

Urban development in Albania: the success story of the informal sector

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A. Executive summary

Urbanization in Albania has gone through three distinct phases since the fall of communism. The first phase was dominated by the informal sector. The second phase saw the consolidation of the informal sector and the emergence of a formal sector. The third phase, the current one in 2006, consists in the consolidation of the formal sector and the regularization of the informal sector. The main government objective during this third phase would be to formalize the operation of the real estate sector. The design of new regulations and urbanization procedure, including master plans, will have to take into account the historical process of the first 2 phases. The government will have to make sure that low income households are not excluded from the formalization effort.

The new constructions and urbanization of the first two phases were often spontaneous and occurred without much government intervention. The informal manner of allocating land and building houses has produced an impressive outcome, in terms of quantity and equity. Through the informal process the poorest households were able to build significant real assets.

By contrast, during the current phase the local governments will have to play a major role in designing appropriate regulations, enforcing them, monitoring urbanization and market prices, establishing a local tax base to finance the operation and maintenance of urban infrastructure and services, and finally creating mechanism for financing primary infrastructure. One of the main goals of the formalization of the real estate sector is to provide fiscal resources to municipalities while implementing a simple set of regulations that does not paralyze the functioning of the emerging formal real estate market. To fulfill that role, municipalities will have to understand how real estate prices are generated and how markets function, in particular in providing shelter to low income households.

Simple master plans containing basic zoning maps together with affordable land subdivision regulations will have to be designed to establish the legal framework under which Albanian cities could develop into modern European cities.

B. The urbanization process in Albania: the phased transition from a command economy to markets

Urban development in Albania has gone through several phases since the change of economic system in the early 90s. To understand the current urban spatial structure of Albanian cities – including their problems and opportunities –

it is necessary to review the successive urbanization phases which have shaped the cities as they exist today. The number of urban development policy options are limited by the existing urban structures and their potential for evolution.

The first phase of urbanization: the indispensable role of the informal sector in creating a real estate market

The first phase of urbanization, between 1991 and 1997, was dominated by massive internal migrations from the Eastern rural areas of the country toward the Western urban areas. Prior to 1991, the strict state control on internal migration, which were an important part of the command economy, resulted in an artificial and inefficient spatial distribution of population. During the communist period, migration toward cities was tightly controlled. In 1991, at the time of the transition, the population of Albania was 75% rural; an astonishing high proportion of rural population for a European country at the end of the XX century!

State owned rental apartments constituted 70% of the urban housing stock. Consumption of floor area was around 5 m² per person in urban areas (compared to, for instance, 16 m² per person in Bulgaria at the time of transition). The collapse of the communist regime in 1991 triggered a vast migratory movement toward the cities and from the eastern mountainous part of the country toward the plains of the western coast. Following the gradual opening of the economy, people migrated toward cities where they felt – rightly – that there would be more economic opportunities.

The migrants from rural areas settled quickly around major cities in the western parts of the country. The uncertainty of land tenure and the legal framework vacuum created by the collapse of the communist regime made it easier to claim a lot on vacant land in the immediate periphery of cities. Indeed, in the absence of laws and regulations, the only way to develop land and build houses was to do it informally. The new migrants brought with them few skills usable in urban areas except for the skill of building sturdy and spacious houses with whatever materials they could find locally.

This spontaneous movement of people from impoverished and resourceless mountainous rural areas toward cities near the Adriatic seaboard was a necessary step in the economic development of Albania and its integration into the European economy. Not surprisingly, the cities at the receiving end of the migratory flow were not ready to develop land in sufficient quantity to accommodate the new migrants.

Within the cities themselves, drastic land use changes were already taking place to accommodate the new market economy. Large areas of new floor space had to be built to accommodate the new commerce and services which were necessary to create new jobs. In addition, a number of urban households living in exiguous apartments in state owned public housing were looking for new more spacious private apartments or houses built with more modern standards. A new flow of remittances were fuelling this building boom. Land development and construction during this first development phase was practically entirely informal.

Municipalities did not have time, staff or resources to develop appropriate regulations and institutions to provide the required infrastructure and legal framework to urbanization.

This first phase in the urbanization of Albania in the post communist period is not to be deplored. It contributed to subdivide and distribute state land in small parcels and it created a large urban housing stock of sturdy houses which could be subsequently traded, creating the first embryo of a real estate market.

The second phase of urbanization: consolidation of the informal sector and emergence of the formal sector

The second phase saw a consolidation and partial regularization of the informal sector areas. The development of infrastructure in the large informal area of Bathore was typical of this development phase. The municipalities started to be better organized and it was possible to reclaim some public parks and river banks which have been developed informally. The second phase saw also the emergence of a formal real estate sector, with the creation of new professions ranging from real estate brokers to developers which did not exist in Albania under the command economy.

During this second phase, the formal sector started to operate mostly in the center of cities by redeveloping the land occupied by obsolete buildings. Most of the buildings constructed by the formal sector were multistoried apartments or office building and commercial establishment. Meanwhile the informal sector continued to increase the housing stock in the form of detached houses in the periphery of cities.

To this day, the formal real estate sector is still struggling because of the embryonic nature of laws and urban regulations and the difficulty of staffing municipalities adequately to enforce them properly.

The third phase of urbanization: the formalization of real estate development

Albanian cities are now at the beginning of a third phase of urbanization during which laws and regulations have to be developed and enforced so that all real estate – whether existing stock or new construction – will eventually become entirely formal. Designing new regulations adapted to Albania will be a challenge. Just copying regulations and urban planning process from other countries of Europe will not do. Any new urban regulation will have to take into account households' income and the large existing informal sector stock. Failure to take into account the specificity of Albanian urbanization, in particular by designing regulations that does not take into account current households income will just result in an increase in the informal sectors and a possible return to the free for all that characterized the first phase of urbanization. It is important to note that the transition from informal to formal has to be mostly voluntary. No government can enforce laws which require costs in time and money that most households and firms cannot possibly afford. For the majority of households and firms there should be a clear financial incentive to choose the formal sector over the informal one.

C. An assessment of the current stage of development of Albanian cities

Albanian cities have gone through 15 years of rapid social and economic transformations. As could have been expected, the spatial transformation of Albanian cities under the pressure of unpredictable political events and economic changes has not been following a smoothly planned transition path. However, the outcome of this apparently chaotic process is rather positive. Albanian cities are certainly looking better than they were 15 years ago; the amount of new floor space built and the number and quality of new dwellings added to the housing stock in such a short time is astonishing. For instance the average floor space consumption per person which was around 5 m² per person at the time of the transition is now about 18 m²¹ (in cities of the coastal areas, like Dures, Fier and Vlore²). The quality of housing and the amount of floor space consumed has increased for all income groups. The distribution of average floor space per dwelling in the cities of the coastal area shows that the majority of the poorest households, within the first quintile of the urban income distribution (households with yearly income below Lek 275,000), have been able to afford significant amount of floor space per dwelling. For instance as shown on Figure 1 the majority of household in the first quintile have houses between 40 and 100 m², only 18 % of households in this income groups have houses below 40 m². The informal sector therefore has been very successful at distributing land and housing in an equitable way. The graph of Figure 1 shows the distribution of the area of dwellings per income group. These dwellings are all built in sturdy and permanent materials; however, the quality of infrastructure for identical size dwelling is not equivalent. The poorest households have relatively large dwellings but in unserviced areas in the outskirts of towns, while the higher income groups have on average somewhat larger dwellings but in areas that are fully serviced. The ability of the lower income groups to have access to relatively large well built dwellings – even if in unserviced areas – is a significant achievement. In many countries with households' income similar to Albania, the majority of households in the lowest income quintile are usually able to afford dwelling mainly below 40 m² in unserviced areas and the gap between the dwellings of rich and poor is much wider.

¹ LSMS (Living Standards Measurement Study) 2005

² In the rest of this report we will refer to income and consumption standards of households from the cities of the coastal areas (Vlore, Dures and Fier). Data from LSMS are also available for central (Shkoder) and mountain area (Berat) but they differ only slightly from the Coastal area data, it would therefore be tedious to repeat each set of data and graphs for the 3 regions.

