

# Special feature

## Property rights and homeownership in the Western Balkans<sup>1</sup>

This special feature focuses on property rights and homeownership in the Western Balkans. The multiple changes in legal and political regimes over the last century have left most economies in the Western Balkans<sup>2</sup> with complex property registration systems, heterogeneous property right registration processes within countries and significant numbers of overlapping land claims. As a result, property rights are not always secure, which not only dampens the motivation of households to acquire property but also limits trust in institutions and negatively affects the use of property as collateral to access financing. Insecure property rights in the Western Balkans appear to be at odds with extremely high homeownership rates. High homeownership rates *ex ante* are somewhat at odds with comparatively weak property rights.

We provide an overview of property rights protection in the Western Balkans based on the Index of Economic Freedom and look at how documentation of property rights may relate to other property-related findings from the OeNB Euro Survey. We document how homeowners assess their ability to document their property rights and whether landownership and homeownership overlap. We examine whether property rights are correlated with the mode of acquisition, ownership structure and the quality of housing. We further address the question whether there are regional differences in property rights. To conclude we provide evidence on housing as collateral. This special feature is intended to provide a first overview and introduce novel survey evidence. It is not intended as a comprehensive background paper on the institutional background, nor do we claim that the survey evidence presented here allows the identification of causal relationships.

### 1 Still a long way to well protected property rights in the Western Balkans

The Index of Economic Freedom published by The Heritage Foundation (2022) gives first insights into the state of the rule of law in the Western Balkan economies. The scoring for the rule of law comprises three components: property rights, judicial effectiveness and government integrity. The scoring for *private property rights of individuals*<sup>3</sup> indicates that property rights are less protected in the Western Balkan countries than in the EU countries of Central, Eastern and Southeastern Europe (CESEE; see chart 1). In the Western Balkans, property rights are least protected in Kosovo and graded best in Montenegro. However, the distance to the CESEE

<sup>1</sup> Compiled by Elisabeth Beckmann, Antje Hildebrandt and Tomáš Slačik.

<sup>2</sup> The Western Balkans comprise Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The designation “Kosovo” is used without prejudice to positions on status and in line with UNSC 1244 and the opinion on the Kosovo Declaration of Independence.

<sup>3</sup> “The property rights component assesses the extent to which a country’s legal framework allows individuals to acquire, hold, and utilize private property and the extent to which these rights are secured by clear laws that the government enforces effectively. Relying on a mix of survey data and independent assessments, it provides a quantifiable measure of the degree to which a country’s laws protect private property rights and the extent to which those laws are respected. It also assesses the level of state expropriation of private property. The more effective the legal protection of property is, the higher a country’s score will be. Similarly, the greater the chances of government expropriation of property are, the lower a country’s score will be (...). The Index relies on the following sources in assessing property rights: Credendo, Country Risk and Insights, 2021; U.S. Chamber of Commerce, International IP Index, 2021; and World Bank, Worldwide Governance Indicators.” The Heritage Foundation, 2022.

Chart 1

### Protection of property rights

Score 0–100



Source: The Heritage Foundation, 2022.

EU member states – even to the worst-performing countries – remains sizable. The score for property rights is significantly worse in all Western Balkan countries than the average score reached in European countries (77.4).

The score for *judicial effectiveness* provides important information on the functioning of the judicial system, which is essential for the protection of households' rights. In case of disputes over land claims, for example, its smooth functioning is key for a fair solution. The third score on *government integrity* reflects, for example, the extent of systemic corruption that has the potential to hamper the protection

