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## Housing Market in Albania; Theoretical and Empirical Analysis

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**Abstract:** The last decades, the housing market in Albania is experiencing considerable growth and development. Traditionally, customer preferences are towards owning the house rather than renting, leading to an increase in demand for housing. Buying a house is the biggest investment and fixed asset for a household. The factors affecting the housing market are complex and changeable. Fluctuations in this market affect the whole economic system of the country. In recent years, the demand for housing in Albania has been increasing, especially in large cities. This increase in demand has been influenced by urbanization, migration from rural areas to urban areas, as well as the increase in income and standard of living. The main purpose of this paper is to analyze the main factors that affect the demand for housing. First part of the paper presents a diverse literature dealing with the complexities of the housing market. The other sections will have a combination between theoretical and empirical analysis using different methods. This paper is expected to contribute to the housing market analysis literature, considering that there are few studies in this field in Albania and the demand for such studies is high.

**Keywords:** housing market; house prices; demand; houses characteristics;

**JEL Classification:** C2; R21; R23; R32

### 1. Introduction

Albania has undergone significant economic and social changes over the past few decades, which have greatly impacted its housing market. The transition from a centralized economy to a market economy, coupled with increasing urbanization, has driven the demand for housing and influenced market dynamics. Understanding the housing market in Albania is crucial for policymakers, investors, and residents, as it provides insights into economic trends, social changes, and potential investment opportunities.

The construction sector and the housing market have experienced significant changes and have made the main contribution to economic growth during this period. Transition period; changes in the demographic, economic and social factors have increased demand for new constructions. Housing construction easily contributes to the Gross Domestic Product and its market has a direct impact on the national and international economy (Hu, Cheng, Wang & Xu, 2013). Housing sector is experiencing considerable growth and development and together with other sectors determine the level of development. Traditionally, in Albania customer preferences are towards owning the house rather than renting, leading to an increase in demand for housing. Buying a house is the biggest investment and fixed asset for a household.

The structure of the paper is as follow. The first part shows a summary of the variety of literature that deals with the complexity of the housing market. The literature review aims to synthesize existing

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research on the demand for housing, especial in Albania, examining the factors that drive this demand, the challenges faced by the housing sector, and the implications for future housing policy and development. In the next section is described the developments in the housing market in Albania, with a special focus on the performance of prices and determining factors from the demand side.

## **2. Literature Review**

The housing market is considered a market with the very heterogeneous products. Housing plays a very important role for the construction sector of a country, as the main product of this sector, which in many countries, and in particular in developing countries, is also the promoter of economic growth and employment (OECD, 2011).

The Albanian government's policies and regulations significantly influence housing demand. Post-1990 reforms aimed at privatizing the housing sector and liberalizing the market have had mixed results. While privatization increased home ownership, it also led to a fragmented housing market with significant informal housing developments. Murtazashvili and Murtazashvili (2016) note that regulatory challenges, such as unclear property rights and inefficient land use planning, continue to hinder the formal housing market's growth and development.

Economic growth and income levels are primary determinants of housing demand in Albania. Following the transition from a centralized to a market economy in the early 1990s, Albania experienced rapid urbanization and economic restructuring. Studies such as those by Zoto et al. (2013) highlight that increasing GDP and rising household incomes have led to greater demand for housing, particularly in urban areas. However, economic disparities and persistent poverty in rural regions have limited housing demand outside major cities.

Demographic changes, including population growth, migration, and aging, significantly affect housing demand. Myers and Ryu (2008) explore how aging populations' impact housing markets, indicating increased demand for different types of housing, such as single-story homes and assisted living facilities. Similarly, migration patterns, both domestic and international, influence housing demand and supply dynamics, as shown in studies by Saiz (2007). Market perspective, Rosen (Rosen, 1974), included it to the housing market. Rosen's model argues that there is a nonlinear relationship between the price of goods and their inherent characteristics. Rosen's seminal paper indeed laid down the foundation for hedonic pricing theory, which suggests that the price of a good can be decomposed into the implicit prices of its various characteristics. This approach is widely used in economics, particularly in the valuation of non-market goods and services, where the market price may not fully reflect all attributes of the good.

