lower than 2.7, but still indicates the presence of an overcrowding problem.

Some of the same sources that report a high number for persons per room claim that Albania has very small units (an average of about 36 square meters of living space in 1989) and an extremely low amount of floor space per capita (about 7.5 square meters in 1989) compared to other countries. It is difficult to use these figures to conclusively prove that Albanian units are smaller than those in other countries, because it is not clear that the definition for floor space used by the Albanians is comparable to that used by other countries.¹² Per capita living space is low in Albania, but this is to be expected given the high average number of persons per room, and does not by itself indicate that units are extraordinarily small in a physical sense.

Even though the available size indicators are inconclusive, it is generally believed that Albania has smaller units than most countries in the region because the government actively pursued a housing strategy designed to produce a lot of housing units at the lowest possible cost. From 1950 into the 1970s, the government emphasized the construction of smallish units featuring two bedrooms and no living rooms. It was not until the late 1970s that construction norms with respect to space began to approach Western European standards (Mikelsons 1993).

Regional comparisons confirm that, despite falling average household sizes, Albania still has, by far, the highest average household size of the transitional countries. Table 6 shows that around 1990, the average household size for all transitional countries was 3.0, whereas for Albania the figure was 4.7. It should be noted though, that Albania's high average household size is partly the product of its large rural population, which tends to form bigger households

¹ The definition of rooms includes bedrooms and living rooms, while excluding kitchens, bathrooms, hallways, and closets. By making allowance for living rooms, the author estimated that Albania probably had somewhere between 1.8 to 2.0 persons per room in 1989.

² The Albanian definition may refer to bedrooms only, although this has not been verified.

(5.3 persons) and occupy bigger homes than the urban population. However, at 3.9 persons, the average household size in metropolitan Tirana is substantially bigger than the average household size of capital cities of other transitional countries shown in Table 6 (3.9 versus 2.6 persons per household—not shown).

It appears that large household sizes are more attributable to the presence of children than they are to the doubling up of families. Albania has a very young population age structure; about a third of the population was less than fifteen years of age in 1989. About 32 percent of households

Table 6
Average Household Size in Selected Transitional Countries, 1990 (persons)

	1990
Albania	4.7
Czech Republic	2.5
Hungary	2.7
Poland	3.2
Slovakia	3.0
Slovenia	3.1
Bulgaria	2.9
Croatia	3.1
Romania	3.1
Estonia	3.0
Latvia	2.4
Lithuania	2.9
All	3.0

Source: Hegedus et al. (1996).

were headed by individuals under 25 years of age, and an additional 35 percent of households were headed by persons ranging from 25 to 39 years of age. Taken together, these figures suggest that there is a fairly large number of households with children present.

A large number of children raises average household sizes, but this is arguably less onerous to families than the doubling up of adult households. A 1993 survey in Tirana found that just 15 percent of units were used by two or more families. The same survey also found that 64 percent of total households consisted of couples with children, and another 7 percent was made up of one parent families. The presence of young children in many households suggests the need for caution in interpreting the relationship between large households and the quality of life in those households.

Characteristics of the Housing Stock

The state-built stock is characterized by low-rise multifamily structures, whereas the privately built stock is largely made up of one or two unit structures. The multifamily structures typically only have four to five stories, which reduces the need for elevators and helps to make the buildings more resistant to earthquakes. Even in large cities, multifamily buildings contain only about 15 to 20 apartments. Unlike many Central and Eastern European countries, Albanian architects have favored brick over prefabricated concrete panel construction. They experimented with concrete panels in the 1980s, producing about 20,000 apartments, but discarded the idea after encountering various quality problems.¹³

Informal housing developments have appeared primarily on state-owned land or on land with unclear ownership near major cities. Households typically settle on land near roads and water supplies, and often obtain electricity through unauthorized connections. Units usually have rudimentary on-site sanitation facilities. The size and quality of structures usually varies according to how long the plot has been occupied. Households invest more in their units as their incomes permit and as their perceived tenure security increases. Upgrading informal settlements is problematic because of low densities, irregular layouts, unclear tenure, and unsafe locations. Many households occupy plots that are larger than they are likely to be eligible to keep under any regularization scheme.¹⁴

Inadequate basic services and deteriorating units are perhaps the biggest problems with the housing stock. Water and energy sources are abundant, but a lack of infrastructure capacity contributes to unreliable water and electricity supplies. The government has initiated several water, energy, and sewage treatment projects, but their success will greatly depend on improving cost recovery. The problem of maintaining existing dwellings also rests on the ability and willingness of residents to pay for services.

