

Nordic Journal of Surveying and Real Estate Research 6:1 (2009) 40–59

submitted on May 18, 2008

revised on January 27, 2009

accepted on March 3, 2009

Key Issues of Mass Valuation for Compensation within the Land Restitution Process in Albania

Aivar Tomson

Nordic Journal of Surveying and Real Estate Research

Baltic Property Expert – Kinnisvaraekspert Tallinn

6A Street Ahtri, 10151, Tallinn, Estonia

aivar.tomson@bpe.ee

***Abstract.** The aim of current research was to analyze the key issues of mass valuation for compensation within the land restitution process in Albania. The analysis was grounded on the case study of mass valuation system which was prepared to carry out mass valuation for compensation of illegally expropriated land. The “field study” was made by the author during 2005–2006 within the frames of consultancy projects sponsored by World Bank and OSCE. The aim of those projects was to examine and improve the existing mass valuation methodology for compensation (Decision on the Approval of the Methodology on the Valuation of Immovable Property that Will Be Compensated and of the One to be Used for Compensation 2005). The author of the current research hopes that in co-operation with local specialists some progress was made. Unfortunately at the time of finalizing the current article (December 2007- March 2008) the existing mass valuation methodology for compensation without any principal changes was still in force. The research covered the majority of key issues of mass valuation – topics like the essence of mass valuation, time dynamics and external influences to valuation results were handled based on literature and presented as parts of the case study. The discussion section contained generalization and relationship with earlier research. The principal conclusions were the following:*

- partly following principles of market based valuation and distinguishing between valuation approaches for different land categories produce uneven valuation results and the system does not follow the principles of valuation level and uniformity*
- absence of rules related to the time dynamics enables to act in a partial manner, so the system moves away from fairness*
- external influences convert valuation to the part of political decision-making.*

Keywords: Albania, land restitution, mass valuation.

1 Introduction

1.1 Mass Valuation within the Frames of Land Restitution as a Topic

To provide better understanding about the reasons which induce the land restitution, it seems necessary to start from expropriation (known also as compulsory purchase or eminent domain) which is an old procedure implemented in societies with private ownership and free market economy. Expropriation bases on full compensation of economic losses (Viitanen 2002, p. 7). Most countries around the world have legislation according to what compensation has to be based on market value (Asian Development Bank 2007, p. 4; Viitanen 2002, p. 4). There can emerge other losses in addition to the market value and it is typical to compensate those extra losses (different types of damages, costs, etc.) as well, but the systems differ country by country and many authors (Pang 1996, Viitanen 2002, p. 2–7, etc.) relate critically to the existing regulation which in most cases does not secure the owners' position.

The forcible removal (illegal expropriation) of property can happen in a variety of ways, including collectivization, forced sales below market prices, ethnic cleansing in which a social group is driven from its property, etc.

From historical justice point of view, restitution should be seen as a response to human rights violations that have resulted in unjust enrichment of the perpetrators or their supporters and allies. Restitution is therefore a form of delivery of justice to the victims (Grover and Florez-Bórques 2004, p. 14).

The concept of restitution is enshrined in Human Rights Law. Grover and Florez-Bórques (2004, p. 2) have pointed out two main reasons for restitution as a phenomenon: redistribution of wealth and socio-political consequences. Swinnen (1997, p. 2) has distinguished two separate issues in land redistribution in European post-communist countries: the social ("equity") considerations of the reforms and the legal ("historical justice") demands of pre-collectivization land owners, whose land was confiscated. Those two issues may conflict and Albania is just the case where due to more concentrated pre-collectivization land distribution it was impossible to follow both the social considerations and the legal demands at the same time (Swinnen 1997, p. 2).

Although physical restitution (known also as physical compensation) was widely used in European post-communist countries in 1990s there was a need for some alternative approaches because in reality physical restitution is not always possible (Swinnen and Vranken, 2005, p. 3–4). Compensation in cash or in vouchers has been used in Hungary, Albania, Estonia, Latvia, Lithuania, etc. (Giovarelli and Bledsoe 2001, p. 37–39).

As compensation is typically based on values, there is a need for valuation. In order to carry out the valuation in a more rational way, mass valuation (also known as mass appraisal) as a valuation approach is used. Mass valuation evolved out of the need for uniformity and consistency is mainly used for property taxation (Gloude-mans 1999, p. 24). At the same time it is probably the only way to carry out reforms quickly and fairly. As a rule there is no need for valuation in the context of physical restitution but it is necessary in case of compensation in cash

(or some other money derivative) or property of equivalent value to that which was expropriated.

As on the country-wide level the total sum of compensation is a question of fiscal ability of the country in certain time frames, everything related to compensation is politically sensitive. There has to be a fair (market-based) basis, otherwise inequity between different land uses and groups of people can arise.

1.2 Research Problem and Objective, Scope of the Research

The research question is:

How does the interpretation of the key issues of mass valuation in circumstances of undeveloped property market influence the land restitution process?

The objective of the research was as follows:

- to define a framework of key issues of mass valuation in context of land reform
- to describe the mass valuation procedure in the land restitution process in Albania and to compare it with other countries
- find out the deviations in the key issues of mass valuation in the land restitution process in Albania and to analyze the occasion and impact of this deviation.

The author set three limitations for the following research:

- the research covered mainly only the Albanian valuation system for compensation in the land restitution process
- only the methodology of mass valuation was considered
- the analysis was based on the time period 2005–2006.