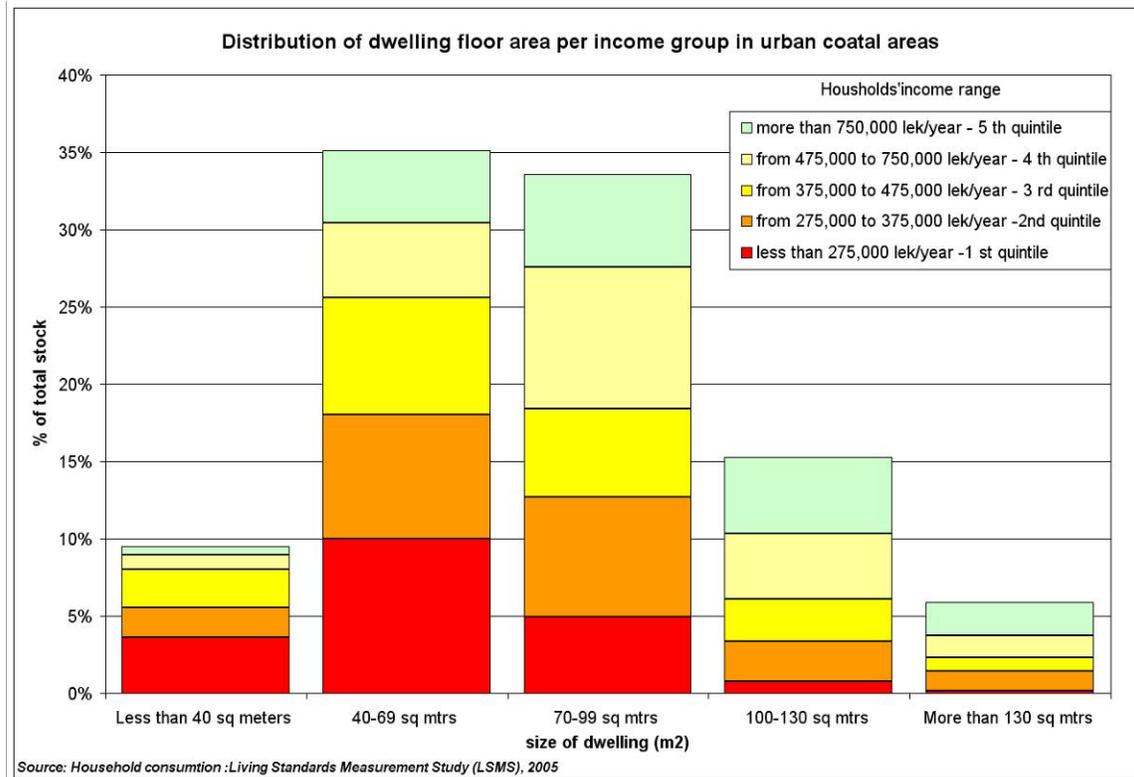


Figure 1: Distribution of Floor area per dwelling per income group

The quantity and quality of new offices and commercial buildings, extraordinarily scarce at the time of the transition, is now clearly responding to demand. The evolving spatial structure of Albanian cities resulting from this largely unplanned growth is compact and rather efficient as seen by the average built-up densities between 80 to 200 p/ha.

The credit for this positive outcome, in particular for the large increase in the number of urban dwelling units, is due to the enterprising spirit of the Albanian private sector – formal and informal – that was unleashed by the collapse of the command economy in 1991. While households and developers have played a major role in building entire new neighborhoods within cities' cores and at their periphery, the public sector has often lagged behind in developing infrastructure, and in creating a clear legal framework for the real estate industry. In addition, municipalities have not been able to create a flow of municipal revenue which would allow a proper maintenance of the infrastructure already created. The lack of protection of the urban and natural environment, in particular in the coastal areas, has been one of the major regulatory failures. However, some municipal interventions were successful: the city of Tirana managed very successfully to recover and maintain the public land lost to informal developers squatting in public parks and along river banks in the 90s.

During the 90s, because of the ambiguous legal framework resulting from the transition from a command to a market economy, the informal sector – by definition functioning at the margins of laws – has been playing a crucial role in developing Albanian cities. While some land parcels still get developed

informally in a number of cities, formal entrepreneurs are now taking over the major role as suppliers of new floor space for housing and commerce. These entrepreneurs are increasingly making use of the resources offered by the new financial sector and as a consequence have an incentive to operate within a clear legal framework to secure solid collateral guaranties. Their main problem is to get access legally to new urban land and to connect to a network of primary urban infrastructure that cannot possibly be developed privately.

After 15 years of unplanned growth the spatial structure of Albanian cities are compact, dominantly monocentric, and displaying a clear pattern of high density in the center and progressive lowering of densities in the suburbs. This decreasing gradient of densities, considered efficient and demand driven, is usually associated with urban structures in cities with a long tradition of market economies³. The combination of the spontaneous informal development process with the “land recycling” accomplished by formal developers is mimicking the outcome of a well functioning market.

D. The land development process in Albania in 2006: response from the informal and formal sector to current regulations

The neighborhoods developed informally during the first phase of urbanization still form an important part of the existing stock

Most of the new constructions built during the 90s were informal and consisted in individual houses built by new migrants from rural areas or by households, already living in apartments, who wanted a house of their own. At that time developing vacant land formally and legally was – and to a large extent still is – practically impossible. Vacant urban land at the edge of cities was either officially belonging to the government and as a consequence not for sale, or was frozen until claims made by families who had been dispossessed by the former regime could be evaluated and cleared by the courts. New migrants’ households invaded these vacant areas at the city periphery, quickly delimited plots boundaries and immediately started building solid houses in stone, bricks or cement blocks. The layout of a typical informal settlement in Berat is shown on Figure 2.

³ See Bertaud, Alain and Bertrand Renaud. *Socialist Cities Without land markets*. Journal of urban Economics, 41, 1997, pp137-51

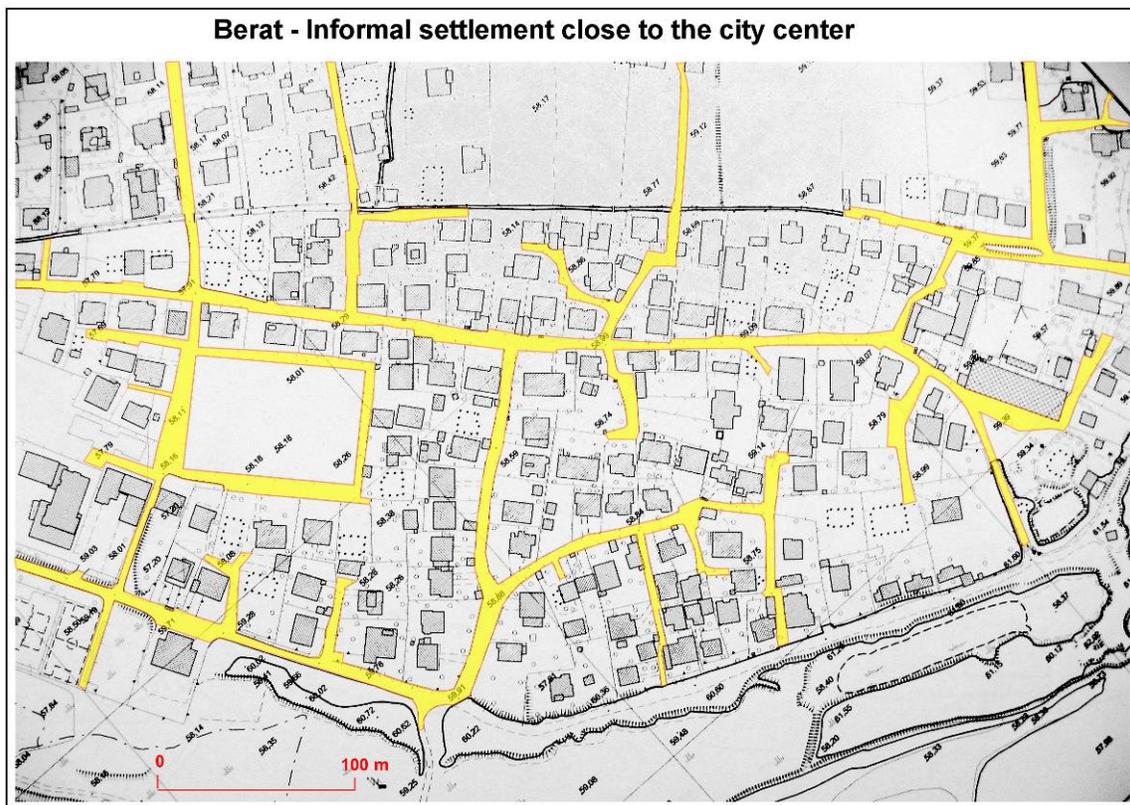


Figure 2: typical informal settlement in Berat. *The map above shows a typical layout in an informal settlement area in Albania. The density is around 100 people per hectare which is an efficient suburban density (save on land requirement) however, the spontaneous network of streets representing about 13 % of the total real developed is adequate for pedestrian circulation and to provide basic infrastructure but inadequate to carry car access and bus traffic. Besides, no area has been reserved for community facilities and open space. A large residential area with this range of density would require about 18 % of land reserved for streets and 10% for community facilities to insure a minimum of car accessibility, a bus route and kindergartens and primary schools.*