Chart 2

### Judicial effectiveness

Score 0–100

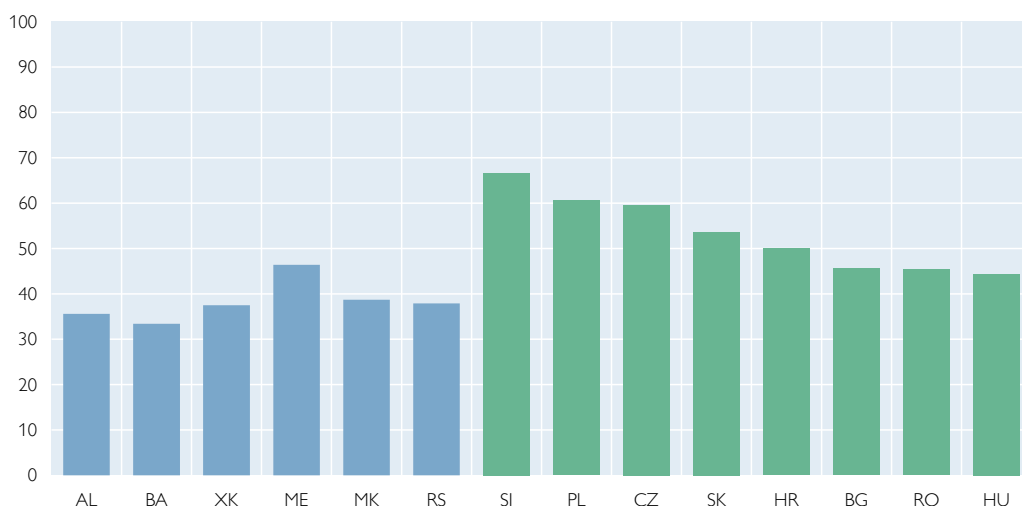


Source: The Heritage Foundation, 2022.

Chart 3

### Government integrity

Score 0–100



Source: The Heritage Foundation, 2022.

of property rights. As is evident from chart 2 and chart 3, all Western Balkan economies show significant deficiencies when it comes to government integrity scores.

Moreover, the European Commission regularly points toward deficiencies in the enforcement of property rights in the Western Balkans. The protection of property rights is one important condition for fulfilling the EU accession criteria, more specifically: Chapter 23 of the *acquis communautaire*. For this reason, the status quo of the rule of law and implementation progress is evaluated annually by the European Commission. Overall, in its latest Enlargement Package, the European Commission (2022c) concluded that the Western Balkan countries still show deficiencies in the area of the judiciary and fundamental rights. For Albania, for example, the European Commission (2022a) explicitly pointed out that the registration of property should be done faster. Moreover, it was noted that information on about 80% of registered properties in Albania are not correct and 10% of the land is not registered at all. Similar concerns were raised by The Heritage Foundation (2022). Accordingly, titles are often not clear or even overlap. Similar concerns were raised for Kosovo, where overlapping land claims are considered a legacy of the conflict with Serbia (The Heritage Foundation, 2022). In Bosnia and Herzegovina (European Commission, 2022b), there are deficiencies in interconnecting cadasters and land registration databases over entities. Moreover, titles are often not clear and property cadasters are not reliable. In North Macedonia (European Commission, 2022d) the analog and irregularly updated property registers hamper the protection of property rights.

This overview indicates that Western Balkan countries have to tackle multiple challenges in the field of private property registration and private property right protection. Lengthy and inefficient registration of property, unreliable data, analog cadasters or informal settlements are only some reasons for unclear property rights. Moreover, overall weak institutional frameworks with inefficient judiciary

systems and widespread corruption are hampering the protection of property rights in the Western Balkan countries.

## 2 Property rights from the household perspective

Insecure private property rights are at odds with very high homeownership rates in the region; it is a well-known fact that homeownership rates are above 80% and up to 95% in Western Balkan countries. Traditionally, the high homeownership rates have been attributed to post-communist privatization programs. Because of this history, it has been hypothesized that homeownership patterns will differ from those observed elsewhere in the world.

Survey evidence shows, though, that the majority of homeowners either purchased, built or inherited their residence. Indeed, survey results further show that the demographic characteristics of homeowners in CESEE now largely resemble those observed in more mature market settings in OECD countries (Beckmann et al., 2019).

In this section, we address the conundrum of high ownership rates and weak property rights. We present survey evidence on how homeowners assess their ability to document their property rights and whether landownership and homeownership overlap. We analyze whether property rights are correlated with the mode of acquisition and the quality of housing. We further address the question whether there are regional differences in property rights. We conclude by a snapshot on how property rights affect the use of immovable property as collateral.

### Data source: OeNB Euro Survey

The data source we use is the OeNB Euro Survey, which has been carried out on commission of the OeNB since fall 2007. The main purpose of the survey is to elicit information on the use of the euro in countries that have not introduced the euro as a legal tender. Therefore, of the Western Balkan countries under review here, the survey only covers Albania, Bosnia and Herzegovina, North Macedonia and Serbia. Unfortunately, it does not cover Montenegro and Kosovo.