Table 7
Percentage of Units with Piped Water Supply: 1994

	Tirana	Albania
<i>Location</i>		
Inside building	65.0	33.3
Outside building	13.0	24.2
Total	83.0	57.5

Source: Republic of Albania (1996).

³ The trend is towards taller structure—perhaps reflecting the higher values the market has attached to the land. Recently constructed buildings have been 8 to 10 stories.

⁴ For more on informal settlements, see Driscoll et al. (1994) and Serageldin (1994).

Like many other transitional countries, Albania invested more heavily in water networks than in the more expensive sewer networks (Hegedus and Tosics 1996). In 1994, only about 58 percent of units had access to piped water supplies (see Table 7). About a third of all units had water piped inside the unit, and another quarter had access to piped water outside the unit.

The overall share of units with piped water supplies is low because much of the rural population lacks access to piped water. In 1989, about 54 percent of private rural units and 36 percent of public rural units did not have piped water. Cities receive much better service than rural areas. For example, in 1994, about 83 percent of units in Tirana had piped water. Even where piped water is available, the service is often not available all day. This problem worsens during the summer months. The water pressure is often inadequate in apartments on the top floors of buildings, causing some residents to install their own pumps.

As with other services, rural areas have less developed sanitary facilities than urban areas, and this consequently tends to hold down the national averages for indicators measuring service levels. In 1994, about 40 percent of all households had water closets connected to sewers, while in Tirana the comparable figure was roughly 72 percent.¹⁵ These figures do not distinguish between water closets located inside the unit and those located outside the unit. According to the 1989 census, about two-thirds of urban units had a water closet inside the unit, compared to just 21 percent of rural units. Approximately 75 percent of rural units and about 32 percent of urban units had water closets outside their units. Sewerage systems offer tangible health benefits to residents in serviced areas. However, because Albania lacks sewage treatment facilities, untreated sewage and industrial waste is released directly into rivers and streams—a practice that endangers the population living downstream.

Electricity is widely available and, along with wood and coal, is an important heating fuel. Very few units have central steam or gas heating systems, and in the rare instances where they exist, they often do not work. Electricity is the greatest utility expense for most households, as rates are comparable to those in the low end of the range found among Western countries.¹⁶ Shortages of electricity often occur during winter as heating-related demand rises.

Tenure and Privatization

Little information is presently available on the extent to which units are occupied by their owners as opposed to renters. The absence of tenure data is a common problem among the transitional countries, and one can only hope that future data collection efforts improve upon

⁵ In some reports, it is easy to confuse data on the presence and location of toilet facilities with figures describing the share of housir s connected to sewers. Comparisons to other countries are difficult because of similar reporting problems (Hegedus et al. 1996b) ctures with pipes connected to septic tanks are especially troublesome for respondents.

⁶ Electricity is about 4.5 cents per kilowatt hour. Water is about a dollar a month for most households.

this situation.¹⁷ Information on tenure is critical for monitoring the development of a market-based housing sector. A growing private rental market is a sign of a healthy housing sector and economy. It facilitates labor mobility and provides housing opportunities for households that cannot afford to buy a home or are not interested in owning.

There is anecdotal evidence of a developing rental market, but it often focuses on the upper end of the market. This should not be taken to mean that a middle- or low-income rental market does not exist. A more affordable rental market does exist, but it does not generate much in the way of headlines: a student renting a cheap one-room flat or a laborer sharing rent with co-workers in a crowded apartment does not attract as much attention as the person who retires by renting his downtown flat to a rich foreigner for over a thousand dollars per month.¹⁸

Even though little is known about tenure, it is a well established fact that Albania has had a successful housing privatization campaign, as measured by the share of units that are in private hands. In 1989, about 35 percent of the housing stock was publicly owned. Roughly 90 percent of this stock was located in urban areas. Between 1989 and 1994, the private share of the housing stock grew from 65 percent to about 98 percent. The two percent remaining under state control includes dwellings subject to restitution and units in very poor condition.