These new informal houses, with often more than 100 m² of floor space on 2 floors were much larger and better built than most of the existing apartments in which most urban dwellers were living. Plot sizes varied between 300 to 600 m². The amount of land claimed by each family was limited to the area of land they could enclose and build with very limited resources. The only way to maintain a claim on land was to live permanently on the site and build. This process insured that no household could claim more land that it could build and occupy. In a way, the informal process was similar to a rationing system or to a self regulating mechanism to distribute land “to each according to its need”! As the security of tenure was increasing in the same proportion as the house construction progressed and the density of new communities increased, it created a powerful stimulant for the quick development of new land and for increasing the supply of new housing. In Tirana, for instance, the built-up area more than doubled in size between 1990 and 2000.

Many deplored the anarchic and illegal character of the new urban developments springing spontaneously around Albanian cities. In fact, this spontaneous process might have been the best and most efficient way of distributing land quickly and equitably among a large number of households. The houses which were built informally were durable and constituted an addition to

the urban housing stock which was badly needed after years of under-investments in housing under the old regime. It is also certain that the migration toward larger cities was creating a new rural-urban equilibrium which had also been artificially constrained in the past. The houses were built by using the labor from the neighborhood's households, which, at the time, had no opportunity costs.

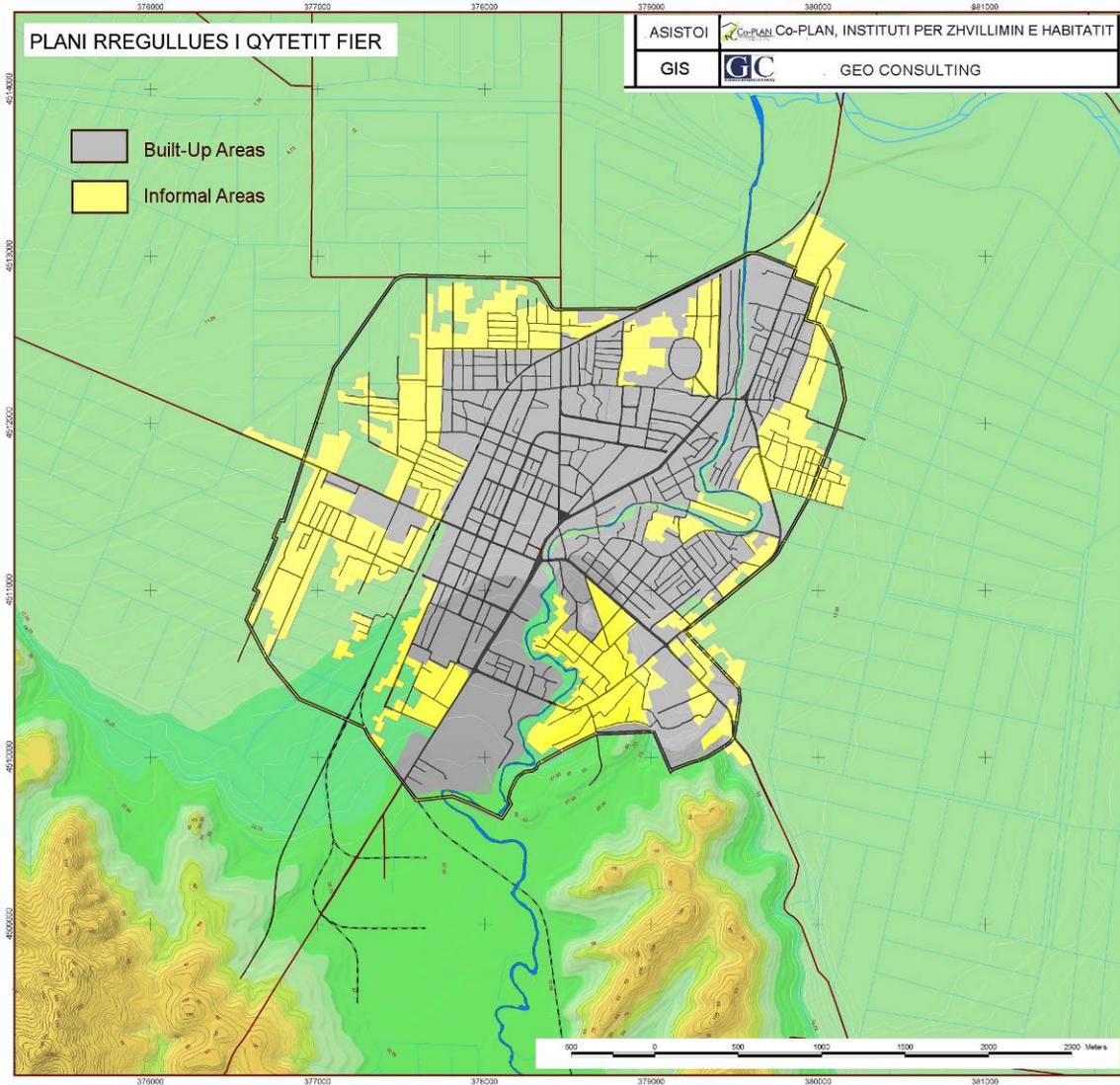


Figure 3: Fier- Areas occupied by informal settlements. *The informal areas in Fier represent about 38% of the total built up area. One should note that most of the informal area has been built in a compact manner within the "yellow line". In the informal areas most streets however are not paved and some houses have no connections to the water network. However, the houses built in the informal areas are durable and constitute a real asset for the city. During the transition from command economy to markets it would have been impossible to develop formally the same area of land and build so many houses in such a short period of time.*

The lack of infrastructure and the insufficient space left for roads and community facilities are the main problems in these informal neighborhoods. The phased construction of a basic infrastructure network by the municipal government, as was done in Bathore, has shown that these new informal neighborhoods could quickly become viable communities with a minimum of public investments. The rights of way of primary streets can be widened with

community participation and lots and buildings purchased for schools and other community facilities. Eventually, with or without improvements, the legal status of the new informal communities shifted from toleration to legalization.

Although no longitudinal statistics are available to measure the pace of change, the large amount of floor space built by the new migrants greatly increased the average floor space consumption per person in the Albanian cities and relieved housing shortages. Paradoxically, in the case of Albania, rapid migration has contributed to increase residential floor consumption per person rather than decrease it as it is often the case in cities submitted to rapid migrations. The average floor space consumption in urban area which was 5 m² per person in 1990 increased to around 18 m² in 2005. The distribution of floor space across income group has been rather equitable as the average floor consumption of the first quintile in the income distribution was about 14 m² in 2005. The spontaneous distribution of suburban land into small parcels was also a quick way of distributing real assets to poor migrants, enabling them to integrate more quickly into the urban economy. This informal land asset distribution contrast to what is happening in many other low-medium income countries where recent migrants stagnate in overcrowded temporary shelters and are unable to accumulate real assets for decades.

In 2006 the areas occupied by informal settlements form an important part of the built-up areas of Albanian cities. In Fier, for instance, the informal areas represent 38 % of the total built-up area (Figure 3). However, only parts of these informal neighborhoods are serviced with infrastructure. These informal areas have densities ranging from 80 to 120 people per hectare. This is a rather high density for suburban areas, showing that the informal areas make an efficient use of land. This range of density will allow in the future public transport to operate efficiently. As can be seen on the map of the built-up area of Fier (Figure 2) the built-up area of Fier, like most secondary cities in Albania, is quite compact.

After upgrading, an informal neighborhood's density will be somewhat lower when primary roads would have widened and some open space and community facilities would have been provided. The density after upgrading might be between 70 to 100 p/ha⁵, still a very efficient density that will contribute to keeping Albanian cities from encroaching too much on agricultural land or natural sites.