The time dynamics of development is not an object of the current research, however, our last contact with Albanian officials in November 2007 showed that within a ca 2-years period no principal changes were made in the mass valuation methodology (Çelo, G. 2007).

1.3 Research Methods

The research was based on theory (literature) and on a case study of mass valuation methodology in Albania. The research was focused on the valuation methodology used in the restitution process.

2 Key Issues of Mass Valuation

Mass valuation is something typical in context of *ad valorem* property taxation, but it is not so usual to handle the mass valuation within the frames of land restitution. Nevertheless, in the context of land restitution the aim of mass valuation is nearly the same and expectations for valuation level and uniformity should be even higher because, unlike in taxation where annual tax is only a percentage of valuation result, the total value of land unit is under the question. In this context valuation and expectation of accuracy has to be seen as similar to that for typical expropriation cases. Whether to estimate the values using mass valuation or single-property valuation or to act without valuation, is in the hands of politicians.

The current article is oriented to market value and mass valuation because those principal choices were made by the Albanian Parliament (Law on Restitution and Compensation of Property 2004) and there has not been any remarkable uncertainty related to those alternatives among the specialists and within the community.

2.1 Valuation Level and Uniformity in Context of Mass Valuation

There is a special technique called ratio studies to measure two primary aspects of mass valuation accuracy: valuation level and uniformity (Gloude-mans 1999, p. 218). A ratio study compares the results of mass valuation to market values (Gloude-mans 1999, p. 217).

Valuation level is the overall ratio of values to market values (Gloude-mans 1999, p. 377). In mass valuation the results cannot be expected to equal the market values of individual properties, but high and low ratios should be balanced. The typical ratio is nearly 100% (Gloude-mans 1999, p. 219).

Valuation uniformity relates to fair and equitable treatment of individual properties (Gloude-mans 1999, p. 219). Valuation uniformity requires equity within and between groups. Uniformity within a property group is determined by measuring the magnitude of the differences between each ratio and the average or middle ratio (Gloude-mans 1999, p. 219). Uniformity between groups of properties can be evaluated by comparing valuation levels in terms of horizontal and vertical equity (Gloude-mans 1999, p. 219–220).

2.2 Key Issues of Mass Valuation

The ratio studies which are carried out in order to verify the quality are based on a quantitative analysis. Such kind of quality control has to be used in “normal” circumstances where the fundamentals of mass valuation are well grounded.

The author of the current article has analyzed the key issues of mass valuation in the context of property taxation (Tomson 2005, p. 43–56). The issues analyzed in this research were:

- mass valuation and single-property valuation
- market value and non-market value
- reassessment cycle
- valuation date
- external influences on mass valuation results (Tomson 2005, p. 45).

Such kind of list was based on theoretical treatments of many authors (Eckert 1990, McCluskey 1999, Gloude-mans 1999, etc.). Distortions in this system cause inequity.

As the list above has elements close to each other, it seems rational to provide subdivision in three groups. The key issues of mass valuation analyzed in the current article are the following:

- the essence of market-based mass valuation
- time dynamics
- external influences on valuation results.

The list is shortened compared to the previous article (Tomson 2005, p. 43–56), but it covers almost the same components, because reassessment (revaluation)

cycle and valuation date are included to the time dynamics and issues related to mass valuation and market value are handled through the essence of market based mass valuation.

2.3 The Essence of Market-based Mass Valuation

Mass valuation is the systematic estimation of many properties as of a given date using standardized procedures and statistical testing. Single-property valuation is the valuation of a particular property as of a given date. The main differences between those two approaches are in scale and in their handling of market analysis and quality control. However, single-property valuation and mass valuation have similar steps and are based on the same principles (Gloude-mans 1999, p. 1, Eckert 1990, p. 88–89). The principles like supply and demand, highest and best use, anticipation, etc. are presented as valuation principles or simply like the key definitions (Gloude-mans 1999, p. 1, Eckert 1990, p. 87–88). Some authors refer to nearly the same issues as “basic principles of value” (Wuensch, Kelly and Hamilton 2000, p. 9–11).

Both single-property valuation and mass valuation enable to estimate the values but single-property valuation is, due to its time and money consumption, rarely used in the land restitution process. The author of the current article has not found any materials describing single-property valuation as the main tool for estimation of values for compensation in the context of large-scale restitution. The question can be also handled in the context of the accuracy. The single-property valuation based on detailed analysis taking into account all peculiarities of the valuation object is more accurate in its essence. That is reason to use single-property valuation for “normal” compensation cases in the context of expropriation.

The market value as an objective characteristic is widely used and highly recommended in the context of expropriation (Pang 1996, Viitanen 2002, p. 2–7, etc.) and property taxation. Where it is possible to use market value, it is generally regarded as a better tax base (Bird and Slack 2002, p. 19). International Valuation Standards give the most well-known definition of market value: *Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion* (IVSC 2005, p. 82).

As compensation is primary related to the market value, the methods of land valuation have to be handled. It is typical to point out 6 different methods of land valuation. These approaches are:

- sales comparison
- ground rent capitalization
- subdivision development analysis
- allocation
- extraction
- land residual technique (Appraisal Institute 2001, p. 337–346).

There can be and probably are some other terms or even another basis how to handle land valuation methods, but it does not seem reasonable to go into details.

The sales comparison approach is based on a direct comparison of market transactions of vacant land. It is the preferred method of land valuation and probably the only widely used mass valuation method in the context of land. In the valuation process sales of similar land units are analyzed and a comparison is carried out using the adjustments (Appraisal Institute 2001, p. 337–339).