The government encouraged privatization by allowing sitting tenants to purchase their units on a voluntary basis for an extremely low price. The average price for a unit was only about \$150 (about one to two percent of the market value). There was no charge for old units with major maintenance problems. Upon becoming owners, households were free to sell or rent their units for any price.¹⁹

The privatization process left most new apartment owners without an adequate means for maintaining common property, although this was not supposed to happen. Recognizing the need to deal with maintenance and management issues in multifamily properties, the government passed a condominium law in 1993. This law has since been superseded by condominium provisions in the new civil code. Unfortunately, the implementation of the original law or civil code has not proceeded smoothly, and few buildings have registered to operate as condominiums.

⁷ Owner occupancy and renter occupancy questions are going to appear in an urban land tenure survey to be conducted later this year by the Land Tenure Center. See Meany (1996).

⁸ One scheme receiving coverage by the press involves a household selling its flat, investing the money, and living off the interest (see Meany 1996 and Albanian Daily News 1996b).

¹⁹ The only rent control is on units which have been restituted to their original owners, but are still occupied by tenants. The tenants occupying such units are part of the "homeless" population.

Income, Housing Expenditures, and Cost Burden

Albania is one of the poorest countries in Central and Eastern Europe. Income data is unavailable for urban areas, but expenditure data for Tirana show that a household spent an average

Table 8
Population Distribution by Monthly Household Expenditures, Tirana, January 1996

Monthly Expenditures (lek)	Population		
	Number	Percent	Cumulative Percent
Less than 4,000	10,876	2.0	2.0
4,000	21,752	4.0	6.0
5,000	27,190	5.0	11.0
6,000	28,550	5.3	16.2
7,000	33,988	6.3	22.5
8,000	36,435	6.7	29.2
9,000	36,978	6.8	36.0
10,000	36,707	6.8	42.7
11,000	31,269	5.8	48.5
12,000	29,909	5.5	54.0
13,000	28,550	5.3	59.3
14,000	27,190	5.0	64.2
15,000	25,831	4.8	69.0
16,000	21,752	4.0	73.0
17,000	16,314	3.0	76.0
18,000	13,595	2.5	78.5
19,000	13,595	2.5	81.0
20,000	12,236	2.3	83.3
21,000	10,876	2.0	85.3
22,000	5,438	1.0	86.3
23,000	5,438	1.0	87.3
24,000	4,079	0.8	88.0
25,000	2,719	0.5	88.5
More than 25,000	62,537	11.5	100.0
Total	543,804	100.0	

Source: Social Assessment Survey.

Table 9
Distribution of Household Expenditures, Tirana, 1993

	Annual Amount	
	Lek	Percentage

<i>Expenditure Item</i>		
Food, beverages, and tobacco	94,163	72.1
Clothes	3,640	2.8
Furniture and furnishings	9,910	7.6
Medical care	1,217	0.9
Transportation and communication	6,299	4.8
Recreation, education, and culture	4,812	3.7
Personal care	495	0.4
Other	2,217	1.7
Rent, water, fuel, and power	7,878	6.0
Total	130,631	100.0

Source: Duka, Kurti, and Ekonomi

of about \$107 per month in 1993; in 1996, the median total expenditure was approximately \$112 per month.²⁰ Rural households are considerably worse off than their urban counterparts, especially when one takes into account the relatively large size of rural households. Including the value of self-consumed output, agricultural household income was about \$46 per month in 1993.

Despite low wages and salaries, households devote a fairly small share of their incomes towards out-of-pocket housing-related expenses. Table 9 shows that in 1993, Tirana households spent on average only about six percent of total expenditures, or about six to seven dollars per month, on rent and utilities.²¹ The "rent" expenditure component does not appear to include the value of housing consumption by owners, and thus may not be comparable to similar measures in other countries. The exclusion of imputed rent for owners causes housing cost burden to be understated.²² Housing-related expenditure data for rural households is unavailable, but given their low incomes, there is little doubt that they are worse off than urban households.