The formal real estate sector in 2006

Starting around 2000 a new dynamic formal housing sector emerged. In 2006 formal developers faced the same problems that the wave of migrants faced in the 90s: how to obtain legal access to undeveloped land?. Even in 2006 it is practically impossible to purchase vacant land legally in or at the periphery of cities because of the uncertainty over tenure or because of the lack of infrastructure at immediate proximity. A number of regulations also contribute to the impossibility of developing vacant land legally. For instance, land designated

⁴ LSMS (Living Standards Measurement Study) 2005

⁵ For comparison, American suburbs have a typical density ranging from 5 to 20 people/hectare, a density much below the density threshold which allows public transport to operate efficiently.

as “agricultural land” cannot be subdivided and developed without the permission of the ministry of agriculture in Tirana, even when the land is located in the immediate urban periphery inside the “yellow line”⁶.

Unable to buy vacant land, developers have to purchase the land necessary to build apartments from owners of detached houses on site usually developed informally in the past. Land tenure, if not previously obtained by the household who have developed land informally, is then legalized before transfer from informal households to developers. Developers also manage at time to recycle sites occupied by privatized but dilapidated public housing blocks built at the time of communism. Because of the scarcity of cash in the Albanian economy the land is bartered against new apartment floor space through negotiations between developers and households owning the informal houses. The object of the barter is the percentage of total new floor area developed that will revert to the owners of informal dwellings.

The simple example shown on Table 1 and [Figure 4](#) illustrates the “land recycling” process. In this simple case a group of 4 informal parcels occupying a total area of 2025 m² containing 4 detached houses with a total floor area of 500 m² is bartered by a developer in exchange for 11 apartments in the new building with a total area of 1417 m² representing 35% of the total floor area built on the 2025 m² site. In this example, informal households more than double the amount of floor space they own (from 125 to 354 m²), they obtain new apartments with modern bathrooms and kitchen. The developer does not disburse cash to purchase the land but the implied land costs corresponding to 35% of the floor space is roughly equivalent to what a developer would pay for land in an urban area in a country where the land market function efficiently (in most market economies the cost of developed urban land represent between 25 to 50% of the total sale price of new housing)

Formal developers build mostly apartments in buildings from 4 to 6 floors high. Formal developers do not normally compete with informal developers who build detached houses in the suburbs on land with fuzzy legal status.

The formal land redevelopment system described above has 3 main advantages:

(1) *equity* : it avoids the asymmetrical information which often exists when a developer buy land from a small unsophisticated property owner. In this case it is not important to know the price of land in the area to strike a bargain only to negotiate a percentage of equity in the building. This equity is totally liquid: as soon as the building is complete the former owner of land can then sells or rents the redundant apartments. During construction the developer pays the rent of the households whose land is used.

⁶ The “yellow line” is a perimeter of urbanization around Albanian cities which mark the outer limit allowed for urbanization, it is the legal equivalent of the UGB or Urban Growth Boundaries used in some US cities like Portland, Oregon, for instance. Most studies have shown that the practice of urban growth boundaries increase the price of land and the cost of housing (Anas, 2005, Brueckner, 2000, Richardson ,2000)

(2) *land use efficiency*: the land is recycled at a higher use and higher density, in this example (Figure 4 and Table 1) the original net residential density was 100 p/ha and become 700 p/ha after development⁷.

(3) *regularization of informal title*: finally, the operation formalize land titles for all the occupants of the apartment building and therefore the former owners of informal houses get also a formal title for their condominium apartment.

This process – formal private developers “recycling” informal areas while giving equity share in formal development to informal occupants – is unique to Albania. In most other countries developers recycle land by buying formal properties and redeveloping them. What is unique about Albania is the transformation from informal to formal done by private developers without government intervention.

The system was not promoted by government but has developed spontaneously and is initiated by private contract agreements between formal developers and informal occupants. This recycling system is currently the backbone of the formal building process in Albania. We have seen that it has several advantages in term of land use efficiency and in term of equity, but it has also its limitations, as seen below and it is the only legal way available to formal developers to obtain land.

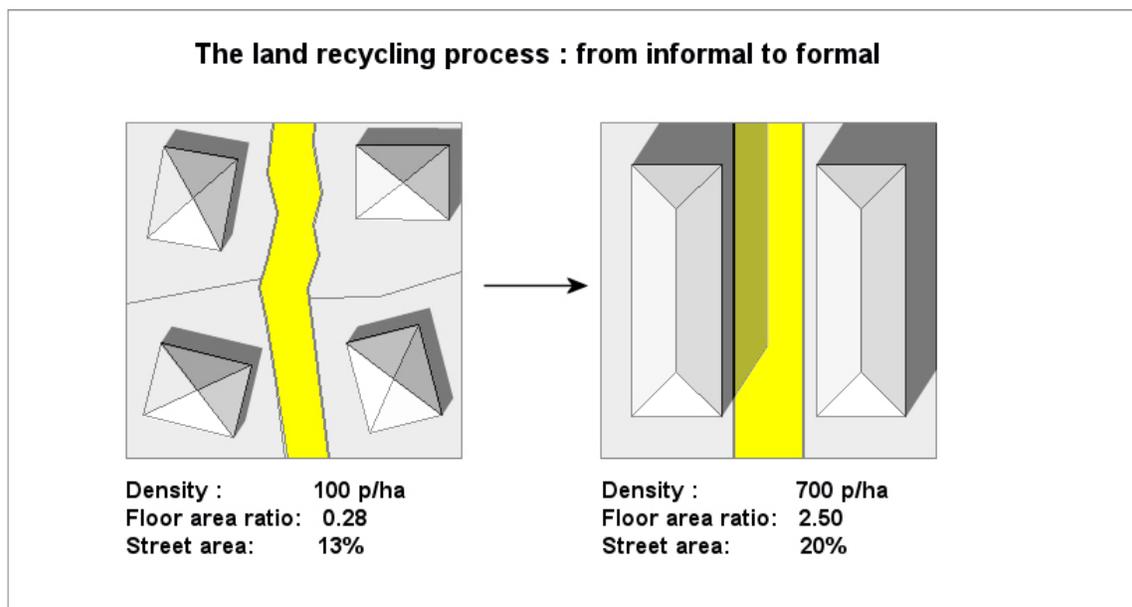


Figure 4: Schematic representation of the land recycling process – The figure above shows a schematic representation of the transformation of a low density informal development into a high density formal development. The owners of the original houses in the informal development are resettled in the new apartments and are compensated in kind, in the form of free

⁷ Net residential density = number of people divided by area of residential lots. This should not be confused with the built-up density mentioned above. Built-up density is calculated by dividing number of people by the total urbanized area, including roads, small parks, community facilities and non residential areas.

apartments for the house and the land that they contribute to the project. The developer introduces also a formal infrastructure and road right of way as negotiated by the municipality. The originality of the process in Albania is that it happens through negotiations between the informal owners and the formal developer without government involvement and without using eminent domain,

The land Recycling Process : the barter between developers and informal dwellers				
	Informal housing households		Developer	
Before and after Land Use parameters				
Total Land Area	2,025.00	m2	2025	m2
Percent of street area	13%		20%	
Total street area	263.25	m2	405	
Private lot area	1761.75	m2	1620	
% footprint of buildings	28%		50%	
number of floors	1.00		5	
Total floor space	500	m2	4050	m2
% of common areas (staircases, corridors)			10%	
Total net apartment area			3,645	m2
Number of houses/apartments	4		29	
Average floor area per dwelling	125	m2	126	m2
Average plot size per dwelling	440.44	m2		
The barter between informal households and developers				
Negotiated Share of land owners	35%			
Number of apartments provided as payment for land			11.3	apartments
Total area of apartments provided as payment for land			1417.5	m2
Increase in the floor area per informal household			184%	
Number of apartments sold on the market			17.7	apartments
Land use efficiency before and after				
People per dwelling	5		5	
Population	20	persons	145	persons
Net residential Density	99	people/ha	716	people/ha
Far	0.28		2.50	

Table 1: the land recycling process The table above shows the land use transformation taking place when a formal developer recycles land previously developed by the informal sector as shown on Figure 4. The formal developer compensates the households occupying the 4 original houses to be demolished by giving them 1417 m2 of floor space in exchange for the 500 m2 they occupied originally. The profit of the developer comes from the sale of 18 additional apartments built on the same site. This table shows that this recycling operation is financially feasible only within the boundaries of some land use parameters. For instance, in this specific example, if land use regulations were to limit the floor area ratio (FAR) to 2, the recycling of land would not be financially feasible, or the informal settler would have to accept a much smaller compensation for their land.