The sales comparison is probably the best way to estimate the land value. All the other methods are rarely used in mass valuation. As there is a lack of sales information or the information is unreliable, some alternative techniques would be appropriate to use. Ground rent capitalization (income approach in more general terms) is another technique which together with the sales comparison approach are two of three “classical” approaches.

Ground rent capitalization is an approach based on annual rental payments, which are converted into market values through direct capitalization. Ground rent is the amount of money paid for the right to use and occupy the land. This method is useful if an active and competitive market for land leases exists. Ground rent capitalization can be used in mass valuation, but is fairly complicated because the rental market is very rarely active and competitive (Appraisal Institute 2001, p. 342).

All the other approaches are combined based on three main approaches (sales comparison, income and cost methods). Those methods are known as residual methods. It seems not so reasonable to go into details about those methods, but allocation has to be handled shortly because the similar method has been used also in valuation for compensation in Albania.

Allocation is based on the principle that a portion of the property’s total value comes from the land. The value of the land and its improvements generally contribute to its value. Based on market contribution estimated from comparable sales in similar area, an indicative land contribution is given to the land component (Appraisal Institute 2001, p. 340–341).

2.4 Time Dynamics

There are only limited possibilities to keep values up-to-date, Almy (2000, p. 15) offers three options for that:

- indexing or trending existing valuations
- re-calibrating or updating existing models
- using new valuation models.

Indexing and trending are cost-effective solutions for short periods and/or markets with less dynamics. Another option is to carry out revaluation. The revaluation cycle in the context of property taxation is in most countries not more than 5 years (McCluskey 1999, p. 11, Malme and Youngman 1994, p. 64–66, Brown and Hepworth 2002, p. 34–40). Land restitution is contemporary in its essence, still it is rather typical for reforms in the last decades (in some Asian and Latin-American countries we speak about land reforms continued up to 50 years and more) (Deininger 2002, p. 9–13). The efficiency in terms of time in European post-communist countries has become higher within less than a decade, the share of land operated individually increased from 21% to 78% (Deininger

2002, p. 12–13). Although it was related to rural areas in the 90s, it also affirms that land restitution is typically a time consuming process.

Valuation date is closely attached to the revaluation cycle and has at least two different sides: a value has to be set using a specific point in time and at the same time a value should reflect the present market situation (Gloude-mans 1999, p. 404). The valuation results are in force until the approval of revaluation results. All new properties or, in some cases, also existing units (appeals for example) should be valued using the same date with no possibility to consider market changes between valuation date and effective date.

2.5 External Influences to Valuation Results

It appears to be inappropriate to handle external influences to values within the frames of valuation methodology. Deviations in context of land restitution are rather typical, but there is no sense to seek for some theoretical treatment because it is something outside of the frames of valuation theory. Excluding the cases of clearly defined corruption and some other illegal actions, everything concerning restitution is more or less related to politics. To compare this situation with property taxation, which is also based on political decisions, it is necessary to understand the strict discrepancy between mass valuation and political decisions concerning restitution.

3 Restitution in Other European Post-communist Countries

The experience of European post-communist countries shows that although the aim of land reforms has been relatively similar the way to achieve the results has been rather different especially because of different historical background. Giovarelli and Bledsoe (2001, p. 35–37) have pointed out that land reforms in the Czech Republic, Slovakia, Poland and Slovenia were carried out rapidly and were successful because those countries did not expropriate all land during the communist era and land restitution in those countries was not politically so sensitive. Although there are some more critical opinions (Zaleczna, M. and Havel, M.B. 2007) it is clear that the starting point and also the results have been different.

Latvia can be used as an example where the physical restitution was carried out in spite of all the improvements from the Soviet time. Latvia restituted land ownership rights on the basis of the old land boundaries, restoring the cadastral parcels that existed on July 21, 1940. Cadastral maps and Land Book records from 1924–1940 were used as evidence for restitution (Giovarelli and Bledsoe 2001, p. 38). Such kind of solution led to complicated results where land and buildings can belong to different owners. In more complicated cases the number of different land units having a connection to a certain construction can be very large. Such kind of regulation has led to a remarkable number of debates and rental control in land relations. The situation can be reported as an epiphenomenon of physical restitution.

In most cases it has been impossible to avoid compensation, meaning that there has to be a tool for estimation of compensation. Although land restitution

in European post-communist countries has been in focus of many international donors like World Bank, OSCE, etc. and there is a big number of different types of articles, there is a lack of studies related to mass valuation in this context.

The Estonian experience can be presented as a good example about the needs for mass valuation. The first mass valuation project carried out in 1993 was aimed for property taxation, because at this time compensation was linked to the 1940 values. It was stated during a 1-year period even in the law, but it was canceled, because there was no idea how to estimate the value in 1940 (Malme and Tiits, p. 28). It was significant that the mass valuation project lasted until the middle of 1993 and only after that politicians decided to use the results of mass valuation for compensation.

Land restitution in Hungary was based on compensation to former owners rather than physical restitution. 50% of the land area was subject to compensation claims. The compensation laws provided compensation vouchers to former property owners and to people who were discriminated. Vouchers were used to bid for the land of production cooperatives and state farms at compulsory auctions (Giovarelli and Bledsoe 2001, p. 37).