Housing affordability is a persistent concern in many regions, often defined as the ratio of housing costs to household income. Stone (2006) advocates for the residual income approach, which considers housing affordable if a household can meet other essential expenses after paying for housing. This perspective highlights that rising housing prices and stagnant wages exacerbate affordability challenges, particularly in urban centers. Gyourko and Linneman (1993) emphasize that policies aimed at increasing income or reducing housing costs are essential to address affordability issues effectively.

Housing markets exhibit significant regional disparities due to variations in economic conditions, local policies, and demographic trends. Malpezzi (1996) highlights how regional economic performance, employment rates, and income levels contribute to these variations. Urban areas often face higher demand and prices due to concentrated economic activities and amenities, as noted by Gabriel and Rosenthal (2004). Conversely, rural areas may experience different dynamics, with lower demand and prices but also fewer economic opportunities.

### **3. The Albanian Housing Market**

The construction sector boom in Albania over the past two decades, particularly in the housing market, reflects profound changes in demographic, economic, and social factors. These transformations have fueled a significant increase in demand for new construction, making the housing market a vital component of both the economy and culture.

The challenges you've outlined regarding information, coordination and management in the immovable property market in Albania are indeed critical for ensuring transparent and efficient processes. Let's break down these issues: Coordination of Information:

Effective coordination of information is essential for ensuring that construction permits are distributed in accordance with well-researched territorial development plans. This requires collaboration between various stakeholders at both the local and central levels, including government agencies, urban planners, and developers. Implementing mechanisms for sharing information and coordinating decision-making can help streamline the permitting process and promote sustainable development.

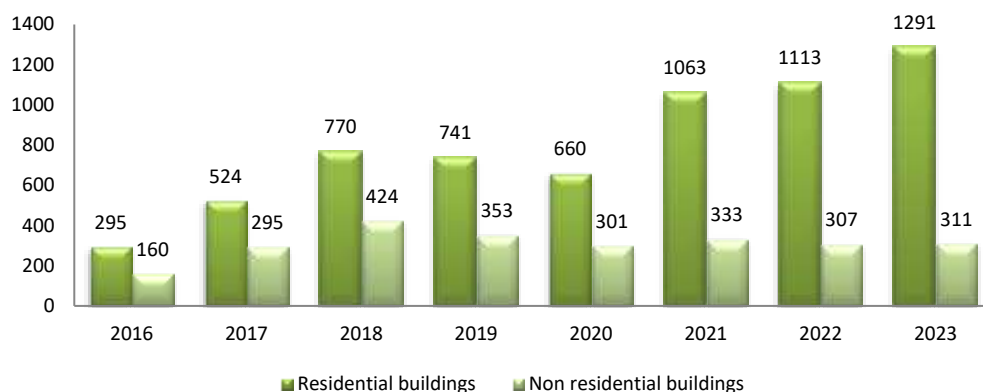
Legalization of Informal Properties: The on-going process of legalizing informal properties is crucial for regularizing their status and bringing them into compliance with regulations. This process involves addressing complex legal and administrative challenges, such as property rights issues and land tenure arrangements. Clear guidelines and deadlines, along with support mechanisms for property owners, can facilitate the legalization process and prevent further informality in the real estate market.

Property Restitution: Ensuring the completion of property restitution processes for former owners is essential for addressing historical injustices and restoring property rights. This involves resolving disputes over ownership and implementing mechanisms for compensating or returning properties to rightful claimants. Transparent and impartial adjudication processes, along with effective enforcement mechanisms, are necessary for achieving equitable outcomes in property restitution cases.

Unique Property Register: Designing and maintaining a comprehensive register for all immovable property is fundamental for ensuring transparency and facilitating property transactions. A centralized register, managed by the Immoveable Property Registration Office, can provide accurate and up-to-date information on property ownership, boundaries, and encumbrances. Investing in technology and capacity building to enhance the functionality of the register can improve its effectiveness in supporting the real estate market and promoting investor confidence.

Addressing these challenges requires concerted efforts from policymakers, government agencies, and other stakeholders to implement reforms, strengthen institutions, and enhance coordination mechanisms. By tackling these issues, Albania can create a more transparent, efficient, and sustainable immovable property market that contributes to economic development and social welfare.

As illustrated in Figure 1, the number of construction permits granted since 2016 has shown a significant upward trend. Despite a brief decline in 2020, likely due to the impact of earthquake of 2019 and the COVID-19 pandemic, the issuance of construction permits has steadily increased from 2021 onwards. The main reasons for the increase in construction permits are the reconstructions after the earthquake, new construction areas in Tirana (such as the new Boulevard), etc. This resurgence has stimulated growth in both the construction sector and the housing market, and also increased the demand for housing.