E. The constraints limiting the activities of the formal real estate sector in Albania

While in 2006 the formal real estate sector seems to be expanding its activities faster than the informal sector, its expansion is nevertheless severely limited by 3 main factors:

- a) Absence of legal recent master plan and approved local regulations
- b) Lack of funded municipal program to build primary infrastructure
- c) De facto impossibility of acquiring undeveloped land for development

Absence of legal framework

In many cases the redevelopment process described above in a simplified manner is in reality much more complex. In fact, in many cases (in Shkoder and Vlore, for instance) in the absence of a master plan the developer is asked to prepare a plan for an entire block, even if he/she doesn't develop the entire block. Municipal urban planners might even ask developers to prepare several alternative plans for them to choose from. This is a bizarre arrangement; the developer is working as a consultant to the local authority to which he/she is asking a building permit! The few master plans in existence are dating from communist time and do not correspond to modern land use requirements and are maladapted to a market economy.

When plans exist, they concern only a few blocks in the city center and focus mostly on urban design rather than containing precise land use regulations and streets alignments. Because land use regulations are not contained in an approved and published plan, many regulations like set backs, width of major roads, floor area ratio, maximum heights have to be negotiated project by project. This practice increase the cost of construction by creating lengthy delays and create the impression of arbitrariness and possibly corruption. According to developers, the entire administrative process (not including design and construction) for developing one block of flat may take up to 2 years prior to the design stage.

At this moment, there does not seem to be any regulations for land subdivision⁸. Land subdivision regulations are essential for urban expansion in the city periphery. The standards used in subdivision regulations should very much linked to the affordability of the new stock developed and to the compatibility of newly developed neighborhoods with public transport.

A legal framework to prepare master plans has been defined by the Council of Ministers' Decree, No. 722, (November 19, 1998). This decree defines the content of “Master Plan” ,” Regional and Environmental Urban Planning Study”, “ General Urban Planning Study”, “Partial Urban Planning Study” and “ General Plan of construction sites”. As yet, no plan seems to have been prepared following the definitions contained in the decree. The decree seems to be more relevant to a command economy than to a market economy like Albania. The decree has a normative approach to planning and do not allow variations in land use regulations depending on cities and location. For instance, the decree imposes 14.5 m² per person for floor space in residential areas and a uniform Floor Area Ratio (FAR) between 0.7 and 0.85 for residential areas in city centers. Fortunately, it seems that no planners in Albania are taking these norms into account when giving building permits. A new legal framework to define master plan should urgently be prepared, possibly with a new decree. This framework

⁸ Land subdivision regulations differs from zoning regulation because they involve provisions of public space like streets, open space and community facilities and eventually infrastructure which have eventually to be turned over to the local authority. Land subdivision regulations describe the standards to be used for various public facilities and the manner by which these will eventually be transferred to the local authority or the utility company.

should be much simpler than decree No 722. It should take into account the fact that Albania is a market economy and that Master Plans should define only the broad spatial regulatory framework within which the private sector is supposed to develop and redevelop existing cities. Norms of land or floor consumptions should never be set at the national level. The most important document contained in a master plan is the zoning plan, which establishes the regulations which will have to be followed by the private sector when building on private lots (no zoning plan is mentioned in decree No722. When preparing their zoning plans, Municipalities should define the maximum Floor Area Ratio which should be permitted within a given zone. Within the same city the FAR could range from, say, 0.2 to 10. Location, land prices, infrastructure and at time environment or historical factors could influence the value of the FAR in a given zone.

Lack of primary infrastructure

Cities lack the resources for initiating a long term program for developing a city wide primary infrastructure network. Because future infrastructure projects are uncertain and are depending on transfer from the center there is no systematic way of recovering their costs through land development or redevelopment. For instance, a developer who project to increase the density seven folds, as in the example above, has to connect his project to the existing roads, water and sewer networks. The existing network lines might be not be adjacent to the property being developed – in most cases they are not – developers therefore are often obliged to built at their cost an off-site infrastructure linkage between their project and the existing network. This off site cost might be serving in the future a wider area than the project being developed but in the absence of an infrastructure plan and of a cost recovery system the cost of the off site will be borne entirely by the developer. Because of this developers build only the capacity they need for their project. A subsequent new project in an adjacent plot will have to be linked to existing infrastructure by an additional line. This practice is uneconomical and will result in the long run in an uneconomic and expensive to maintain network, in particular for water supply.

Developers are currently paying an impact fee to municipalities ranging from 2% to 5% of the cost of construction. The revenues from this fee are going into the regular budget of the municipality but could be used to finance a capital investment fund to pay for primary infrastructure.

De facto impossibility of formally developing vacant land

As we have seen, formal developers exclusively redevelop land which have been either developed previously informally or have been developed formally in the past during the communist regime. In Albania formal developers cannot find vacant land to acquire and develop because most vacant land around cities are either in the process of being restituted to its pre-1945 owners or belong to a ministry and is therefore not on the market. If developers could acquire vacant land legally they would face two additional hurdles: (i) most vacant land – even within the yellow line – requires a permission from the Ministry of

Agriculture to be developed and the procedure is lengthy and uncertain, and (ii) municipalities have no subdivision regulations. Therefore, in the case where land could be acquired, and if permission could be obtained from the Ministry of Agriculture, developers would face the uncertainty of having to negotiate the development standards with the municipal urban planner. In the absence of published development standards – minimum plot dimensions, streets width, floor area ratios, etc – undeveloped land price would be difficult to establish. The lack of clear land use regulations, including land subdivision regulations, would introduce a lot of uncertainty and risk in the land market, when this market will eventually develop.

F. Demand, Supply, Prices and Affordability

Demand and supply for land and housing

In the majority of cities outside Tirana the population has been growing slowly since 2000. Shkoder, for instance, grew at 1.2% annually while the population of Berat has stayed constant. However, there is still a large demand for land and construction fuelled mostly by a combination of factors: the historic backlog of poor quality housing, the demand for new office buildings and commercial buildings in the center of cities, and finally the decrease in household size. Remittances seem to be used mainly to invest in housing, fueling in turn economic activities in the building sector.

At this moment, new housing supply is entirely private and comes mainly from the formal and informal sector. The formal sector as explained above is limited to redeveloping land which has been already built by either the informal sector, or on land occupied by older obsolete buildings. This “land recycling” by the private sector is possible only when the density and floor area ratio allowed are much higher than the current built one. The formal sector is therefore adding floor space mostly in central locations.

The informal sector does not develop as much land as it used to do in the 90s when there was still a large migratory movement; however, in 2006 there is still land being developed and housing being built by the informal sector, usually at the periphery of cities. The relative share of new housing supplied each year by the two sectors is not known.

Costs and Prices

The cost of construction for formal apartments is around Lek 30,000 per square meter. This is a relatively low price given the quality of construction in 2006 in the formal sector, and the GDP of Albania. This construction price suggests that the construction industry is reasonably productive and competitive.

The sale price of formal apartments is about Lek 60,000 per square meter. The difference between the cost of construction and the sale price is constituted of about lek 20,000 for land and lek 10,000 for design, supervision, overheads, financial costs and the profit of the developer. The proportion of the various price

components suggests also that the building industry operates in a competitive environment.

Building costs in the informal sector are difficult to assess as many households are building themselves or contract relatives at non market prices. It is assumed that the cost of constructions on average in the informal sector are about half of those of the formal sector – this is not due to structural inferiority but to difference in sanitary installations and finishing.

Affordability

It is difficult to assess the affordability of the current housing stock and of the houses and apartments being built in 2006 because of the effect of remittances, which appears to be invested largely in real estate. We have been using as a substitute for household income distribution data a survey conducted in 2005 on household consumption (Living Standards Measurement Study – LSMS 2005). We have assumed that consumption is roughly equal to income for the lowest income groups. The survey differentiates among urban households consumption within 4 regions of Albania. As it would have been tedious to repeat the affordability exercise with 4 relatively similar consumption distributions we have chosen to concentrate on the urban consumption of the Coastal region – where Dures, Fier and Vlore are located. The distribution of urban consumption in the coastal zone, and the resulting cumulative income distribution is presented in annex 2.