Estonia, Latvia, Lithuania restituted land to former owners. Like in Hungary also in the Baltic countries the bonds were used in the compensation process. In Estonia, compensation bonds were surrogates for physical restitution. In many cases claimants decided “voluntarily” to ask for compensation, but compensation was the only tool when restitution was impossible, mostly because of existing “improvements” from the Soviet era. In the beginning of the process it was possible to claim for physical compensation, but mainly because of the complicated procedure it was canceled immediately. Compensation bonds were used in the privatization process (land, apartments and enterprises) (Giovarelli and Bledsoe 2001, p. 37–39). Those bonds were freely transferable and if in the beginning of the process the value of those bonds was less than 20% of the nominal value, then after some years it rose very close to the nominal value. The reason was that there were enough assets to privatize using compensation bonds.

Land restitution in all Baltic countries was carried out relatively slowly especially because of the complicated principles and procedures (Giovarelli and Bledsoe 2001, p. 37–39). Today it seems that it was reasonable to avoid compensation in cash because of fiscal reasons. At the same time the state bonds can be used only when there is a massive state land reserve, which stands on another side of compensation vouchers.

Another lesson to learn from the experience of the Baltic countries is that it is not reasonable to keep everything within the frames of full-scale compensation in context of today’s market value. In Estonian legislation changes in favor of the community were made in cases related to urbanized areas, which were erected from typical rural areas (1940). Instead of full compensation in terms of market value the compensation covered only part of the area (0.5 hectares), the remaining part was compensated using the coefficient 0.1. It was a political decision based on the idea that the value growth is not primary produced by the former owner (Law on Land Valuation 1994). In some other countries the maximum sum of

compensation is fixed. Nearly the same idea is probably used in many countries using taxing of planning gains. In case of land restitution compared to the “normal” situation this principle seems even more logical. The situation can be vice versa in certain cases and it concerns especially polluted areas where the value level compared to the land without pollution is lower because of the pollution.

The valuation methodology of agricultural land can be also handled in the context of land reforms in some other countries. The Albanian approach was based on agricultural production, which cannot be handled as a land valuation approach. A relatively similar method was used during the first mass valuation project in 1993 in Estonia. Three years later the next mass valuation project was carried out and the values of agricultural land were 2.4 times less compared to the first valuation project (Lehtveer 2005). At the same time the land market was in the very beginning of its development and such kind of decrease was not caused by the changes in land market. It was affected by overvalued land values in the 1993 land valuation project. The reason to make such kind of overvaluation was mostly because of ignoring of land market supply and demand. It was accompanied by undervalued depreciation costs of agricultural machinery and structural changes in Estonian economy and agriculture. Agriculture became more efficient because of new technology, but at the same time the expenditures rose quite dramatically.

4 Albanian Case

4.1 Albania as an Object of Research

Albania has been going through a series of land and property reforms since the early 1990's. The radical redistribution of agricultural land instead of the share system, which allowed much faster recovery of agricultural output than in other countries, was introduced in Albania (Deininger 2002, p. 2). This approach gave some kind of solution to farmers and at the same time met the need for compensation, in many other countries being solved by using physical restitution. Unfortunately, Albania has not made any remarkable success in the compensation process during the relatively long period of land reform. If land redistribution was clearly related to agriculture and rural community then land compensation is more complicated, including urban land and other areas with building potential.

Albania had some peculiarities which led to such kind of approach. Compared to other European post-socialist countries, Albania was and still is more oriented to agriculture. The urban population was only 46% (2006) and agriculture constituted ca 22% of GDP (2005) (World Bank 2007), the total agricultural land area being about 700 000 hectares (Celkcenter 2004, p. 3). Albania has a large share of rural population which required land distribution as probably the only way of solving the situation for farm workers (Swinnen 1997, p. 21).

The unresolved issues of restitution and compensation have been the major obstacle preventing completion of tenure reform and first registration. The debate over the restitution of agricultural land began in 1993, when the Law of Restitution of Property to Former Owners was passed (World Bank 2006, p. 18). The Law provided the former owners, whose granted land was not equal to their

ancestral property rights, to gain compensation either by an alternative grant of land or a financial entitlement (World Bank 2006, p. 18–19). However, after the adoption of Law, the form and value of this compensation was not agreed upon and the compensation program was not implemented. Dissatisfied former owners challenged the law on legal and constitutional grounds. In 1997–98, they had a prominent voice in the debate over the national Constitution and they succeeded in gaining a provision, which required the government to draft and obtain approval of legislation resolving the restitution issues by November 2001 (World Bank 2006, p. 18–19).

In June 2004 a new *Law on Restitution and Compensation of Property* was passed. The objective of this law was to provide a solid legal base from which people that were unjustly deprived of their property in the past can regain their property or gain an equivalent in alternative property or money (Law on Restitution and Compensation of Property 2004). The revised Law on Restitution and Compensation of Property addressed several problems in the 1993 version. The version kept the primary principle, allowing the restitution or compensation of immovable property expropriated, nationalized, or confiscated after November 1944 and allowed a wider range of claims and claimants than the earlier law, but continues to exempt the agricultural lands. Thus, the associations of former owners and other groups remained unsatisfied and continued their legal and constitutional challenges. Continued disagreement on the methodology for determination of property values, the compensation level and sources of funds for compensation has slowed down the implementation of restitution (World Bank 2007, p. 30–31).

The unresolved issues of compensation of illegally expropriated land have been actual starting from 1993. Although the objective of the Law on Restitution and Compensation of Property, passed in June 2004, was to provide a solid legal base to people who were unjustly deprived of their property in the past to regain their property or an equivalent in alternative property or money, it did not work this way and it was not according to the expectations of the community. Most of the re-owners still wait for compensation and this is partly related to rather indistinct rules of compensation and valuation in this context. The text below is related to the analysis of valuation methodology which is the basis for compensation.

