

Estate Investment in Macedonia: Challenges & Barriers

ownership and other real rights, construction, spatial and urban development planning. Each aims to modernize national legislation and align it with current demands. The 2008 Law on the Real Estate Cadastre is the most recent piece of legislation in the corpus of legal reform in this area.

In legal terms, a mismanaged cadastre is undoubtedly the biggest hindrance to investment in the sector. While the Macedonian Real Estate Cadastre was introduced in 1994, it did not encompass most of the country's territory until recently. While it is meant to be the final authority on both construction land and any structures built on it, in those parts of the country not covered by the Cadastre, the "old cadastre" (introduced in 1928) applies, which includes records of only land titles. The transition from a land cadastre to a real estate cadastre has been ongoing for several years and is expected to be completed by 2010. The reality is that today, the Cadastre procedures required to modify a land ownership title can take months, even years, to complete.

One of the weaknesses of even the new Cadastre is that it does not maintain any record whatsoever of structures under development. As a result, several scandals have been revealed in the country whereby a single apartment under construction was sold multiple times; this fact has shaken buyers' feeling of legal security, severely impacting the market for such pre-selling in the country.

The new Law on the Real Estate Cadastre is expected to address most of the above-mentioned

problems. The law prescribes concurrent record keeping of any real estate under construction or intended for sale, thereby preventing the potential of multiple sales. Anyone building a structure will have to register it in the Cadastre, enabling tracking of any ownership transfers of the property under construction. This should go a long way toward restoring legal certainty to the construction and real estate sectors.

Another major problem hindering real estate investment used to be the inability to privatize State-owned land. In 2005 (though in practice, 2007) it was finally possible to gain private ownership over construction land formerly owned by the State. This lifted legal insecurity caused by title uncertainty since it defined whether, when and under what conditions (e.g., price) a State property could be privatized, and the consequences of buyers not meeting privatization requirements (e.g., lack of required funding).

Despite the 2005 reforms, state and municipal administrations continue to function inefficiently in this field. This is particularly notable in the country's municipalities that are more attractive for developers and thus targets of more requests for building permits. Further complicating matters in these same municipalities is the lack of detailed urban development plans that clearly regulate building types, dimensions, number of floors and so forth. Currently, the process of obtaining a building permit can take up to several months, though reforms were recently announced that should help reduce this span.



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A final hindrance to real estate investment is the inability of foreign citizens to own land and a limitation on the right to purchase multiple pieces of real estate. In practice, this unnecessarily raises transaction costs by requiring foreign entities to establish and maintain a local company through which they can purchase property. Fortunately, reforms have also recently been announced that will enable foreign entities to freely acquire real estate in the country. Thus, regulatory reforms already adopted have yet to yield expected efficiency gains in practice. The forthcoming reforms should first provide an appropriate legal framework which can only be evaluated down the road.