

Real Estate Market in Albania During Covid-19

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ABSTRACT

In November 2019, the world first heard about a mysterious virus that was rapidly spreading in China but soon began spreading around the world. This spread resulted in a pandemic in early March 2020. Governments worldwide imposed strict measures to close citizens at home, close factories, shopping malls, schools, and universities. Like all other sectors, the real estate sector faced an unusual situation. Investor fears caused sales in real estate to fall, people abandoned homes in urban areas to live in quieter areas while many households because of losing jobs struggled in loan payments. Although a short period of time, several studies have been conducted on the effects of COVID-19 on the real estate sector in various countries of the world. In this paper, we aim to take a look at the conditions of the real estate market in Albania during COVID-19.

Keywords: COVID-19, Housing Market, Pandemic Situation, Real Estate Market.

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I. INTRODUCTION

Assessing the consequences of COVID-19 in the real estate sector is relatively difficult given that pandemic situations in the world are rare. The other fact that this analysis is difficult is to combine the consequences of COVID-19 with other macroeconomic and specific factors of a country.

The real estate sector was one of the sectors with the most important weight in Albania's economic development over the past 30 years when it was passed from a centralized economy where all real estate belonged to the state into an open market economy where individuals and businesses own real estate. Like many other sectors of the Albanian economy, even this sector had its impact from the last pandemic situation.

II. LITERATURE REVIEW

Some studies suggest that public crises such as pandemics have a short-term negative impact on the real estate market but that the effects fade in the long term (Zeng & Yi, 2022). The authors of this work bring examples of the effects that have had natural disasters on the real estate sector. Thus, a study of Deng *et al.* (2015) on the effects of the Wenchuan earthquake in China on residential housing in this area and surrounding areas concluded that the prices increased significantly over the short term but gradually fell in the long-term period. Huang *et al.* (2020) in their study on the effects of the explosion at the Tianjin Port in China on the housing market also showed a large price drop of about 24% in the short term but the prices returned to their normal values within a few months. Another study by Wong (2008) on the effects of the SARS epidemic on real estate prices in Hong Kong concluded that the decline in real estate prices occurred for a short period of time but a major increase was followed

over the next 10 years following this epidemic. Also, a study by Wang (2022) brings examples through a broad literature of the connection between unforeseen events and changes in real estate prices. Thus a series of studies done by (Ambrus *et al.*, 2020) on cholera effects, SARS epidemic (Wong, 2008, Dog, 2010), natural disasters or nuclear accidents (Zhu *et al.*, 2016), earthquakes (Deng *et al.*, 2015), or floods (Scantz & Strickland, 1987, Netusil *et al.*, 2019, Chiang and Lin-Han, 2021), on the real estate market, according to Huang (2022) it turns out that most of these studies conclude that there has been an immediate decline in the prices of real estate market at the moment of the sudden event followed with an improvement of the situation in a short period of time.

Although a short period of time, several studies have been carried out over the past two years to highlight the effect of COVID-19 on the real estate prices and more specifically on housing market in different regions of the world. Thus, a study of D 'Lima *et al.* (2020) related to the effect of labor disruption on the housing market in the US concluded that the interruption of work caused an average decrease of 1.2% in the value of housing market in the US. According to Qian *et al.* (2021) housing prices of the communities with confirmed COVID-19 cases would reduce by 2.47%. The impact persists three months and the extent of the impact increases as time goes on. Another study done by Del Giudice *et al.* (2020) concluded that as a result of COVID-19 house prices in the Campania region of Italy fell by 4.16% in the short term and 6.49% in the medium term.

III. METHODOLOGY

To meet the objectives of this paper, we have used secondary data. The methodology used for the realization of this study consists in the use of secondary sources. These data are mainly taken from official Albanian institutions such as

Bank of Albania and the Albanian Institute of Statistics (INSTAT). From these sources of information, we have concluded in a general situation of the Albanian real estate sector during the pandemic situation caused by COVID-19.

IV. REAL ESTATE SECTOR IN ALBANIA

In 1991, Albania switched from a centralized system to a market economy. This was a major change in the real estate sector, given the fact that from 1944 to 1991 every property in Albania was owned by the state. After 1991, started the process of privatization of state-owned buildings.

The real estate sector had a very large increase in Albania justified by the needs of Albanians for residential homes and other real estates for business development. As a result, we can say that the construction sector has been and remains one of the most important sectors for economic growth in Albania over the past 30 years. The real estate market experienced a large increase during the period 2000-2007 but passed into a period of stagnation after 2008.