4.2 The Essence of Market-based Mass Valuation

There are three land categories in valuation methodology – agricultural land, building sites and building sites in tourist zones, the methodology used being different for all of those. Valuation methodology for those categories differs in the structure and even in the basics. There are exact figures about the basic value of building sites in tourist zones (20 and 40 EUR per sqm in zones around the inland waters and seashore accordingly), at the same time the methodology does not contain figures about basic value level for agricultural land and building sites, meaning that calculations have to be done during the process of valuation. The situation in the context of coefficients is different: the values (the exact figures) of coefficients for agricultural land (0.6–0.9 for the water element, 0.93–1.00 for the distances from urban centres, processing industries and, coastal area, 0.93–1.00 for

the investments in the agricultural sector, etc.) and building sites in tourist zones (coefficients for the distance from coastline 1.0–2.0, infrastructure 1.0–2.0 and development 1.0–18) can be found from methodology, but values of coefficients for building sites have to be found during the process of valuation. The main characteristics of the methodology are described in the table 1 below (Decision on the Approval of the Methodology on the Valuation of Immovable Property that Will Be Compensated and of the One to be Used for Compensation 2005, hereinafter Valuation Methodology 2005).

Table 1. *The existence of basic value and the value of coefficients in methodology (constructed by the author).*

	Basic value	Coefficients
Agricultural land	No	Yes
Building sites	No	No
Building sites in tourist zones	Yes	Yes

The main essence of basic values and coefficients is presented below on table 2.

Table 2. *Description of basic value and coefficients in methodology (constructed by the author).*

	Basic value	Coefficients
Agricultural land	Agricultural production	Location and some other factors (as irrigation)
Building sites	Location	Bundle of rights (mainly)
Building sites in tourist zones	Country-wide (minimum) value	Location (mainly)

4.3 Valuation methodology of agricultural land

Methodology is based on net incomes received from land cultivation. Methodology does not contain the figures about the basic value level, meaning that calculations have to be done during the process of valuation. All the needful coefficients are in the existing methodology and all coefficients have been calculated already before the mass valuation project was started. The methodology has some substantial problems - the system is hardly based on land productivity in terms of soil fertility and location as a main factor of value is rather underestimated (Valuation Methodology 2005).

According to the calculations the methodology results of the basic value of arable land were in range of 0.8–3.5(5) EUR/sqm (8,000–35,000 (50,000) EUR/hectare) (Sulle 2005).

In October 2005 during the field study made by the author of the current article some farmers (all together 8 persons) in Lushnjë region were visited. They told about the land sales in the neighborhood at the price level of ca 30,000 EUR/hectare. It seemed more or less based on asking prices, but the real price level was probably lower. They gave even ca 3 times higher figures speaking about the land plots close to the main road. At the same time in areas where ca 30% of land

was uncultivated and the rental market was not developed, rentals were up to 100 EUR/hectare annually.

This information did not give any clear idea about the values. It seemed not correct to speak about too high values, because there was no comprehensive database for comparison. The main problem was related to low activity of the market (market of agricultural land is non-active in many countries) and unreliability of market information. The reliability of market information was a bigger problem. Based on different sources (Dervishi and Quato 2005) 50–90% of sales prices were declared lower compared to the real price. Still, it was possible to gather some sales information from the Registration Office and from the brokerage companies.

Another issue in context of agricultural land is related to the principle of basic value and coefficients. In context of soil fertility (it included so called water coefficient which was based on humidity of soils as well) there was up to 5 times difference in values and, based on location, there was less than 30% difference (Valuation Methodology).

The valuation result is called the “potential price of land” (Valuation Methodology) which probably characterizes the essence of the valuation model in a correct way, but does not correspond to the definition of market value (IVSC 2005).

4.4 Valuation methodology of building sites

Valuation methodology of building sites is compared to agricultural land built up differently. In a very formal way the approach could be held similar to that for agricultural land: the basic value was corrected with coefficients. At the same time the approach was very different: the approach is location-based and there is no information about the values of coefficients. The analysis is handled as the main part of the valuation process and is probably the valuation in its essence (Valuation Methodology).

Valuation is based on market transactions with land, but as the land market activity was low and the transaction prices not reliable, also another method is used for valuation of building sites. It is based on intensity of construction (determined by urban plans), on land-owners’ share in the project and on average sale price of buildings. The idea is that the value of building sites can be determined using the value of buildings (most probably it has to be the total value because in “normal” circumstances the property as a whole is transferable, buildings are only a part of it). This idea is drawn upon the allocation method based on land-owners’ portion in sales, where land ownership is probably changed to the co-ownership of improved land (Lame 2005, Valuation Methodology).

The coefficients are based on real market behavior. There is no reason for using other factors, to exclude or include something. In most cases it can be reasonable, but still in some cases from the market circumstances point of view it might be necessary to use some values which is out of given frames (Valuation Methodology).

4.5 Valuation methodology of building sites in tourist zones

Valuation methodology of building sites in tourist zones is again different. Nearly everything is done already before the valuation project. There are the basic land values (20 and 40 EUR per sq m for the zones around the inland waters and seashore accordingly) and the values of coefficients in the methodology. It is a country-wide approach and the main peculiarity is that the exact value levels in EUR are presented in the methodology. Probably everything is done already before the mass valuation project starts and the only thing to do is to calculate the value based on the location (the amount of compensation) for a certain property (Valuation Methodology).

