

FOREIGN DIRECT INVESTMENT IN REAL ESTATE AND ITS IMPACT ON TOURISM DEVELOPMENT IN ALBANIA

Antoneta POLO

Associate Professor, Faculty of Economics,
"Eqrem Çabej" University, Gjirokastra, Albania
neta_polo@yahoo.com

Fejzulla BEHA

Professor Assistant, Department of Business and Management,
Universum International College, Pristina, Kosovo
fejzulla.beha@universum-ks.org

Enkela CACA

Associate Professor, Faculty of Economics,
"Eqrem Çabej" University, Gjirokastra, Albania
ebabaramo@yahoo.com

Ilirjana ZYBERI

Associate Professor, Faculty of Economics,
"Eqrem Çabej" University, Gjirokastra, Albania
izyberi@yahoo.com

Abstract

This study explores the impact of foreign direct investment (FDI) in the real estate sector on the development of tourism in Albania over the past decade. The analysis draws on data reflecting investment trends and key tourism dynamics, revealing a clear relationship between the expansion of FDI and the growth of both tourism revenues and international arrivals. The findings demonstrate that foreign capital has played a pivotal role in enhancing tourism infrastructure, expanding accommodation capacity, and modernizing services, thereby positioning Albania as an increasingly attractive destination in regional and international markets.

Beyond its direct economic impact, FDI has generated important secondary effects for the tourism sector, including improvements in service quality, diversification of tourism products, and strengthened competitiveness in comparison with neighboring destinations. These investments have also delivered broader socio-economic benefits, such as job creation, stimulation of local businesses, and increased fiscal revenues, further reinforcing the role of tourism as a key driver of sustainable national development.

The study argues that sustaining these positive outcomes requires consistent public policies, supportive regulatory reforms, and favorable market conditions. Only through an inclusive and regionally balanced approach can foreign investment in real estate continue to support long-term, sustainable tourism growth in Albania. In this regard, FDI is not merely a financial flow but a strategic tool for transforming the tourism sector, ensuring that development is aligned with the country's broader economic and social objectives.

Keywords: Foreign Direct Investment (FDI), Real Estate, Tourism, Tourism Revenues, Albania.

JEL classification: F21, R 33, L83

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1. Introduction

Over the last decade, Albania has emerged as a promising destination for both investors and tourists, benefiting from its strategic location in the Mediterranean, unspoiled coastline, and competitive cost advantages. Tourism has become a cornerstone of the national economy, contributing substantially to GDP and employment. Alongside this trend, foreign direct investment in real estate has played a pivotal role in shaping the tourism landscape. Luxury resorts, boutique hotels, and vacation properties financed by foreign capital have transformed coastal towns and stimulated related industries.

However, while FDI inflows have visibly altered the physical and economic landscape, there is limited empirical research on their long-term effects on tourism sustainability and socio-economic development. This paper aims to bridge this gap by analyzing a decade's worth of real estate FDI data and discussing its implications for Albania's tourism development, examining both the positive contributions and the potential challenges associated with this phenomenon.

2. Literature Review

2.1 Theoretical Frameworks

Foreign direct investment (FDI) in real estate has long been considered both a driver and a consequence of tourism development. According to Dunning's (1980) *eclectic paradigm*, FDI flows are shaped by ownership, location, and internalization (OLI) advantages. In tourism-driven economies, the "location" component is particularly decisive, as natural beauty, cultural heritage, accessibility, and institutional stability create a favorable environment for investment. Scholars note that in destinations where tourism demand is strong, FDI in real estate tends to follow a cyclical pattern: international investors respond to growing tourist arrivals by acquiring or developing properties, while expanded accommodation capacity further stimulates demand (Enderwick, 2011).

Theories of tourism development also emphasize the "multiplier effect," whereby real estate investments generate spillovers across construction, transport, retail, and local services (Hall, 2011). At the same time, critical perspectives highlight the risk of *enclave tourism*, in which foreign-owned properties capture most revenues without integrating into the local economy (Mowforth & Munt, 2016). Thus, the academic debate balances between FDI's potential as a growth catalyst and its possible negative externalities.