In addition, to make the affordability exercise less abstract we are also relating housing costs to urban income levels based on some benchmark salaries corresponding to various skills.

We have taken as benchmarks the base salary of a school teacher, an unskilled laborer, a middle level employee and a skilled worker. We have assumed that a household in these job categories will get 1.5 times the base salary

Households' income and benchmark salaries			
	Salary Lek/year	Total Hh. income Lek/year	Percentile on Consumption distribution LSMS 2005 coastal area
Number of salaries per household		1.5	
School teacher	210,000	315,000	28
Unskilled laborer	240,000	360,000	37
Middle level employee	480,000	720,000	78
Skilled labor	600,000	900,000	86

per year (one adult working full time, one other adult working half time).

Figure 5: Household's income benchmarks based on typical salaries

A tentative affordability table for the current housing stock has been calculated separately for the informal and formal one for different size of plots, houses and apartments (see table in [annex 1](#)). The affordability is based on price/income ratio. A price to income ratio below 4 is considered affordable.

It appears that in 2006 the cost⁹ of the smaller informal house of 45 m² on a plot of about 150 m² costing about 1 million Lek would be at the limit of affordability for a school teacher household and for an unskilled laborer household or would be affordable to households with an income above 350,000 lek per year (the 35 percentile on the income distribution curve). A middle level employee household could afford a 90 m² house on a 300 m² plot (the most common size of houses and plots encountered in informal subdivisions) while a skilled laborer household would afford a 120 m² house on a 400 m² plot.

By contrast, in the formal sector, a minimum size apartment of 45 square meters would be affordable to neither a school teacher, an unskilled laborer, or a middle level employee but would be barely affordable to a Skilled worker (income of 900,000 lek/year or 86 percentile). Most of the apartments on the formal markets seems to be only affordable to households above the 90th percentile (the 10 % richer households) .

Although the figures above are approximate, the ball park is probably about right. Houses in the informal sector are the only ones whose standards are flexible enough to be affordable to the lowest income groups. The average size of apartments in the formal sector is about 80 m² – not affordable to any of our benchmark income groups – and the minimum apartments are usually not below 65 m². It is possible that the private sector when reaching a saturation of the market for higher income group will start building smaller apartments. It must be noted, however that the private sector when recycling land from informal settlements provide from 1 ½ to 2 apartments to each household living in informal settlements being recycled.

Given that the LSMS 2005 survey has established that the average consumption of floor space for households below the 20 percentile (275,000 Lek/year, i.e. income well below our schoolteacher benchmark) is around 60 m². This would suggest that the cost of housing has significantly increased in the last few years and that the spectacular increase in floor consumption due to the growth of informal settlements is now abating for the poor. A large number of poor households occupy houses that they could not afford to buy if they had to acquire them in 2006. With more control on land development, and an increase in the share of formal development, the supply of houses affordable to the poor (below the 30 percentile or below 325,000 Lek per year) is therefore decreasing. The challenged faced by the government is therefore to allow formally the development of settlements which mimic in many aspects the informal settlements of the past.

⁹ We base the affordability calculation on cost rather than price as there is no current data on transactions in informal settlements.

Housing for low income households

One of the major problems for low income households in Albania, and for young households in general is the very small proportion of rental housing units on the market¹⁰. This low proportion could be explained by the absence of laws allowing owners to expel tenants in the case of rent default. In the long run, government policy should encourage more rental housing by providing the necessary legal framework.

In a country with the GDP of Albania, social housing provided by the government should be limited to social cases – households who have no earning possibilities at all because of age or disability. The government could not afford to subsidize housing for a large segment of the population which falls below a certain fixed income, as it is done in some richer countries of Europe.

Given the competitive prices for houses in the formal and informal sector in Albania, the obvious solution for social housing would be a voucher system (see the experience of Chile). Under this system, beneficiary households receive a rental allowance representing a part or the entirety of the rent and are free to use this allowance to rent or buy any dwelling on the market. This is a much more rational solution than the traditional social housing program where the Government or the municipalities build and manage large housing estates for low income families. However, a private rental market will have to be encouraged first, to allow the voucher system to function.

To be able to reach households in lower income groups like the school teachers and employees mentioned above, the government will have to allow the development of formal private subdivision which would replicate legally the current informal settlements. This would not require subsidies but would require land subdivision standards to be adapted to the income of the lowest income households. This point is further developed below in the recommendation section

G. recommendations

In developing an urban land use policy (which would include a regulatory framework) the government should have three main objectives:

- 1) every new development should be formal i.e. should allow land user to have a full land title and building permit;
- 2) there should be a legal housing product affordable without subsidies to about 90% of the urban population
- 3) cities should develop spatially in a rational and compact manner allowing a maximum use of public transport.

It is important to be reminded that governments do not build cities; cities are built by the private sector. The spatial development of cities is dictated by the interaction between constantly changing consumer demand and land use regulations, infrastructure development and taxation. The design of Master Plans are not the blue prints for city development.

¹⁰ The exact proportion is not known, but several sources are mentioning figures around 5% of the housing stock. In most market economies, the rental stock is between 30 and 50% of the total housing stock.

Therefore, to meet the 3 objectives mentioned above the government have three tools:

- 1) land use regulations
- 2) primary infrastructure development, and
- 3) local taxation, users and impact fees

A government policy would therefore requires an approach which is internally consistent in these three areas.

Land use regulations

i) The master plan process

Each city should have a master plan. The plan should be simple enough to be prepared and approved in less than 3 months. The plan should contain

- (1) a list of municipal objectives
- (2) a demographic study showing past and projected urban population
- (3) a map of the existing built-up area (all secondary cities visited during the mission have already a recent detailed digital topographical map showing the location of every building in the city, including informal buildings)
- (4) a map of population densities by sub-districts based on the most recent census
- (5) a zoning map showing the different zones, built or vacant, which have a specific set of regulations (more on the design of these zones below)
- (6) a document describing the land use regulations in each zone: restricted use, minimum plot size, set backs, maximum heights or number of floors, floor area ratio, lot coverage.
- (7) A map showing the expected current price of housing in each residential zone based on the minimum standards established in the plan.
- (8) a map showing the existing and planned right of way of the primary road network. Ideally, these roads should follow roughly a grid pattern with from 600 to 800 meters distance between primary roads.

The master plan should be a simple document and could be prepared quickly at little cost. Given that a topographical base map already exists in each city, a new master plan for a city around 100,000 people could be easily prepared in a month by a team of 2 or 3 planners (this timeframe does not include public participation nor the legal approval of the plan). The most important part of the document is the zoning plan (which would also include the right of ways of primary roads). It should be kept simple, with as few zones as possible.

The zoning plan of Warsaw¹¹ is a good example of a modern market oriented zoning. Warsaw planners have first delineated the areas which should be protected for historical or environmental reasons. The next step was to identify the areas for major utilities and noxious industries. The municipal areas which did

¹¹ A report with more details on Warsaw zoning plan can be obtained at http://alain-bertraud.com/images/AB_Warsaw_Dec_2000.pdf

not fall under any of these categories representing 48% of the municipal areas were zoned for mixed used with a minimum of regulations. This approach recognize that while planners have a responsibility to identify specific areas which should be protected from market forces, they are not omniscient and cannot anticipate future consumer preference and prices variations. (see in annex 3 the zoning map of Warsaw and a brief description of zoning categories)

A similar approach should be used in developing master plans for the secondary cities of Albania. There should be few simple regulations, these regulations should be widely published and well known, and they should be enforced.

In the past, there has been too much emphasis on localized urban design, not enough on setting up city-wide transparent regulations. The first priority is to establish a legal framework clear enough that any investor would know what type of building and what floor area would be allowed to be built in any part of the city.

Finally, land use regulations affect housing prices by restricting the supply of land and by limiting the volume of construction which can be built on a given lot. It is important that planners be aware of the price effect of the regulations they propose. The growth of informal or illegal settlements is often linked to unaffordable regulations. This is why every master plan should contain a map showing the expected price of housing units if minimum standards authorized by the regulations are used. If a large part of the population cannot possibly afford the standards contained in the regulations they will be obliged to develop informal illegal subdivision. No amount of law enforcement can force households to pay more for housing than what they can possibly afford.

ii) Subdivision regulations

Subdivision regulations establish the way large tracts of land can be subdivided into plots and streets. These regulations include minimum plot sizes, width of streets, areas to be left for community facilities, etc. Very often these regulations are overly ambitious and as a result they are not affordable, and therefore not enforceable.