Compared to the “normal” building sites, the methodology of building sites in tourist zones is rather different. It is a country-wide approach, which, because of the local character of the property market, does most probably not work. According to the methodology it is possible to use coefficients to make corrections based on location (and some other factors). It seems more reasonable to have some different basic value levels based on location using the same principles compared to the building sites. There are some differences in value factors comparing those two land categories, but the main essence of the value mechanism is the same, being very clearly based on construction potential. The direct market information gives results which are well-grounded, losing the need for coefficients. Some indirect market information (volume of new construction, the number of sales, etc.) or market simulation can be used as surrogate approaches to the direct comparison (Valuation Methodology).

4.6 Time Dynamics

Valuation date and revaluation cycle can be handled as components of time dynamics in the context of a mass valuation system. Both of those were and probably still are missing from Albanian system. A methodology based on fixed value levels and coefficients does not give the needed flexibility to consider the changes in the market or, to the contrary, if the valuation date is fixed (which can be a solution, but was not the case in Albania) there has to be an idea how to handle time adjustments in the market analysis process.

4.7 External Influences on Mass Valuation Results

It seems complicated to determine whether the results of valuation are influenced by external factors or not. There has to be a benchmark, which is lacking in the Albanian case. The valuation methodology is based on Law (Law on Restitution and Compensation of Property, 2004), which stipulates the main principles for valuation, the market value as the basis of the procedure has the most significant role in this context. The existing methodology covers mostly the valuation approach, but the difference between valuation and compensation is not clear.

The existing methodology does not make any difference between valuation results and compensation, meaning that compensation is already in process but there is no clear idea about the fiscal impact of compensation. International donors and also the author of the current article have been careful about the ability of the

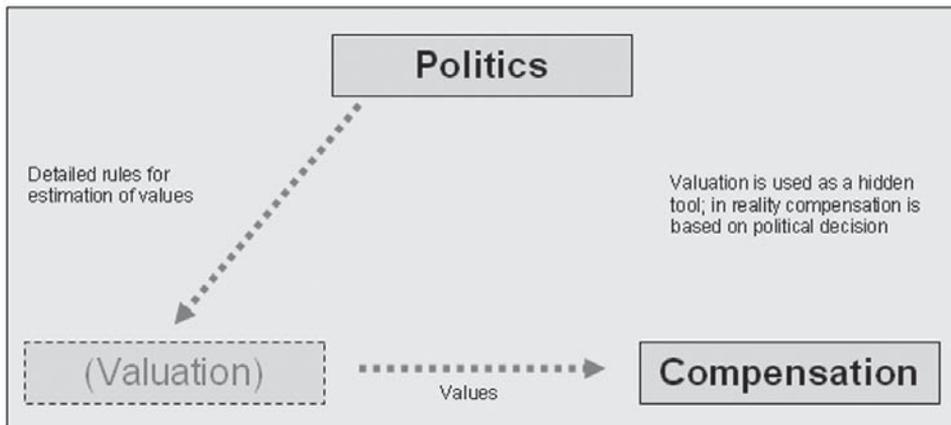


Figure 1. Relation between Politics, Valuation and Compensation (constructed by the author).

state to cover the expenses related to compensation. The figure 1 represents the Albanian approach which can be characterized by direct political influences on valuation results and simultaneously on compensation.

Such kind of approach is dangerous because in circumstances of undeveloped property market politicians are eager to have influence on valuation results and valuation can be used as a hidden tool of interests of their electorate. It means that valuation results represent the interests of a certain group of people and an independent analysis, which has to be the case, is “out of play”.

5 Comparison and Analysis

Compensation within the frames of land restitution has some kind of linkage to property expropriation on one side and to valuation similar to mass valuation for property taxation on the other side. It seems natural to handle compensation on a similar basis compared to typical expropriation. The market value as a basis for compensation can be used and has been used in many countries. It seems inappropriate to compensate some extra losses to the former owners because it is typical that there is a long period of time between the two dates – date of expropriation and date of compensation.

The fairness is one of the key questions for every land reform. There is no common position whether the compensation should be based on market value or not. Politicians have to “sell” their ideas and the community has to accept it or to distrust the existing politicians who are in power. It is clearly related to the basis of compensation. Two different types of assessment methodology, area-based assessment and value-based assessment (Malme and Youngman 1994, p. 27–32, McCluskey 1999, p. 12–17, Bird and Slack 2002, p. 16), can be handled also in context of land reform. The question is whether to ignore the market performance or not. The area based system is probably less complicated, but the value-based system, which is mainly based on market value, produces more

adequate valuation results. It is not problematic to make a “political” declaration about compensation based on market value. It is more complicated to estimate the market value in situations which can be characterized by low market activity, unofficial transactions, unreliable market information, etc. Coming back to the Estonian case, Danish experts have described the first mass valuation project in Estonia as lying between the full-scale estimation of market value and the area-based system (Ministry of Taxation 1993). Ott (1999) called the results of the first mass valuation project in Estonia as a “near-market”-based value. This gives an idea about the situation in Estonia about 15 years ago. It is not correct to compare it with the Albanian situation today, but those positions describe in a mannered way that there are more possibilities between market value and area-based system.

Debates about the essence of (mass) valuation can be endless, but it is clear that in theory there is no connection to politics. At the same time everything concerning compensation is more or less related to politics. In many cases politicians are eager for the aureole but not eager to take responsibility. In context of land reform and compensation it is relatively typical that politicians do not care about valuation but they have interests based on their electorate to have an influence on the valuation results.