Many households occupying the privatized stock are also paying a hidden cost in the form of depreciation. By deferring the maintenance and repair of common property, households are accumulating deficits which will be realized when they try to sell or rent their units, or sooner, if their units become unlivable. Despite this neglect of common property, there

²⁰ Average and median expenditures were estimated from Tables 8 and 9.

²¹ Prior to 1990, households in state-owned apartments paid only two to three percent of their monthly incomes on rent and utilities. Because this rent was inadequate, the government had to subsidize maintenance and repair costs. Deferred maintenance was already a problem when privatization began.

²² For example, using the data in Table 9 and an exchange rate of 102 for 1993, it can be demonstrated that if rent was \$50 per month, housing-related expenditures would be about \$677 per year, or about 36 percent of total expenditures.

is considerable anecdotal and hard evidence that people are improving the insides of their units by remodeling and purchasing furniture. Table 9 shows that, in Tirana, household spending on furniture and furnishings is second only to expenditures on food, beverages, and tobacco.

There is an active sales and rental market for new and existing units. While exact data is unavailable, a well-located, existing two-bedroom flat (as of mid-1996) can command about \$20,000 in Tirana, about \$15,000 in some of the larger cities, and perhaps \$7,000 in small towns. Private sector new construction prices run higher than these figures as producers tend to focus on the upper-income market.²³ Rents for a medium size flat are currently a minimum of about \$400 to \$500 in central Tirana; a small flat might run about \$200 to \$400. Real estate dealers have noted a doubling of rents "in recent times." In Tirana, prices and rents can fall as much as 30 to 40 percent for locations on the outskirts of the city (Pilika 1996).

Housing Finance

Formal housing finance is essentially unavailable. Some credit has been granted, but it has tended to be heavily subsidized and has only been available to a limited number of participants in certain government programs, or to privileged employees of organizations such as financial institutions. This situation could change in the near future, since for the first time, a private commercial bank has shown serious interest in mortgage financing. Cariplo, one of Italy's largest banks, in cooperation with the EBRD, has been studying the possibility of joining the State Savings Bank and the insurance company INSIG in establishing a mortgage bank.²⁴ Consultants have already completed a preliminary market analysis, which focuses on households in the upper end of the income distribution (S.I.R.E.S. 1996). The consultants will prepare a complete feasibility study later this year, following additional investigation of institutional and legal issues.

Any financial institution contemplating mortgage financing is going to face tough challenges. Perhaps the most difficult problem will be establishing an effective foreclosure procedure at a time when the political climate is such that the government has not even been willing to evict households in illegal settlements. Also looming is the possibility that subsidized financing under government programs for the "homeless" population will undermine attempts to introduce private sector market rate financing. Government intervention in the housing finance market can weaken an already thin potential market for housing finance. In 1996, only about 12 percent of households in Tirana had total monthly expenditures of \$250 or more. With existing units running around \$20,000 and new units still higher, even some of the wealthiest

²³ A Turkish firm is building 120 square meter units in Tirana for about \$40,000. A Malaysian firm is about to begin construction of units intended for the high income market. All of these sales prices are estimates from informed sources.

²⁴ The State Savings Bank has operated a subsidized government loan program for purchasing or improving homes. INSIG has experience constructing homes and making soft loans to its employees.

households are going to have to make large downpayments, which for many households will only be possible if they can sell their existing home.

As in many other transitional countries, housing finance most often involves households self-financing the construction or purchase of their homes. For new construction, this typically involves installment payments to a developer or builder, with the household making the final payment just before it moves into the unit. For existing sales, a household often pays with the proceeds from the sale of its previous unit, combining this with additional resources if necessary. Remittances have been an important source of financing for homes.