In each survey wave, a representative sample of 1,000 individuals is polled in each country in a multistage stratified random sampling procedure. The sample is representative of the country's adult population (aged 18 years and older) with regard to age, gender and region. We use data collected during the survey wave of fall 2017, which included a number of questions related to housing, property rights and collateral.<sup>4</sup>

For the purpose of our analysis here, we pool the data for all four Western Balkan countries covered by the OeNB Euro Survey and weight descriptive statistics by the population size as well as individual sampling weights. As we are pooling and weighting results by population size, the results can be interpreted as referring to an average adult living in these four Western Balkan countries. We will point out differences between countries, where these are particularly large or relevant.

The OeNB Euro Survey is a survey of individuals. In questions regarding homeownership and other property ownership, respondents are asked to report not only their personal ownership but also that of individuals living in the same household.

<sup>4</sup> The full questionnaire is available for download at: <https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey/data-sharing.html>.

Beckmann et al. (2019) show that the results from the OeNB Euro Survey are very close to data from EU SILC.<sup>5</sup>

### Real estate ownership and land ownership frequently coincide

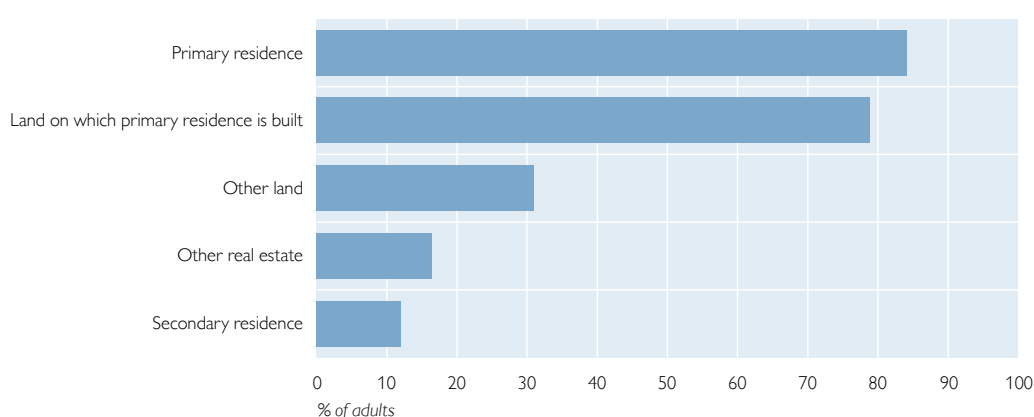
Chart 4 shows the percentage of adults who report that they (or someone living in the same household) own the primary residence, the land belonging to the primary residence, a secondary residence, other real estate or other land. Clearly, ownership of the primary residence is the most widespread form of property ownership at above 80% on average. It ranges between 95% in Albania and 80% in Bosnia and Herzegovina. A first very rough proxy for the security of property rights regarding housing is the overlap of ownership of the primary residence and land.<sup>6</sup> On average, 80% of those who own their primary residence also own the land on which the primary residence is built. Simultaneous ownership of the primary residence and land on which it is built ranges between 76% in Serbia and Albania and 86% in North Macedonia.

Other ownership rates are much lower: e.g. an average 30% for other land, based on a range from 41% in Albania and 10% in Bosnia and Herzegovina. Ownership of a secondary residence is most frequent in Serbia at 19% and least common in Bosnia and Herzegovina at 4%. Albania has the highest percentage of individuals who report owning other real estate at 26%; the lowest rate is observed in Bosnia and Herzegovina at 3%.

Clearly, there are large differences between countries in ownership rates. However, these are especially relevant regarding property other than the primary residence and the corresponding land.

Chart 4

#### Ownership of real estate and land



Source: OeNB Euro Survey.

<sup>5</sup> Please note that the following sections are intended to provide novel descriptive statistics only. No conclusions should be drawn in terms of a causal relationship between the variables presented.

<sup>6</sup> Of course, there are alternative forms of security other than outright ownership regarding the land on which a property is built, for example long-term land lease.