Albania, as a country still in transition, faces a series of obstacles even in the real estate sector as they are: lack of regulations to protect the parties involved into a transaction, informality, unhealthy competition, and lack of collaborations among real estate agencies, over evaluation of property and lack of sound statistics.

The banking sector in Albania has a major effect on the real estate sector development, considering that major part of purchases in the real estate market are realized with bank loans. As a result, we can say that the Bank of Albania's decisions to lower or increase the basic interest rate directly affect the construction sector.

According to Invest in Albania, the factors that affected the construction sector during the last 30 years are:

- Lack of housing premises
- Poor quality of existing buildings
- Changes to family formation and structure
- Demographic factors
- Higher demand for housing from migrants
- The consolidation of the banking system
- Currency rates

Albania has a coastline of about 470 km stretching from the Adriatic to the Ionian. Also, the good and sunny climate (about 310 sunny days a year) and geographical position favor the real estate market in Albania, which is already viewed with great interest even by foreign investors. Most of these investors are from other Balkan and South-Eastern European countries. It should be said that Albanians living and working outside Albania also have an important weight in investments made in the real estate sector.

Albania offers investment opportunities in the real estate sector in the coastal area, Tirana and other urban areas, peripheral areas, and mountainous areas. Of course, the location of the real estate is one of the most important factors defining the real estate price.

V. EFFECTS OF COVID-19 ON REAL ESTATE MARKET IN ALBANIA

To analyze the general situation of real estate sector in Albania, this paper has been relied on the questionnaire for the real estate market, which was distributed in November 2020 by the Bank of Albania. The sample contained 230 construction societies and estate trading agents, representing about 75%-80% of the general population., according to a selection based on the number of employees and the turnover amount provided by INSTAT. This questionnaire was completed by 181 entities or 79% of the sample.

According to this questionnaire realized in the second 6 months of the pandemic year 2020, it resulted in that:

- The general situation in the real estate market has been weaker compared to the first half of 2020. The net balance of responses has resulted in [-29%], indicating that the agents' assessment of the situation during the second half of 2020 was much more pessimistic than that of the previous period, while this value is significantly below the long-term average of the net balance (-22%). The responses by areas show balances with negative values of the situation for all three areas; the balance for the Tirana area resulted [-28%], that for the Coast [-42%] and that for Other Areas was [-26%]. Since the second half of 2019, this indicator has registered a balance in negative values, while during the period Six months I_2017 - Six months I_2019, the balance has recorded positive and relatively high values. Despite this progress, it can be said that the agents' assessment of the general state of the market, during 2020, was more pessimistic and marked historic lows due to COVID-19.
- The number of entities that realized sales (71 entities) was almost the same as last six months, but the total number of properties sold was about 23% lower. The ratio of the number of entities that have conducted sales to the total number of valid responses decreased to 39% from 44%, due to the higher number of responses this six months. The average number of properties sold by each entity during the second half of 2020 was 3.5 or around 4, down from the average of 5 properties per entity reported during the first half of the year. The ratio of properties sold with mortgage and of entities that sold mortgaged properties to the respective totals was high. Thus, during the period, about 84% of subjects report having sold mortgaged properties and the ratio of the number of the latter to the total number of properties sold was also 82%.
- Agents reported lower number of residences recorded on their books; the net balance between those reporting an increase in the number of registered dwellings and those reporting a decrease in their number was around [-9.3%], or almost the same as in the previous period. For commercial properties, the net balance was almost the same. It is worth pointing out the fact that most of the answers were neutral, while those of the

form "more/less" made up a small part of them. The number of unsold properties, both for apartments and commercial buildings, has decreased. The net balance for the number of unsold properties has continued to register a positive value, and this phenomenon has been

reported since the beginning of 2016. This trend shows that the number of unsold properties has marked a continuous decrease in each of the six months of this period.