We have seen above that in Albanian secondary cities households that are fully employed but with low income – such as school teachers – could only afford a house in an informal settlement.

It would be important to design subdivision regulations that more or less mimic the land use of informal subdivisions, with somewhat slightly larger street right of ways. Subdivision regulations should allow plot subdivision and legal titles for plots even in the absence of infrastructure. The experience in Albania and in many other countries shows that the priority is to clearly demarcate the boundaries between private lots and streets and other public space. Infrastructure can be installed at a latter date under contract with utility companies for full cost recovery.

The government main urban policy objective should be to promote from now on legal land development for all income groups. The design of realistic land subdivision regulations will be a key factor in achieving that goal.

iii) Urban growth boundary: the “yellow line”

Most Albanian cities have a “yellow line” boundary which theoretically limits the expansion of urbanization. Some other cities in the world (Portland, Oregon, for instance) have tried this approach in order to contain sprawl and have more compact cities. Research suggest that urban growth boundaries contribute to increase housing price significantly while not being very efficient in limiting urban extension . Because affordability of land is a key issue in Albania, it is recommended that the legal obligation implied in the yellow line be relaxed in the future.

iv) monitoring prices and volume of construction

Because affordability is so important in designing and enforcing land use regulations, it is essential that the municipal planning office monitor regularly land and housing prices, supply and demand for different income groups.

As part of the planning process the municipality should provide a regularly updated map showing building permits, volume of construction, and prices in different neighborhoods.

Primary infrastructure development

An important part of Municipal planning is to develop a grid of primary infrastructure in order to develop new land and to support increased densities in the city center. A plan of investments in new roads water and sewer should be published and updated regularly by the municipality. Investments in infrastructure are indispensable to keep housing price affordable in the long run. The resources to allow these investments should be in great part local and should come from local taxes and impact fees.

Taxation, user fees and impact fees

It is indispensable that municipalities develop their own source of revenue for operation and maintenance but also for capital investment. Property tax and sales taxes are the most common way to establish a local tax base for a municipality.

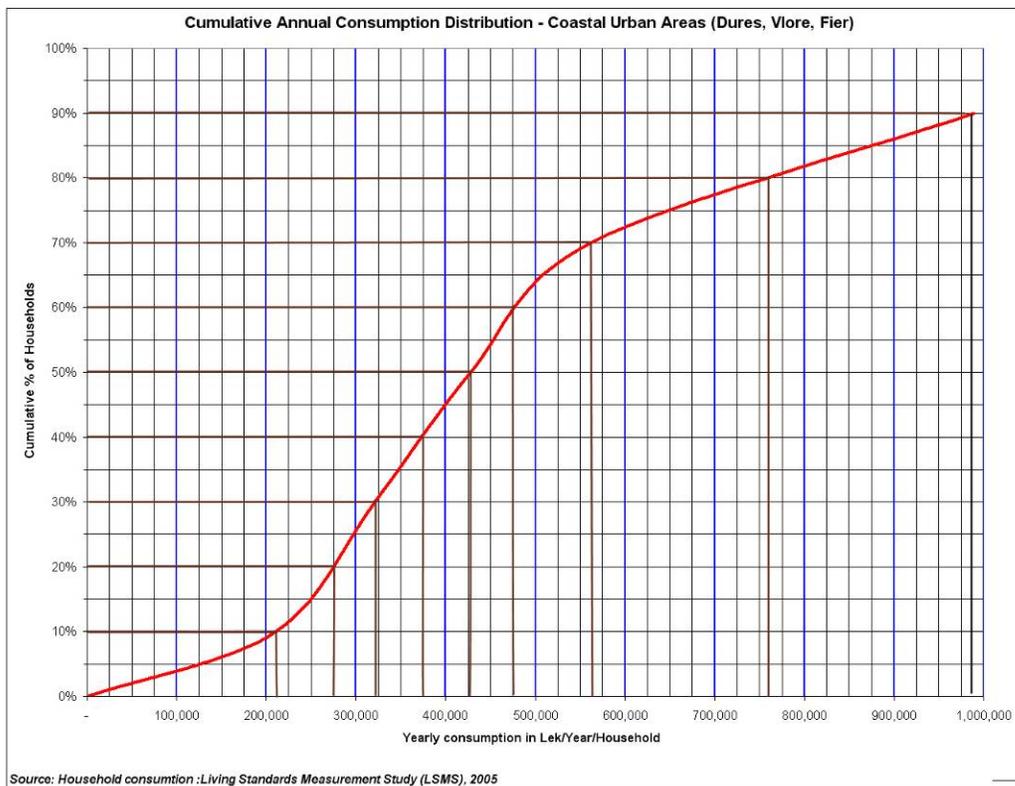
Obviously, to be efficient a property tax requires that all development be legally developed and registered with the municipality. Therefore it is necessary to develop land subdivision regulations that encourage people to develop land legally even for low income households.

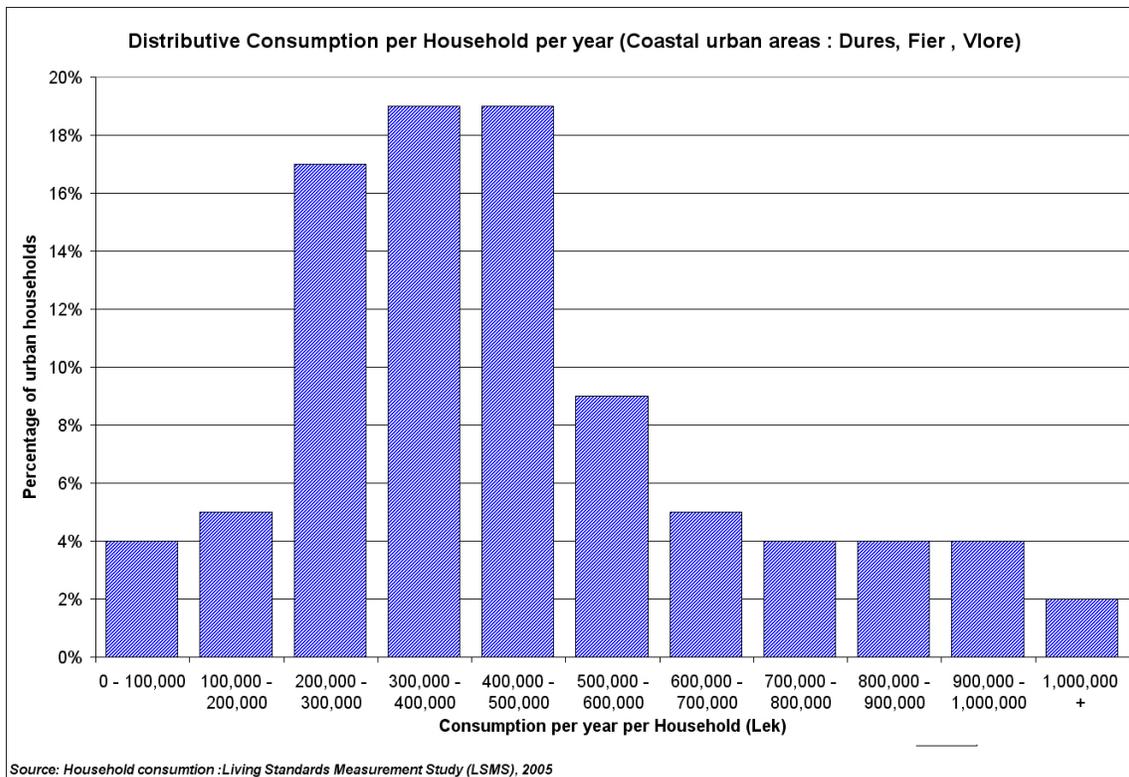
Municipalities in secondary cities are already collecting an impact fee varying from 3 to 5% of construction costs. This fee is collected at the time of construction. Normally such a fee should be reserved for capital investment in physical or social infrastructure. It seems that at this moment this impact fee is just part of the municipal budget.