### The majority of homeowners can prove ownership by means of an official document

How can owners document property rights regarding their primary residence? Chart 5 (left panel) shows that the majority has a document from a government agency such as a property registry or cadaster<sup>7</sup>. Almost every fourth household owning the household’s primary residence, however, does not have such a document. In addition, 20% of households have a legal document from a notary or lawyer documenting their ownership. Less than 10% report that they have documentation of ownership that originated from privatization. Finally, 6% of homeowners have an unofficial document to prove their ownership. Please note that percentages do not add up to 100% as homeowners may have more than one document to prove their ownership.

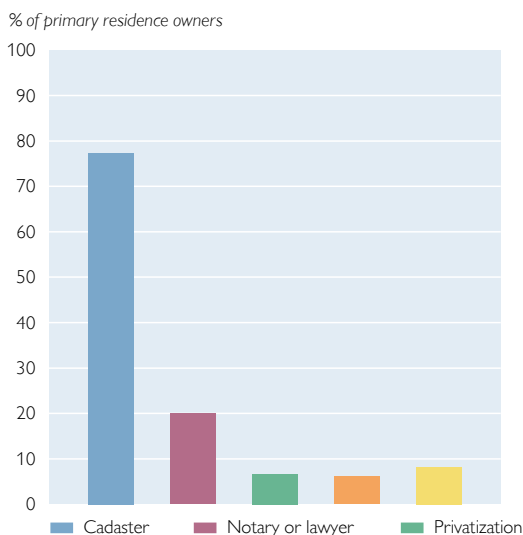
Every tenth adult living in a household where the primary residence is owned by the household reports not having any document to prove their property rights.

The right panel (chart 5) shows how the 23% of primary residence owners who do not have a document from a cadaster can prove their ownership. With no document from a government office, these might be particularly affected by overlapping property claims. The right panel shows that about 40% of those who do not have a document from a cadaster, have an official document from a notary or lawyer as proof of ownership. More than 10% can prove ownership based on a document originating in the privatization process. 14% have a document from an unofficial source. 14% have a document from an unofficial source. 14% have a document from an unofficial source. 14% have a document from an unofficial source.

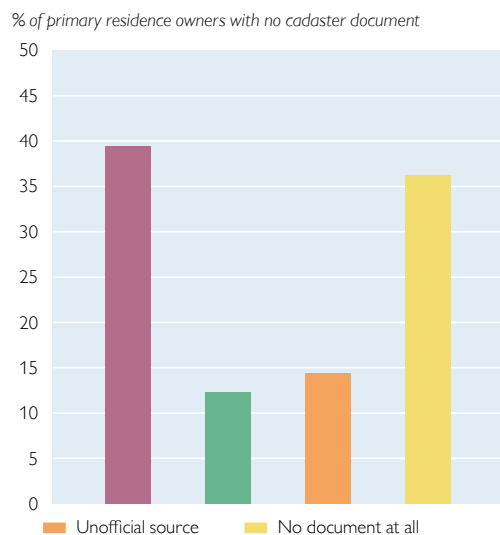
Chart 5

#### Proof of ownership document originated from...

Primary residence owners



Primary residence owners with no cadaster document



Source: OeNB Euro Survey.

Note: Results are weighted by individual and country population weights. Owners can have more than one document, so percentages do not add up to 100.

<sup>7</sup> For brevity, we will refer to these agencies as cadaster although we are aware that the term is not exactly accurate in all countries.

Moving from potentially overlapping claims to a proxy for weak property rights, we further reduce the sample to those homeowners who do not have a document from a cadaster and also do not have a document from a lawyer or notary. In total, this applies to 14% of homeowners. Among these homeowners, 18% report having an unofficial document, 21% report having a document from privatization. The remaining homeowners do not report having any document to prove their ownership.

Are these percentages high or low? A comparison with six CESEE EU member states yields no clear-cut picture. For example, the share of homeowners with documentation from a cadaster is higher in Hungary at 85%, but much lower in Bulgaria at 4%. In Bulgaria, the share of homeowners with documentation from a notary or lawyer is, however, 87%. Compared to six CESEE EU member states, Western Balkan countries do not stand out as having a particularly high share of homeowners who have no official document to prove their homeownership.