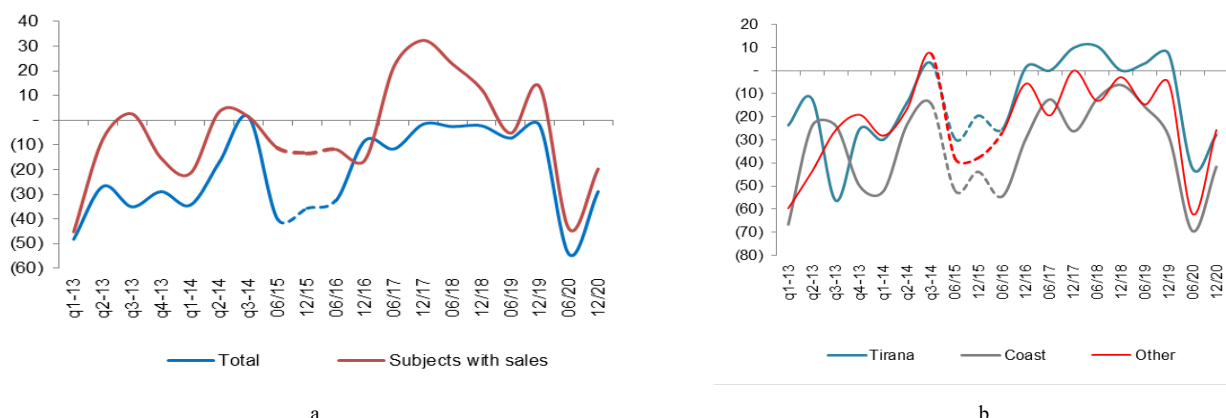


Fig. 1. Net balance on the overall situation in the real estate market during the second half of 2020.
Source: Bank of Albania

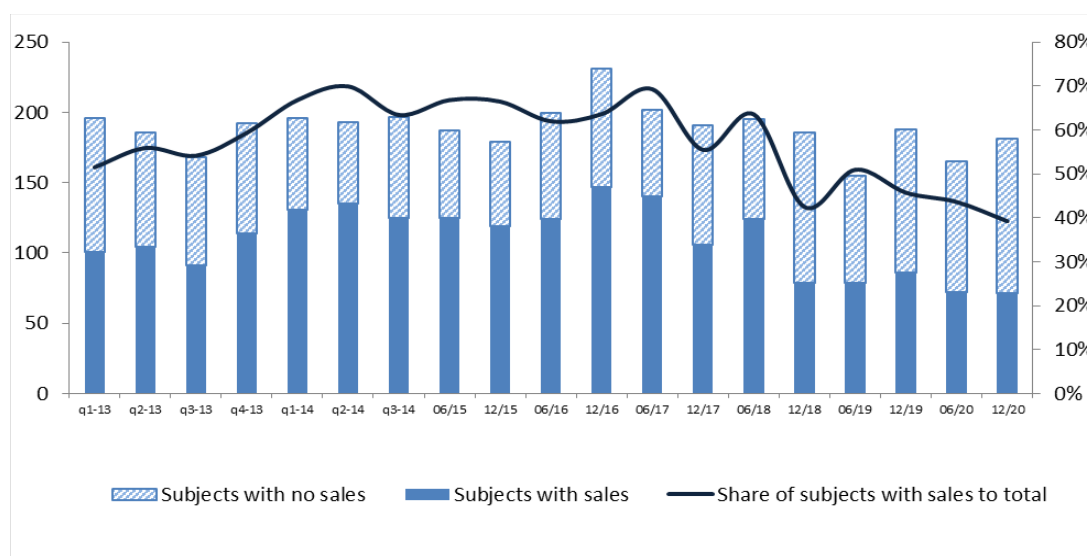


Fig. 2. Data on the number of agents by sales situation (agents who have sold and agents who have not sold).
Source: Bank of Albania

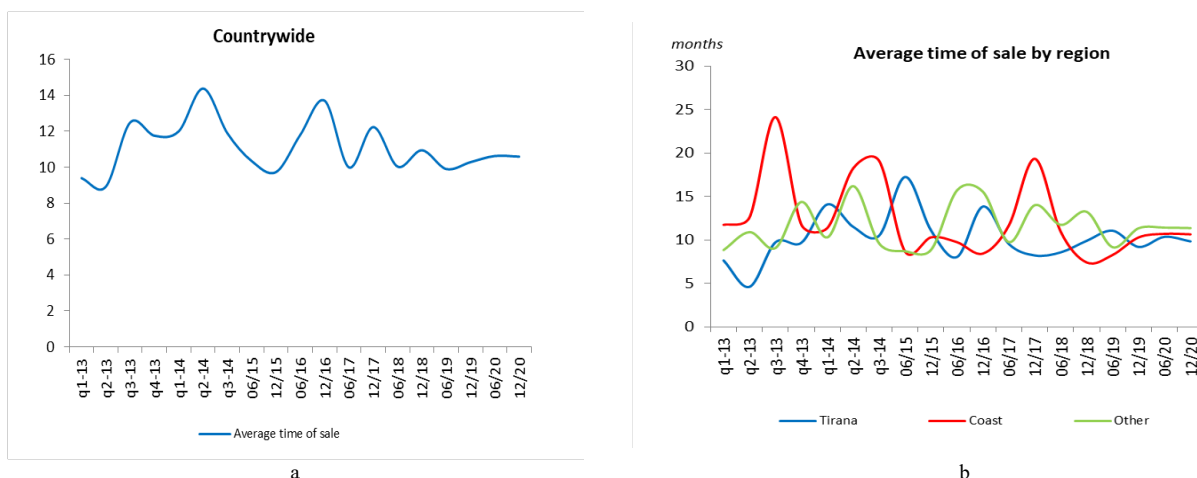


Fig. 3. Duration of sales by country and by area, per month.
Source: Bank of Albania