The issue can be sensitive if the compensation is lower compared to market value: people who get the compensation are not satisfied. If compensation is above the market value it means an unjust decision from the whole community point of view, because taxpayers have to cover some extra expenses, which is the result of an incorrect political decision or unprofessional work of valuers. Market value is not something especially important only in the context of restitution and relations between the former owners who get compensated and the whole community. It is also important to the owners who get compensated, so in internal relations point of view. If there is a disproportion between different land categories it is also unjust for some groups of former owners (if the owners of building sites are compensated based on market value, but the owners of agricultural land get compensated twice higher compared to the market value of agricultural land, then the decision is unjust for the owners of building sites). However, it does not seem reasonable to carry out ratio studies to measure the aspects of mass valuation accuracy in case of large-scale deflections from the market value. As ratio studies are based on the relationship between estimated values on one side and market values (prices) on another side (Gloude-mans 1999, p. 218) it is clear that such kind of analysis is reasonable only in the context of market value.

Whether to handle implementation of valuation results from valuation separately or not is not a principal question, but politics has to be as far as possible from valuation. The compensation cannot be “too high” or “too low” in context of valuation, because the market value exists without any compensation. The amount of money paid to the former owners is a political issue and there is no link to the valuation methodology. It has to be solved using another approach. Market value is (has to be) something relatively objective, but politicians can freely decide whether to pay full compensation in terms of market value, to double it (it is rather an example) or to make solutions, how to reduce it. As a full compensation is clear

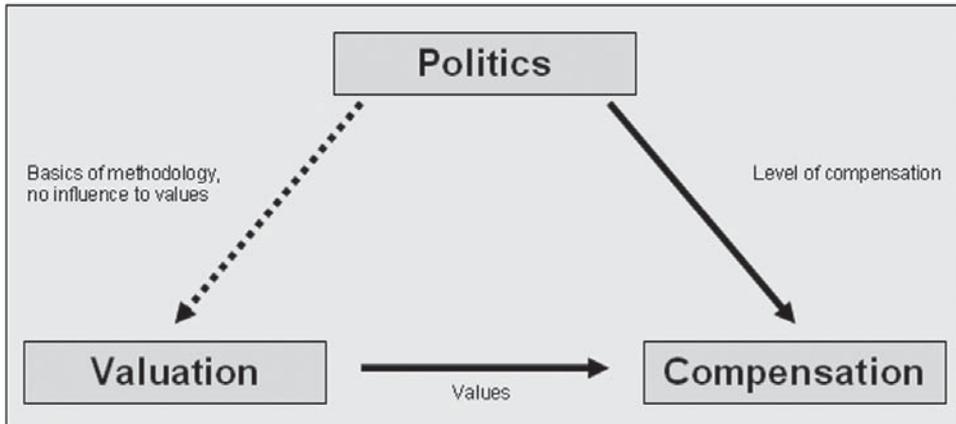


Figure 2. Relation between Politics, Valuation and Compensation (constructed by the author).

and a “double” compensation is not something very serious, it seems reasonable to handle, how to reduce it.

The figure 2 is based on ideas commonly used in property taxation where it is necessary to make a distinction between valuation which has to be based on independent analysis and taxation which has to be based on political decision. The author of the current article has got some general perception based on the Estonian case (Palmu and Vuorio 1994, p. 9).

6 Conclusion

Answering to the research question, the author of the research may conclude the following:

- partly followed principles of market based valuation and distinction between valuation approaches for different land categories produce uneven valuation results and the system does not follow the principles of valuation level and uniformity
- absence of rules related to time dynamics enables to act in a partial manner, resulting the system to move away from fairness
- external influences convert valuation to the part of political decision-making.

Conclusions of the current research indicate the need to have:

- a “barrier” between political decisions and valuation process, ie. the analysis has to be done independently
- harmonized market value based on valuation methodology for different land categories.

There is a need for a further analysis concerning valuation level and uniformity in the context of land reform because in many countries the questions of historical justice and social consideration can arise.

Acknowledgements. The author would like to thank the Lincoln Institute of Land Policy for providing funding. The author is also thankful to Inga Vatter, Tambet Tiits, Genci Çelo and Rein Lehtveer, who have given useful comments.

References

Published Works

- Appraisal Institute (2001). *The Appraisal of Real Estate*, Appraisal Institute: Chicago.
- Brown, P.K. and Hepworth, M.A. (2002). *A Study of European Land Tax Systems*, Published working paper, Lincoln Institute of Land Policy: Cambridge, Massachusetts.
- Eckert, J.K. (1990). *Property Valuation and Assessment Administration*, The International Association of Assessing Officers: Chicago.
- Gloudemans, R. J. (1999). *Mass Valuation of Real Property*, International Association of Assessing Officers: Chicago.
- International Valuation Standards Committee (2005). *International Valuation Standards 2005*, International Valuation Standards Committee: UK.
- Malme, J.H. and Youngman, J.M. (1994). *An International Survey of Taxes on Land and Buildings*, Lincoln Institute of Land Policy: Boston.
- Malme, J.H. and Tiits, T. (2001). *The Land Tax in Estonia*. The Development of Property Taxation in Economies in Transition. Case Studies from Central and Eastern Europe. World Bank and Lincoln Institute of Land Policy: Boston.
- McCluskey, W. (1999). *Property Tax: An International Comparative Review*. Brookfield: Ashgate.
- Ministry of Taxation, National Survey and Cadastre (1993). Land Taxation and Valuation in Estonia. Denmark: report submitted to Estonian National Land Board, Estonian Ministry of Finance and Estonian National Tax Board.
- Ott, A.F. (1999). Land Taxation and Tax Reform in the Republic of Estonia. Working paper, Lincoln Institute of Land Policy: Cambridge, Massachusetts.
- Palmu, J. and Vuorio, K. (1994). *Maan käyvän arvon määrittäminen Viron taajamiin maamarkkinoiden puuttuessa* – in Finnish (Definition of the Market Value for Urban Land in Estonia in the Absence of the Land Market) Maanmittauslaitos: Helsinki.
- Tomson, A. (2005). *Mass Valuation Theory and Practice in Transitional Countries- Estonian, Latvian and Lithuanian Cases*. Journal of Property Tax Assessment and Administration, Vol. 2, No 1, pp. 43–56.
- World Bank, Tirana (2006). *Status of Land Reform and Real Property Markets in Albania*, Tirana: Albania.