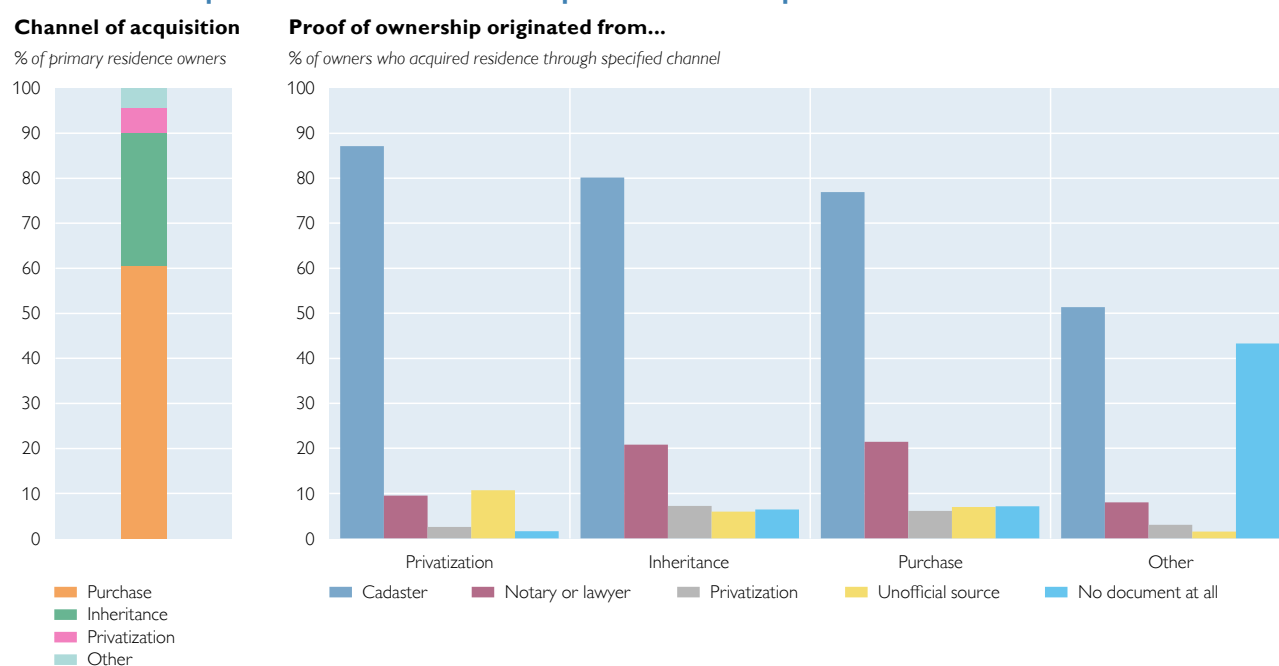
### Property right documentation is heterogeneous

Does property right documentation vary depending on how the household acquired the primary residence? Chart 6 shows that this is the case. Most frequently, households acquire ownership by purchasing or building their primary residence. For these homeowners, 77% can document ownership with a document from a cadaster, 20% have a document from a lawyer or notary.

The percentage of homeowners with cadaster documentation is highest for those who obtained ownership during privatization. The share is lowest for homeowners who obtained ownership through channels other than purchase, inheritance or

Chart 6

### Channels of acquisition are associated with proof of ownership



Source: OeNB Euro Survey. Note: Results are weighted by individual and country population weights. Owners can have more than one document, so percentages do not add up to 100.  
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Table 1

### Heterogeneities in ownership documentation by degree of urbanization

	Proof of ownership originated from...				
	Cadaster	Notary or lawyer	Privatization	Unofficial source	No document at all
	% of primary residence owners				
Villages	79	15	5	4	10
Towns	80	22	8	5	5
Cities	79	19	5	6	11
Capital city	63	30	5	20	8

Source: OeNB Euro Survey, 2017.

Table 2

### Quality of housing

Building age	Proof of ownership originated from...			
	Years that have passed since...			
	Last major renovation	Windows were exchanged	Kitchen was renovated	
	Years (median)			
Cadaster	37	9	8	7
Notary or lawyer	37	7	7	7
Privatization	39	8	7	7
Unofficial source	32	6	6	5
No document at all	37	7	7	7

Source: OeNB Euro Survey, 2017.

privatization. The percentage of these homeowners, however, is very low at less than 10%.