Realizing the Benefits of Privatization

Privatization of the state-owned housing stock has been a cornerstone of economic reform plans in most transitional economies. Consequently, the share of the state-owned stock that has been privatized is a closely monitored indicator of a country's progress towards market reforms. Some of the key potential benefits of housing privatization include:²⁵

- The government can reduce or eliminate subsidies for operating and maintaining units;
- The creation of a large number of private property owners fosters the development of a sales and rental market, which, in turn, increases mobility and the efficient use of the stock;
- Upon becoming owners, households have a greater incentive to invest in their units and maintain them; and
- Property income and housing expenditures are monetized as parties begin to exchange cash for housing services.

The problem with some of these benefits is that it takes more than just privatization for them to be fully realized, and what constitutes a benefit depends on one's point of view. Albania has almost totally privatized its housing stock, but much work remains to be done in terms of defining a proper role for government, improving the functioning of markets, and transforming the behavior of households.

The desire to improve housing quality and maintenance is a good example of a goal that cannot be achieved by privatization alone. The initial prospects for improvement were not necessarily bad. The high level of privatization allowed the government to disband the state enterprises responsible for maintaining housing. This saved the government money because it had been charging extremely low rents that did not cover routine repair and maintenance, let alone major capital improvements. The savings were a clear benefit from the government's point of view, and along with the sales revenue from privatization, they constituted a potential revenue source for other housing-related activities. The government assumed that households would take responsibility for the upkeep of their units. To facilitate this, It passed a

⁵ See Lowry (1993) for more on privatization.

condominium law to address the problem of maintaining common property. Because households paid low prices for their units, they did not have to exhaust their resources on acquiring their units, and could therefore have money available for improvements. With no resale or rent control restrictions, households presumably have had a strong incentive to maximize the market value of their unit.

Although many key pieces were in place, the results have been disappointing to date. Many households have been spending money fixing up the interiors of their units, but most have not had success in maintaining common property. Some of the reasons are more obvious than others. The government did not successfully implement the condominium law, which could have helped to generate resources for maintenance and improvement. With no legal mechanism to force cooperation, households tend to concern themselves only with problems that directly affect them. The lack of organization among owners means there has been no demand for private businesses specializing in professional management services or comprehensive building maintenance.²⁶

The government also did not use any of the savings or revenue from privatization to establish initial capital reserves for buildings.²⁷ Instead, owners received a discounted price that should in theory have compensated them for any existing repair backlogs.²⁸ Unfortunately, there is presently no way to convert equity into cash through financing.²⁹ Rehabilitation loans require owners' cooperation and a demonstrable willingness to pay. Property collateral is difficult to arrange among many owners, and in the case of common property, is of dubious value to financial institutions. Loans must instead be secured by a stable cash flow history, which few condominiums possess.

Other reasons behind the low levels of improvement are harder to pinpoint because they have more to do with what people think. Some households still believe the government is responsible for fixing their units. It also appears that some owners are reluctant to organize themselves because it reminds them of mandatory meetings during the communist era. Clearly, some housing is in such bad condition that it makes no sense for an owner to dump more money into it.³⁰ However, in other cases, it may also be perfectly rational for an owner to

⁶ Individual contractors (e.g., plumbers, painters, electricians) have been available to perform piecemeal tasks.

⁷ The government spent the roughly \$17 million in sales revenue on completing units it had started prior to 1990.

⁸ Households occupying units in very poor condition received them free of charge.

⁹ The possibility of rehabilitation loans for Albanian condominiums was explored by O'Leary (1996). Banks, et al. (1996) analyzed the problems of designing a rehabilitation loan program for condominiums based on the experiences of other Central and Eastern European countries. Among the key impediments they identified are: a lack of owners' financial resources; the absence of property management firms that can assist condominiums in the process; the difficulty of obtaining technical documentation on a building's condition; problems arising from mixed ownership; and confusion over repair responsibilities.

¹⁰ Housing in extremely poor condition is sometimes referred to as a "negative asset" in the literature.

save money by deferring maintenance, and then use the savings for the purchase or construction of a different unit. Undoubtedly, some owners do not care if their units depreciate simply because they paid so little for their units. Regardless of the motivation, once owners begin to disinvest, they set the stage for a downward spiral in home values, as the lack of maintenance and repairs discourages neighbors from investing in their units.