Conference Papers and Others

- Almy, R.R. (2000). *Estimating Market Values for Property Tax Purposes*, Background Material for OECD Property Tax Seminars.

Asian Development Bank (2007). Compensation and Valuation in Resettlement: Cambodia, People's Republic of China, and India, <http://www.adb.org/Documents/Reports/Capacity-Building-Compensation-Valuation/default.asp>, online publication.

Bird, R.M. and Slack, E. (2002). *Land and Property Taxation: a Review*, [http://lnweb18.worldbank.org/ESSD/essdext.nsf/24DocByUnid/DC58024CA1B418CE85256BE20066B2C8/\\$FILE/enidslack_taxation_pdfcomplet.pdf](http://lnweb18.worldbank.org/ESSD/essdext.nsf/24DocByUnid/DC58024CA1B418CE85256BE20066B2C8/$FILE/enidslack_taxation_pdfcomplet.pdf), Preliminary Draft of Working Paper.

CelkCenter (2004). *Albania; report based on Exchange Programme documents provided by Prof Dr Sherif Lushaj* http://www.4cli.org/CELK/wwwcelknew/country_reports/Albania.pdf, Country report.

Deininger, K. (2002). *Land reform*. <http://www.landcoalition.org/pdf/wbqdelac.pdf>, Presentation on World Bank Regional Workshops on Land Issues.

Giovarelli, R., Bledsoe, D. (2001). *Land Reform in Eastern Europe. Western CIS, Transcaucasus, Balkans, and EU Acession Countries*. Working Paper, prepared for FAO, Seattle, Washington: USA.

Grover, R. and Florez-Bórques, M. (2004). *Restitution and Land Markets*, http://www.fig.net/pub/athens/papers/ts17/TS17_1_Grover_Flores.pdf, Presentation on FIG Working Week, Athens: Greece.

OSCE (2003). *Commentary on the draft law "On Recognition and Compensation of Property"*, http://www.osce.org/documents/pia/2003/11/1434_en.pdf, OSCE lead Technical Expert Group.

Pang, L. (1996). Value to the Owner in Expropriation, http://www.aicanada.ca/e/articles/value_to%20owner.cfm, Canadian Appraiser Magazine, Ottawa: Canada.

Swinnen, J.F.M. (1997). *An Explanation of Land Reform Choices in Central and Eastern Europe*, <http://ageconsearch.umn.edu/bitstream/123456789/3300/1/prg-wp05.pdf>, working paper No. 5, Policy Research Group, Katholieke Universiteit Leuven: Belgium.

Swinnen, J.F.M. and Vranken, L. (2005). *The Development of Rural Land Markets in Transition Countries*, www.fao.org/regional/seur/events/landmark/docs/swinnen.pdf, Regional Workshop on the Development of Land Markets and Related Institutions in Countries of Central and Eastern Europe- Experiences, Approaches, Lessons Learned, Nitra: Slovak Republic.

Zaleczna, M. and Havel, M.B. (2007). The Institutional Changes, Social Capital and Old Expropriation Consequences in Poland, <http://www.tkk.fi/Yksikot/Kiinteisto/FIG/pdf-files/06092007Havel>, Presentation on FIG Seminar on Compulsory Purchase and Compensation in Land Acquisition and Takings, Helsinki: Finland.

Viitanen, K. (2002). Just Compensation in Expropriation?, http://www.fig.net/pub/fig_2002/Js26/JS26_viitanen.pdf, FIG XXII International Congress, DC: USA.

World Bank. (2007). *Albania at a glance*, http://devdata.worldbank.org/AAG/alb_aag.pdf

Wuensch, J., Kelly, F., Hamilton, T. (2000). *Land Value Taxation Views, Concepts and Methods: A Primer*, Working Paper, Lincoln Institute of Land Policy: USA.

Interviews

Çelo, G. November (2007) (via e-mail). Deputy Director of the Agency for Restitution and Compensation of Property.

Dervishi, A. October (2005). Private broker.

Lame, A. September (2005). Member of State Committee for the Restitution and Compensation of Property to the Former Owners.

Lehtveer, R. October (2005). Director of Valuation Bureau, National Land Board (Estonia).

Qato, M. September (2005). Registration Office.

Sulle, S. September (2005). Member of State Committee for the Restitution and Compensation of Property to the Former Owners.

Legal Acts

Decision on the Approval of the Methodology on the Valuation of Immovable Property that Will Be Compensated and of the One to be Used for Compensation (No. 183, dated 28.04.2005), Republic of Albania, the Assembly.

Law on Land Valuation (1994), Republic of Estonia, the Parliament.

Law on Restitution and Compensation of Property (No. 9235, dated 29.07.2004), Republic of Albania, the Assembly.