**Figure 1. Number of Permits Granted for Buildings, 2016-2023**

Source: INSTAT

### 3.1. Factors Affecting Housing Demand

Housing demand in Albania is influenced by a variety of economic, demographic, social, and policy-related factors. Understanding these factors can provide insights into the dynamics of the housing market in the country. Here are the key factors influencing housing demand in Albania:

a) Household income: Higher household incomes increase the ability to afford housing, thereby boosting demand. Economic growth and rising wages can enhance housing affordability.

**Table 1. Annual Change in Monthly Mean Equivalised Disposable Income**

|   | 2020 | 2021 | 2022 |
|---|------|------|------|
| Monthly Mean equivalised disposable income per capita (%) | 8.3  | 2.6  | 15.4 |

Source: Income and Living Conditions Survey 2020, 2021, 2022, INSTAT

In 2022, the monthly mean equivalised disposable income per capita has increased by 15.4 % compared to 2021.

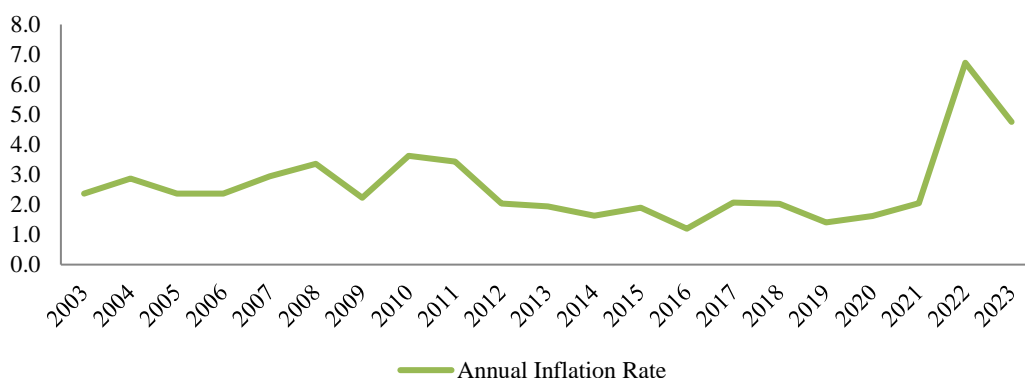
b) Employment Rates: Employment stability and job security are crucial for housing demand. Higher employment rates increase income stability, which positively impacts the ability to purchase homes.

**Table 2. Employment and Unemployment rates (%)**

|                   | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------|------|------|------|------|------|------|------|
| Employment rate   | 48.7 | 50.3 | 52.1 | 53.4 | 52.5 | 52.9 | 55.5 |
| Unemployment rate | 15.2 | 13.7 | 12.3 | 11.5 | 11.7 | 11.5 | 10.9 |

Source: LFS survey, INSTAT

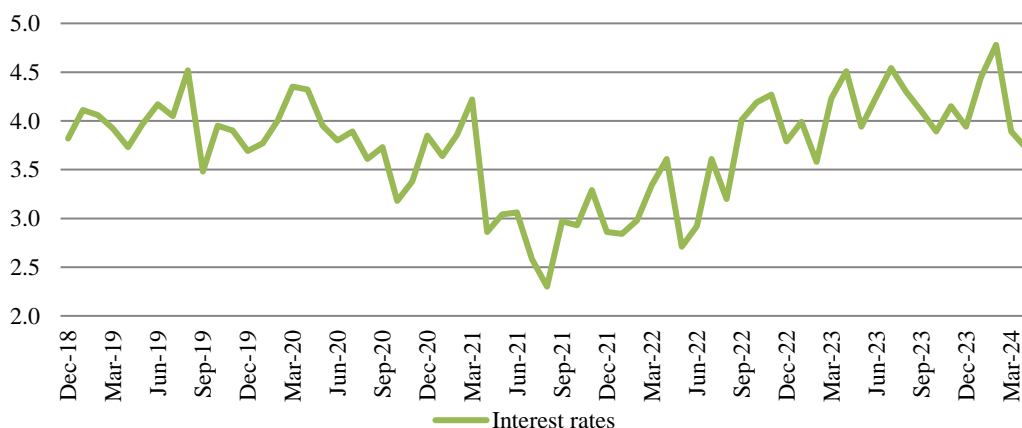
c) Inflation Rates: High inflation can erode purchasing power and negatively impact housing demand, while low and stable inflation supports economic stability and housing affordability.