There is no question that privatization has stimulated the development of a sales and rental market by creating a large number of private property owners. Brokers have appeared in response to the need for intermediaries. The fluidity of the market, however, would benefit greatly from measures that would increase the availability of formal housing finance. In addition, the implementation of an effective condominium law would clarify property rights and enhance property values. A direct consequence of the development of a market-based housing sector is that poor households will be unable to afford rising housing costs. The government needs to develop mechanisms to protect the poor from harsh market outcomes.³¹

Government Housing Policy

The government's current housing policies center on programs for the "homeless" population. The government's highest priority is assisting the approximately 10,000 homeless households that are tenants in dwellings that have been restituted to their original owners.³² An additional 3,000 ex-political prisoner households fill a second category of the homeless. The roughly 80,000 to 85,000 households living in overcrowded or dilapidated housing make up the third, and largest, homeless category. There is a fourth category that includes poor households that cannot afford to buy a home, but it is not the focus of present government assistance plans.³³

The November 1995 law "on the state contribution to the homeless families" outlined a new approach towards assisting the homeless population.³⁴ Instead of constructing and selling homes to eligible households, the government would give grants that households could use to

³¹ Unemployed workers can receive a social support payment, which, at the end of 1994, was equal to 80 percent of the minimum monthly wage.

³² A lower figure of 6,000 households is sometimes cited. The homeless figures in the main text are based on a conversation with M. Duka.

³³ Although the exact number is uncertain, the roughly 100,000 families on the waiting list of local governments includes political prisoners, tenants in restituted properties, overcrowded households, and households occupying units in poor condition. A spatial social norm determines if a household can be classified as overcrowded. A Ministry of Construction and Tourism source estimates the number of overcrowded homeless households to be about 30,000.

³⁴ This was followed up with the April 1996 decision on "the financial operations procedures for extending loans and state subsidies through the savings bank, pursuant to law 'on the state contribution to the homeless families.'"

purchase homes, to buy land for the construction of homes, or to pay rent. The grant would not be big enough to cover the full price of a unit. The size of the grants are computed primarily on the basis of household size and the combined ages of household members. A family of four, for example, with a combined age total of 80 years might receive about \$4,700 dollars. The difference between the price of a unit and the subsidy amount can come from a household's resources or it can come from a loan from the State Savings Bank. The credit is subsidized according to a sliding scale based on income, with the poorest households receiving interest-free loans.³⁵

While this voucher-like approach is to be applauded for its flexibility, its cost-effectiveness is likely to be hindered by the financing component. The cost of the interest subsidies could become quite large, and if loan defaults are not accompanied by evictions, partial grants will become total grants. The loan funds come from an annual budget appropriation, which means the State Savings Bank is not risking its own funds and may not be highly motivated to collect payments.

One of the big problems facing the central government has been fixing the size of the homeless population, which is currently believed to be around 100,000 families. Local governments generate the homeless lists, but the central government pays for housing subsidies. Therefore, there is little incentive for local governments to economize on their lists. The central government is considering one possible solution in which it issues clearer eligibility guidelines, and then transfers financial responsibility for the homeless to local governments.

The government is also taking steps to reduce the role of the National Housing Agency (NHA) in the construction and financing of units.³⁶ The State Savings Bank is to take over the loan servicing functions of the NHA, whose track record in collections under the World Bank housing completion programs has been dismal. Budget appropriations for new housing credit will now flow to the State Savings Bank. The NHA has many structural problems which raise questions about its future viability.³⁷

The government's approach to solving housing problems is geared too much towards housing production and home ownership. This has been an expensive strategy that the government cannot afford to sustain. In recent years, housing subsidies have consumed the equivalent of about 15 percent of the state's capital investment budget. Even the roughly \$17 million that was generated by privatization sales went to complete new construction. This was money that could have been used to rehabilitate some of the privatized stock. The government

⁵ This grant program is not intended for political prisoners, who in the past were promised free units.