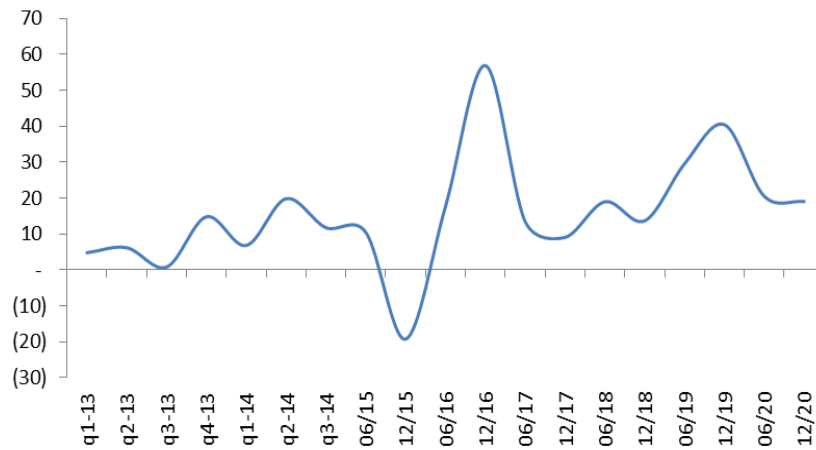


Fig. 4. Net balance for the number of unsold properties.
Source: Bank of Albania

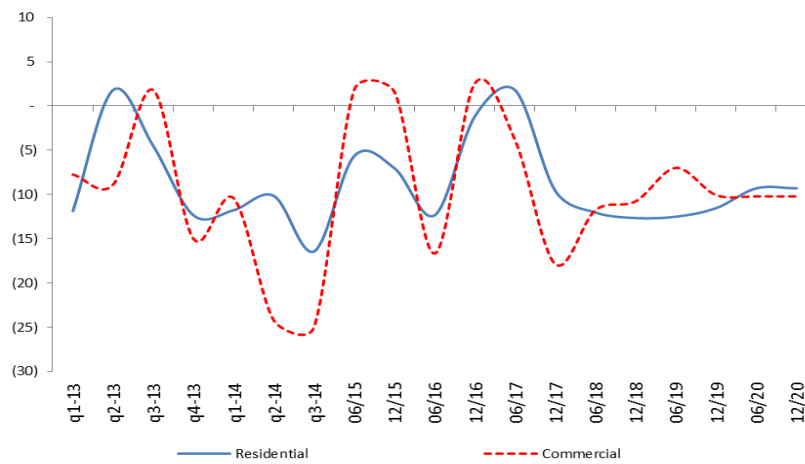


Fig. 5. Net balance for newly registered properties.
Source: Bank of Albania

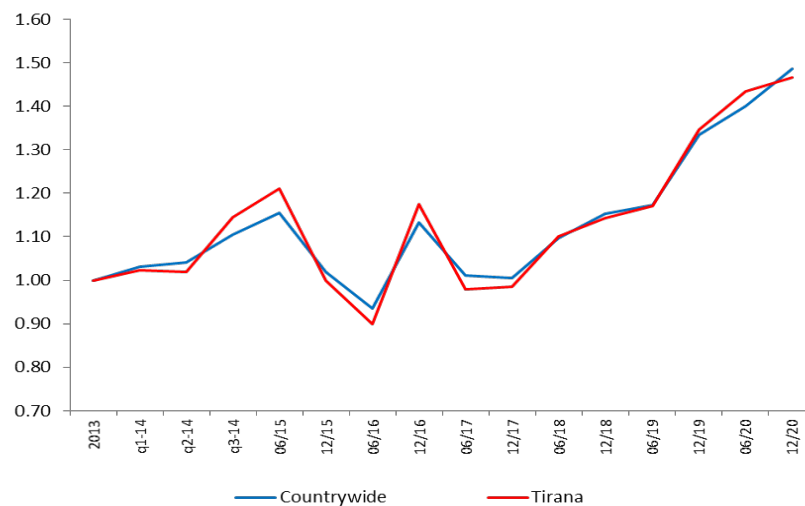


Fig. 6. Performance of the Fischer Index for residential properties across Albania and Tirana.
Source: Bank of Albania