2.2 International Evidence

Empirical research from mature tourism economies provides insights into how FDI in real estate interacts with tourism growth. In Spain, large-scale resort developments financed by foreign investors contributed to the internationalization of its Mediterranean coast, enhancing marketing visibility and tourist flows (Claveria & Datzira, 2010). Similar patterns have been observed in Croatia and Montenegro, where foreign real estate acquisitions not only increased accommodation supply but also boosted infrastructure investment and international branding (Pulido-Fernández, Cárdenas-García, & Sánchez-Rivero, 2015).

At the global level, UNCTAD (2024) reports that FDI in real estate and construction is increasingly concentrated in tourism-intensive regions, including Southern Europe, Southeast Asia, and the Caribbean. The OECD (2023) emphasizes that while such investments often stabilize local economies, they may also expose destinations to cyclical risks associated with global financial volatility and property market fluctuations. Research from small island economies further illustrates that FDI inflows can enhance competitiveness but may also lead to dependency on foreign capital, reducing policy autonomy (Milne & Ateljevic, 2001).

2.3 Challenges and Critiques

While the benefits of FDI in real estate are widely acknowledged, scholars consistently underline accompanying challenges. First, real estate price inflation often emerges when international demand outpaces local purchasing power, creating affordability pressures for residents (Hall, 2011). Second, intensive coastal development has been associated with environmental degradation, particularly in ecologically fragile zones such as wetlands, dunes, and marine ecosystems (Gursoy, Chi, & Dyer, 2010).

Third, cultural commodification is a recurring theme in critical tourism studies, where heritage and local traditions risk being repackaged to satisfy external investors and visitors rather than serving community interests (Milne & Ateljevic, 2001).

Another concern is the uneven distribution of benefits. FDI tends to cluster in attractive coastal and urban areas, exacerbating regional disparities. Furthermore, projects financed by international investors may rely on imported materials and expertise, reducing local value-added (Mowforth & Munt, 2016). These critiques highlight the importance of regulatory frameworks and sustainable planning to balance investment inflows with long-term socio-economic and environmental objectives.

2.4 The Mediterranean Experience

The Mediterranean region offers a particularly relevant comparative lens for Albania. Croatia and Montenegro, both tourism-dependent economies, have experienced significant inflows of foreign capital into coastal real estate. Hall (2011) documents how these investments stimulated infrastructure upgrading but also caused sharp increases in land and housing prices. Pulido-Fernández et al. (2015) show that in Greece, foreign real estate purchases contributed to tourism growth but faced criticism for environmental strain and limited local linkages.

The “second-home tourism” phenomenon is especially pronounced in Southern Europe, where foreign investors acquire properties for seasonal use. While this expands the tourism base, it can distort local housing markets and contribute to seasonal economic cycles (Papageorgiou, 2016). Mediterranean case studies thus provide valuable lessons on both the potential and the pitfalls of real estate-driven tourism development.

2.5 The Albanian Case

Albania represents a latecomer to international tourism markets, with significant growth only in the past two decades. Since the 2010s, FDI inflows into real estate have accelerated, coinciding with a sharp increase in tourist arrivals. Foreign direct investment experienced a significant increase in Albania following the Covid-19 pandemic, which had adversely affected the development of the country's tourism sector. According to Polo, A. (2020), the effects of the crisis in Albania have to be assessed in a very careful way, because Albania depends significantly on tourism, which is one of the sectors that are mostly affected by this crisis. According to Polo, Caca, Zyberi, Ladias, and Ruxho (2025), foreign real estate investments have contributed measurably to GDP growth, with transactions by foreign buyers reaching €380 million in 2024 (Monitor.al, 2025). Reports also indicate that total FDI inflows to Albania hit a record €1.58 billion in 2024, with real estate and tourism among the leading sectors (Albanian Times, 2025).

High-profile projects illustrate this trend. Reuters (2024, 2025) reports on luxury resort developments along the Ionian coast linked to international investors, which are expected to enhance Albania's visibility as a Mediterranean destination. At the same time, Scan TV (2025) highlights how rising tourism flows are driving foreign property purchases, raising concerns about affordability and land speculation.

These developments place Albania at a crossroads. On the one hand, FDI in real estate provides much-needed capital, infrastructure, and international marketing, aligning with the country's EU integration agenda (Cakerri, Muharremi, & Madani, 2020). On the other hand, risks of uneven development, environmental strain, and limited local linkages mirror challenges seen in neighboring countries. Sustainable planning, transparent governance, and community participation will therefore be decisive in ensuring that Albania leverages FDI in real estate as a tool for long-term tourism development rather than short-term speculative gains.