³⁶ The NHA was originally created as the implementation agency for the World Bank housing completion projects. It has become the government agency that is responsible for the government's direct housing construction programs. It has conducted cash and credit sales operations despite lacking the institutional structure and capabilities of a financial institution.

³⁷ The problems of the NHA are more fully discussed in Hirshen (1995a, 1995b).

can stretch its limited resources further by shifting its focus more towards upgrading infrastructure and preserving the existing stock. Preserving the life of existing units reduces the need for new construction and is usually the least expensive way to “increase” the housing supply.

The government recognizes the need for a rental sector, particularly for the poorest households, which cannot afford to buy a home. The government intends to retain some of the units it builds as low-income rental housing. At present, it is not clear to what extent they will favor this approach over simply providing cash assistance to households to rent private dwellings.

Technical Assistance³⁸

The government has been receiving USAID technical assistance primarily in the areas of privatization, condominiums, land management, infrastructure development, land development, and housing policy. The assistance has followed a logical progression and has generally been responsive to rapid changes in the economic and political environment. It has also succeeded in accommodating the interests of others working in the sector such as the World Bank.

Early technical assistance focused on privatization and condominiums. The government implemented privatization and condominium laws that were heavily based on consultants' recommendations. As discussed earlier, the privatization process was an enormous success, if success is measured in terms of the number of units that were privatized. However, many of the benefits of privatization will not be realized until progress is made in:

- Educating owners about their rights and responsibilities;
- Establishing an effective condominium law;
- Encouraging the creation of property management firms; and
- Developing a way to finance rehabilitation.

The government could benefit from additional assistance in each of these areas.

The work on condominiums is especially important in light of the physical problems with the multifamily housing stock. One point should be made absolutely clear: no one expects the implementation of the condominium form of ownership, by itself, to accomplish much in the way of improving the housing stock. The condominium work is important because it clarifies property rights and provides a legal basis for forcing owners to behave in certain ways. Too

³⁸ This discussion of technical assistance is based on work described in various documents including: Land Management Task Force, 1995a, 1995b, 1995c); Tirana Land Management Task Force (1996); World Bank (1996); Thalwitz, et al. (1995a, 1995b, 1996); Hirsch, 1995a, 1995b, 1995c, 1996a, 1996b); and Driscoll (1994).

often, people liken condominium associations to good-intentioned groups of volunteers. In fact, there is almost nothing voluntary about condominium associations—which is why they work. Without progress in this area, it will be hard for owners to organize themselves and to raise the money needed to attract professional managers and establish financial credibility with potential lenders.³⁹

Under the Tirana Land Management Program, the Tirana Land Management Task Force has produced some essential studies and initiated several pilot projects with technical assistance provided by USAID.⁴⁰ The Task Force assessed trunk infrastructure needs and prepared a preliminary structure plan for greater Tirana. It also analyzed land development strategies, and reviewed legal, institutional, and financial aspects of urban land development. Based on its analyses, the Task Force designed a pilot land development project and an infrastructure upgrading project, both of which are eligible to receive World Bank financing.

The infrastructure upgrading project is attractive because it offers many benefits, including affordability, targeting of subsidies, improvements in living conditions, and coverage of both legal and illegal settlements. This approach will help demonstrate that solving problems with the existing stock is more cost effective than building new units. The implementation problems that the government faces are not that unusual, so there is a wealth of upgrading experience from around the world from which it can draw solutions.

In contrast, the pilot land development project has had a troubled history, and is currently on hold. The objective of the project was to "demonstrate that the public sector can plan and service land, sell the land to private sector developers, and recover the cost of the land and infrastructure."⁴¹ The main problem with this approach is that it has the government in the role of a developer and is based on land owned by the government. A large share of the original 70 hectare pilot site turned out to be privately owned, and much of the remaining government land has since been illegally occupied. An ownership dispute even stopped progress on a small 4 hectare pre-pilot site. Even if the government could avoid land disputes and encroachment, the limited supply of government land would constrain the replicability of this approach.⁴² The government should drop this approach to land development in favor of

³⁹ A condominium pilot project in Durres has relied heavily on a spirit of cooperation to achieve its objectives. If this spirit were universal, there would be little need for condominiums. Unfortunately, such cooperation does not always exist. The Urban Institute conducted a survey that included individuals living in buildings where residents were *not* successful in getting their neighbors to cooperate on a common property improvement project. As anticipated, people are generally unwilling to contribute resources for projects from which they do not directly benefit.