- The Fischer Index of residential prices across the country, for the second half of 2020, shows an increase of about 48.6% compared to the level year (the year 2013) and about 6.2% from the last 6 months of the pandemic year 2020.
- About 29% of agents have reported sales at the

same prices as those offered. 17% of them sold for up to 5% less than the asking price, and 39% reported selling for between 5% and 20% less than the original asking price. According to the agents, about 60% of the residential and commercial properties sold by them were purchased with bank

loans. 80% of these properties are purchased with loans that cover up to 80% of the property's value. Asked about the residence of buyers, agents report that about 36% of residential and commercial properties were sold to non-resident citizens in Albania, and this ratio is like that of the previous period. Half of these buyers are reported as residents of the European Union and the rest are outside it.

During the first 6 months of year 2021, Bank of Albania conducted the same questionnaire to the sample consisting of construction firms and real estate agencies. According to the results of this questionnaire, Bank of Albania concluded that:

- The net balance of responses on the overall situation has increased by +18%. This result shows the restored optimism of agents after the first pandemic year 2020. The actual value of this indicator is almost same to the average values of 2017-2019 period (Period with the highest indicator value since the questionnaire started from Bank of Albania in year 2013).
- The number of agents that have realized sales was 93 with is an indicator larger than the previous 6 months (71), and the total number of properties sold was around 12% higher. The ratio of the number of agents that have realized sales to the total number of valid responses has increased to 50% compared to 39% of the previous 6 months.
- 50% of sales realized during the first 6 months of 2021 in Albania territory, are located in the most preferred areas within the cities, compared to 33% of the previous period; 26% of sold properties belong to the suburb areas of the cities, compared to 37% of the previous period, and around 24% were properties built outside the cities, compared to 30% in the previous six months. The average sale's time of properties remained almost unchanged from the previous period.
- The number of unsold properties has decreased. The net balance of unsold properties continues to remain positive, and this fact has been evidenced since the beginning of 2016.
- 37% of agents reported that sales prices were equal to the asking prices. 20% of them have been sold with a price of up to 5% lower compared with the asking price, and 50% of them have realized sales with a price ranging from 5% to 20% lower than the initial asking price.
- Agents also report that around 32% of properties were sold to non-residents in Albania, and this ratio is similar the one from the previous period.

VI. CONCLUSION

The indicator of the general situation of the real estate market analyzed by the questionnaire of the Bank of Albania resulted in a negative value for the second half of year 2020, reflecting all the economic and social uncertainties created by pandemic situation. The same indicator has significantly improved during the first half of year 2021, reflecting the real estate market optimism after 2020. What makes even more

positive the situation is the fact that the current value of this indicator is comparable to the average values of 2017-2019 period (Period with the highest indicator value since the questionnaire started from Bank of Albania in year 2013).

The number of sales to the total number of subjects who responded, fell to 39% from 44% six months ago. So, during the first pandemic period there was a decrease in the number of properties sold. The situation improved immediately in the first half of 2021 where according to the Bank of Albania questionnaire, the number of entities that have realized sales (93) was higher from the previous six months (71 entities), and the total number of properties sold was around 12% higher.

50% of sales realized during the first 6 months of 2021 in Albania territory, are located in the most preferred areas within the cities, compared to 33% of the previous period; 26% of sold properties belong to the suburb areas of the cities, compared to 37% of the previous period, and around 24% were properties built outside the cities, compared to 30% in the previous six months. It is evident that during the first pandemic months, properties in the suburb areas as well as outside the cities were more preferred than areas within the cities. But the survey shows that this trend changed very fast, in the next 6 months.

About 36% of residential and commercial properties that were sold during the pandemic period were purchased by non-residents. Half of them are residents of the European Union and the rest are outside it, so about 60% of the properties are bought by locals. Because of COVID-19 restrictions in Europe and all over the world, in the first half of 2021, agents report that around 32% of residential and commercial properties were sold to non-residents in Albania, showing a very small reduction of this ratio during a 6-month period.

The Fischer Index of Housing Prices in Albania increased by 48.6% compared to the level (year 2013). It also increased by 6.2% compared to the previous six months. One observed fact in the construction sector in Albania is that, despite the decline in purchasing power, builders do not lower housing prices, and this is one of the reasons why the pandemic situation has not affected this sector so much.

Agents are pessimistic about the performance of the market in the territory where they operate for the short-term future but are significantly more optimistic for the longer-term period (up to two years) for the activity in the real estate market throughout the territory, that is until it passes completely this pandemic situation.

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