Proof of ownership further varies by the degree of urbanization (table 1). In villages, the share of owners with a document from a lawyer or notary is very low at 15%. This share is highest in the capital cities at 30%. At the same time, the share of primary residence owners with a cadaster document is lowest in capital cities at 63% and the share of owners with documents from an unofficial source is highest at 20%.

While these figures clearly suggest that documentation of property rights differs within countries, we do not see a strong effect of the various forms of proof of ownership on the quality of housing. Table 2 shows the median age of the buildings in question and the median years since the last major renovation, last renovation of the kitchen or exchange of the windows. Obviously, these are only very rough proxies of housing quality. Nevertheless, it is interesting to note the similarities across primary residences where there is no or only unofficial documentation and those where there is a document from the cadaster or from a notary or lawyer.<sup>8</sup>

<sup>8</sup> Investigating this finding in greater depth is beyond the scope of this special feature. Field (2005) would suggest that weak property rights also have a negative effect on the quality of housing, whereas Gil and Celhay (2022) show that for poorer households their investment in their homes does not change when security of property rights is improved. However, access to credit is affected.



## Immovable property as loan collateral

Do differences in property right documentation affect households' access to finance? Chart 7 provides a preliminary glimpse. On average, 15% of borrowers pledge their primary residence as collateral. However, there is notable variation among Western Balkan countries and this share ranges between 42% in Albania and 7% in Bosnia and Herzegovina and Serbia.

Chart 7 indicates that there is a correlation between more secure forms of property right documentation and the use of immovable property as collateral. The percentage of borrowers who use the primary residence as loan collateral is highest among those who can prove their property right by a cadaster document. It is lowest among those with documents from no official sources. Compared to CESEE EU member states, the percentage of borrowers who use the primary residence as collateral is relatively low ranging between 20% in Bulgaria and 38% in Czechia.

Of course, it would be wrong to conclude from this chart that households with poorer property right documentation have worse access to credit. Instead, chart 7 should be taken as pointing to an interesting avenue for further research.

### 3 Summary

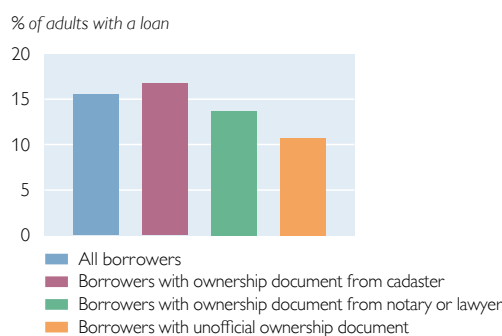
An international comparison of the quality of property rights shows that property rights in the Western Balkans are comparatively weak. This finding is somewhat at odds with high homeownership rates in the region. More than 80% of adults in the Western Balkans live in a primary residence that is owned by someone in their household. Moreover, evidence from the OeNB Euro Survey shows that the majority of homeowners have a document from a government cadaster to prove their ownership. In addition, a significant share has a legal document from a notary or lawyer proving ownership. However, every tenth homeowner does not have any such document. Available proof of property rights appears to differ depending on how the household acquired the primary residence. In the capital and larger cities, the share of homeowners without officially documented ownership is higher. At a descriptive level, there does not seem to be a correlation between the quality of housing and available proof of property rights.

Taken together, survey evidence suggests that, at the individual level, lack of proof of ownership is not a serious issue. Rather, property rights are relatively weak because claims of several individuals conflict or overlap – a phenomenon that has partially developed due to multiple changes in legal and political regimes in the last century, which in turn gave rise to complex and heterogenous property registration systems, most of which are not digitalized yet. Moreover, weak institutional frameworks make property rights protection even more challenging.

Obviously, property rights matter at the individual level and their protection needs to be improved in the Western Balkans. From a financial stability point of

Chart 7

### Primary residence as loan collateral



Source: OeNB Euro Survey, 2017–2019.

view, moreover, a first glimpse at how property rights are associated with financial outcomes suggests that households with “better” documentation of ownership are more likely to use their house as collateral.

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