**Figure 2. Annual Inflation Rates**  
Source: CPI, INSTAT

The inflation rate has been within the norm except for 2022 and 2023, due to the war in Ukraine.

d) Interest Rates: Lower mortgage interest rates reduce the cost of borrowing, making home loans more affordable and stimulating housing demand. Conversely, higher interest rates can dampen demand.



**Figure 3. Interest Rates on Lek-Denominated Loans for Households**  
Source: Central Bank of Albania

e) Demographic changes, including population growth, urbanization, and migration patterns, significantly impact housing demand in Albania. According to INSTAT urban areas, especially the capital city Tirana, have seen substantial population growth due to rural-to-urban migration and natural population increase. This has intensified the demand for housing in urban centers while leading to depopulation in rural areas. Additionally, the aging population poses new challenges and demands for housing types that cater to elderly residents.

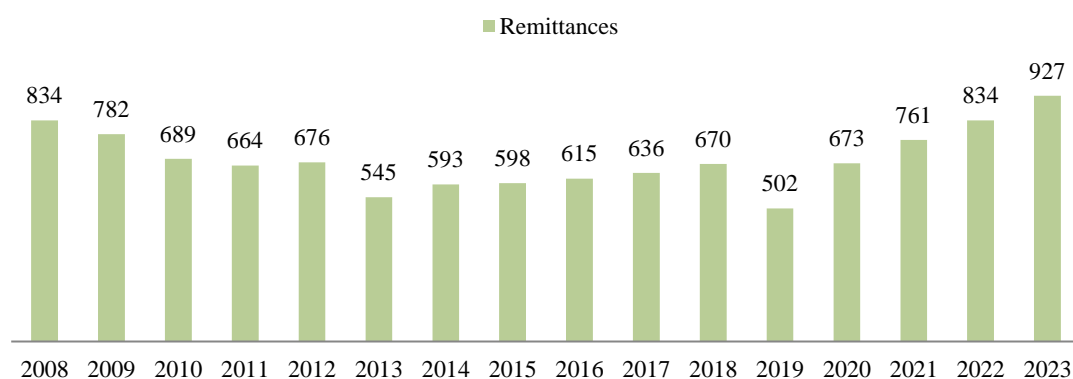
Urbanization has been a significant driver of housing demand in Albania. Based on data of Census (1989-2011) and World bank data is indicated that the urban population in Albania increased from 36% in 1989 to 64% by 2022. This rapid urbanization has led to a surge in demand for residential properties in cities.

**Table 3. Population (Urban-Rural)**

| Year | Urban | Rural |
|------|-------|-------|
| 1989 | 36 %  | 64 %  |
| 2001 | 42 %  | 58 %  |
| 2011 | 54 %  | 46 %  |
| 2022 | 64 %  | 36 %  |

Source: INSTAT and World Bank

f) Remittances: Remittances from Albanians working abroad play a significant role in the housing market. These funds often contribute to home purchases and construction, increasing housing demand. Emigration has played a major role in the demand for houses in urban areas, especially Tirana, as a consequence of the improvement in living conditions and higher disposable income of Albanian emigrants and their families at home.



**Figure 4. Remittances 2008-2023 (mln Euro)**

Source: Central Bank of Albania and Eurostat

#### 4. Conclusion

Housing market serve as vital indicators that impact individual households, financial markets, and the broader economy. Their fluctuations influence economic behaviour, investment decisions, and policymaking, making them highly important in both micro and macroeconomic analysis.

The literature on the housing market provides a comprehensive understanding of the multifaceted factors influencing housing dynamics. Affordability remains a critical issue, influenced by economic disparities and policy constraints. Market cycles, driven by broader economic conditions and financial practices, underscore the need for robust regulatory frameworks.

The demand for housing in Albania is driven by a complex interplay of economic growth, demographic changes, urbanization, policy frameworks, and migration patterns. While economic development and urbanization have increased housing demand in cities, challenges such as affordability, regulatory inefficiencies, and inadequate infrastructure continue to pose significant obstacles. Addressing these issues through targeted policies and improved housing finance mechanisms will be essential for ensuring sustainable growth in Albania's housing market.

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