Annex 1 Affordability Table based on Price/income ratio

Tentative Affordability table corresponding to prices and salaries in secondary cities in Albania in 2006															
A. Detached Houses in informal settlements															
	1 US\$= 100 leks														
	45	60	75	90	105	120	135	150	165	180					
	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3					
	150	200	250	300	350	400	450	500	550	600					
	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000					
	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500					
Floor space	m2														
FAR															
Land net area	m2														
Cost of construction	lek/m2														
Cost of land	"														
Total construction Cost	Lek	900,000	1,125,000	1,350,000	1,575,000	1,800,000	2,025,000	2,250,000	2,475,000	2,700,000					
Land cost	"	500,000	625,000	750,000	875,000	1,000,000	1,125,000	1,250,000	1,375,000	1,500,000					
Total housing cost	"	1,400,000	1,750,000	2,100,000	2,450,000	2,800,000	3,150,000	3,500,000	3,850,000	4,200,000					
Price income ratio		3	3	3	3	3	3	3	3	3					
Household's Yearly income		350,000	466,667	583,333	700,000	816,667	933,333	1,050,000	1,166,667	1,283,333					
Aproximative Hh income percentile		35	56	77	83	87	90+	90+	90+	90+					
Households' income based on Salaries															
Number of salaries per household	Salary Lek/year	Total Hh. income Lek/year													
School teacher	210,000	1.5													
Unskilled	240,000	315,000													
Middle level employee	480,000	360,000													
Skilled labor	600,000	720,000													
		900,000													
		3	4	6	7	8	9	10	11	12	13				
		3	4	5	6	7	8	9	10	11	12				
		1	2	2	3	3	4	4	5	5	6				
		1	2	2	2	3	3	4	4	4	5				
B. Apartment in formal sector development															
Floor space of apartment	m2	45	60	75	90	105	120	135	150	165	180				
Cost of construction	lek/m2	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000				
Cost of construction /apartment	Lek	1,350,000	1,800,000	2,250,000	2,700,000	3,150,000	3,600,000	4,050,000	4,500,000	4,950,000	5,400,000				
Land cost	30% Lek	578,571	771,429	964,286	1,157,143	1,350,000	1,542,857	1,735,714	1,928,571	2,121,429	2,314,286				
Subtotal	"	1,928,571	2,571,429	3,214,286	3,857,143	4,500,000	5,142,857	5,785,714	6,428,571	7,071,429	7,714,286				
Site preparation	6%														
Infrastructure	15%														
Design and adminsi	6%														
Profits	10%														
Total sale price		2,741,183	3,654,910	4,568,638	5,482,365	6,396,093	7,309,821	8,223,548	9,137,276	10,051,003	10,964,731				
Price income ratio		3	3	3	3	3	3	3	3	3	3				
Household's Yearly income		913,728	1,218,303	1,522,879	1,827,455	2,132,031	2,436,607	2,741,183	3,045,759	3,350,334	3,654,910				
Aproximative Hh income percentile		86	90+	90+	90+	90+	90+	90+	90+	90+	90+				
Households' income based on Salaries															
Number of salaries per household	Salary Lek/year	Total Hh. income Lek/year													
School teacher	210,000	1.5													
Unskilled laborer	240,000	315,000													
Middle level employee	480,000	360,000													
Skilled labor	600,000	720,000													
		900,000													
		9	12	15	17	20	23	26	29	32	35				
		8	10	13	15	18	20	23	25	28	30				
		4	5	6	8	9	10	11	13	14	15				
		3	4	5	6	7	8	9	10	11	12				

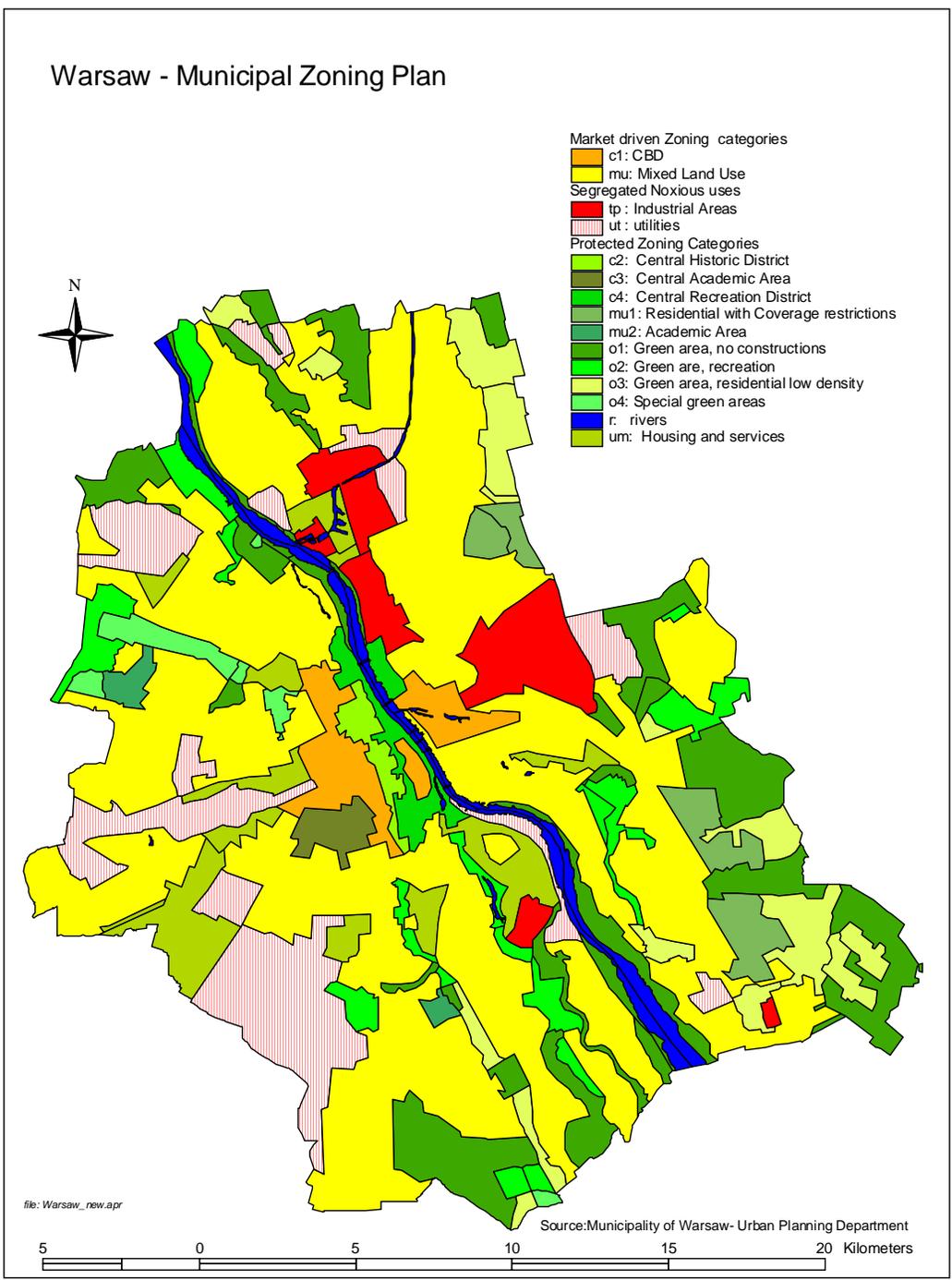
Annex 2 : Consumption distribution and income derived from LSMS 2005 survey





Annex 3: the master plan of Warsaw (2003)

A more complete version of the land use issues in Warsaw is available on http://alain-bertrand.com/images/AB_Warsaw_Dec_2000.pdf



The concept of the zoning map of Warsaw is simple and transparent. It responds to a trade-off between 3 conflicting objectives:

- (1) Preserve the historical areas of Warsaw from encroachments
- (2) Preserve the most important environmental features (river banks of the Vistula, forests, bluffs overlooking the Vistula)
- (3) Allow a market driven economic development of the city with strong incentives to recycle obsolete buildings.

Warsaw municipal territory is divided into 3 basic zones:

- 1) A zone where development is mostly market driven, (sub-zones C1 and MU), where mixed land use is allowed and with few restrictions on densities, except for a relatively generous height limitations. (48 % of the total municipal area)
- 2) A special activities area where obviously noxious activities are segregated (sub-zones TP and UT). (14% of the total municipal area)
- 3) A zone where market forces are seriously constrained to preserve historical, cultural and natural landmarks. (37% of total municipal area)

The proportions of the municipal area that are allocated to the three main zoning categories are consistent with the municipal objectives and their spatial implications. About 1/3 of the area of the market driven zone is still vacant. This gives a lot of opportunities to reverse the past demographic trend where the areas outside of the municipal boundaries were developing faster