⁴⁰ The Land Management Task Force consists of key central government and local government planning officials. They oversee the Project Team, which includes a multi-disciplinary staff of local and expatriate experts.

⁴¹ See PADCO (1996), p.22.

⁴² Illegal settlers rarely build homes on land known to be in private ownership. They generally seek state-owned land or land that is owned by the state. This suggests that illegal settlements might be avoided by selling state-owned land. In fact, this preemptive

one where the government helps private developers to service private land. This approach would more closely conform to the notion of facilitating the private sector.

The housing policy advisor has made important contributions to the ongoing policy dialogue, but because he only periodically visits the country, it can be difficult for him to keep well-informed of new developments, and there can be a lack of continuity in matters requiring constant follow-up. The advisor could bolster continuity by forging a closer relationship with the full-time, in-country staff who could, for example, monitor the progress of a piece of legislation. An added benefit of working closer with in-country staff is that they can serve as a sounding board for new ideas. It would also give the in-country staff an opportunity to discuss policy related issues that are relevant to ongoing or proposed projects. The initiation of a more systematic dialogue with donor agencies and international organizations would also be helpful when policy consistency across organizations is desired.

The most recent assistance initiatives deal with privatizing utilities, and expanding housing, land development, and infrastructure development technical assistance to cities other than Tirana. With respect to work on utilities, improving cost recovery and reducing waste will nicely complement the major water, sewage, and electricity trunk infrastructure programs that are currently underway. It is also clearly the right time to expand technical assistance to other cities. A core of knowledge has been gained from working in Tirana which will be tremendously useful as the problems of other cities are analyzed. New problems will present themselves, especially in the area of central-local government relations, but new possibilities will also arise.

Finally, this report should make it clear that all of the work that has been put into the regional housing indicators project is beginning to bear fruit. The ability to make comparisons with other countries gives an analyst a better feel for a country's performance. But just as important, the project gave the participating countries an opportunity to develop more current (circa 1994) population and housing estimates. The up-to-date data is invaluable when populations and economies are experiencing dramatic changes. For example, the housing and land needs estimates appearing in the Preliminary Structure Plan for Greater Tirana assumed that the population would grow from about 474,000 in 1994, to about 675,000 in the year 2000, based on an annual growth rate of seven percent (Land Management Task Force 1995b). The more recent estimates shown in Table 3 of this report indicate that the population was only about 401,000 in 1994, and grew only about one percent per year between 1989 and 1994. The slowing of population growth during the first half of this decade due to emigration means a seven percent annual growth rate through the year 2000 is not likely to be achieved. While both sets of estimates should be viewed with caution, they suggest that the planners will need to reevaluate their estimates of demand for residential land and infrastructure to reflect the impact of emigration.

approach was adopted in Korca, where unserviced plots were sold to the public for low prices. The local government was able to retain control over plot sizes and right-of-ways even though it could not immediately provide services.

Conclusions

The housing sector has undergone major changes since the last sector review took place in late 1992, and it is continuing to rapidly evolve. The privatization of the housing stock and the explosive growth of the private sector construction industry have been impressive achievements. The government, however, still has a long way to go in defining its role in the housing sector. It is still too involved in the direct construction and financing of housing, and its preoccupation with providing new homes for the homeless population draws attention and resources away from more pressing problems such as maintaining the existing stock, upgrading infrastructure, and assisting private sector development.

A rebounding economy and demographic factors are temporarily working in favor of the government, and the government needs to take advantage of this situation. Emigration is checking population and household growth, unemployment and inflation are down, and remittances are making a lot of cash available. There may not be a better time to take tough measures such as reducing subsidies and improving cost recovery. Fortunately, the USAID technical assistance program is in a good position to help the government make hard choices.

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