

# Formalizing Unpermitted Real Estate in Kosovo

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## SUMMARY

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## SUMMARY

This paper presents the findings of a recent research on the informality of the real estate sector in Kosovo and a review of the government's action plan to formalize it. Some proposals for improvement of the methodology and the procedures is given.

Kosovo has undergone through a period of instability and conflict. During the following period there was a large internal migration movement to the cities and a considerable initiative in rebuilding; the construction sector has played an important role in the country's economy. Due to inefficient administration and bureaucratic procedures the majority of development happened informally. Real estate market in Kosovo is a frontier market, based on relationships among the local population and the various sectors, rather than on rules. There is a large number of problematic real estate in the market today, more than 90% of the new buildings are sold based on mutual trust; without a permit and/or a title. Informality may refer to a lack of ownership titles which is a big issue; this may include lack of ownership titles on the land parcel that the building is built in and/or lack of ownership titles for the apartment units of the building. At best, investors may have obtained a legal construction permit to start the construction, but they never have obtained the final certificate of technical acceptance. Therefore, apartment

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t most on the so-called “internal contracts” or “pre-agreements”. In such cases, the notary makes a pre-agreement and keeps the records at his/her private office. In many cases the land parcel belongs to the municipalities or to the socially owned enterprises and the land occupants had a lease for use for unlimited time; once the land parcel is developed and the apartment units are “subleased”, the “third buyer” by law cannot be registered at the cadastre (KCA).

The situation as such may become a threat for the economy, since such real estate cannot be mortgaged or transferred; a large number of properties cannot be accepted as collateral for credit and they just represent a “dead capital”. Despite the problems, the property market is still functioning well because there is still a large demand for urban residential and commercial real estate. Market values are considerably high and are not influenced by the informalities. There is also a lack of reliable real estate market data; factors that mostly affect the market values are the location, quality and design of the construction. Government and international experts have managed to put together a progressive strategy to formalize the real estate sector in Kosovo. Priority was given to simplify and improve the construction permitting procedure and to adopt a pro-growth spatial planning system. In the World Bank’s Doing Business Report 2015, Kosovo has been rated as the 3rd country in the world during that period, due to these reforms. The compilation of the Inventory on orthophoto map of a total of 352,836 unpermitted constructions is also a big achievement. Government has then prepared a law for legalization of those unpermitted constructions. This law is now under revision due to some identified weaknesses. The paper provides proposals for improving this law.

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