3. Methodology

This paper applies a mixed-method approach combining descriptive statistical analysis and a comparative framework.

- Data sources: INSTAT (tourism arrivals), Bank of Albania (FDI by sector), UNCTAD (investment trends), and World Bank reports.
- Variables of interest: foreign direct investment in real estate (independent variable) and tourism performance indicators such as international arrivals and revenues from tourism (dependent variables).

- Timeframe: 2014–2024, to capture the post-global financial crisis recovery, EU integration processes, and post-COVID-19 developments.

4. Data Analysis

This section presents the descriptive findings on the relationship between foreign direct investment (FDI) in real estate and tourism development in Albania, measured through two key indicators: the number of international tourists and tourism revenues. The analysis covers the period 2014–2024.

4.1 FDI and International Tourist Arrivals

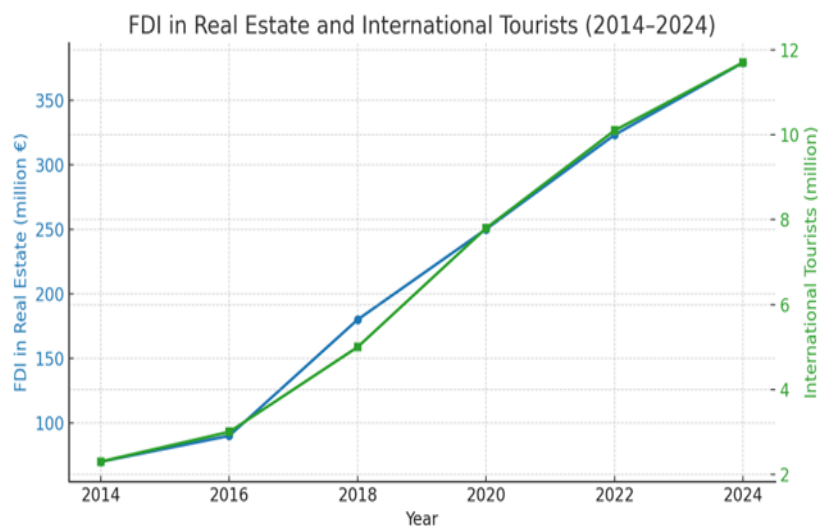
The data reveal a substantial increase in both variables. FDI in real estate rose from €70 million in 2014 to €379 million in 2024. The average annual investment during this period was approximately €215 million, with a standard deviation indicating a significant year-to-year increase. While international tourist arrivals increased from 2.3 million to 11.7 million over the same period, marking an extraordinary growth of over 400%. The average number of tourists over the period was 6.65 million, again with considerable dispersion due to the strong expansion in the latter years.

Tab. 4.1. Trends in FDI and international tourist arrivals (2014–2024)

Year	FDI in Real Estate (million €)	International Tourists (million)
2014	70	2.3
2016	90	3.0
2018	180	5.0
2020	250	7.8
2022	323	10.1
2024	379	11.7

Source: INSTAT, Bank of Albania

Graph. 4.1 FDI in Real Estate and International Tourists



Source: INSTAT, Bank of Albania (processed by author)

The graphical analysis clearly shows a common upward trajectory.

4.1.1 Results of Correlation and Regression Analysis

1. Correlation coefficient ($r = 0.997$):

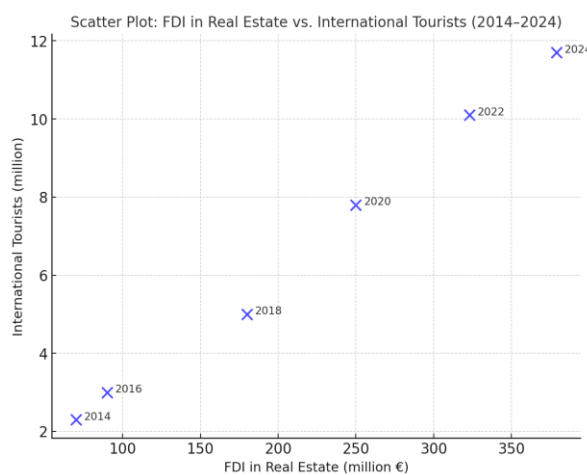
The Pearson correlation coefficient of 0.997 indicates an almost perfect positive relationship between the two variables. This suggests that the growth in real estate investment has coincided with the rise in international tourist arrivals.

2. Linear regression result:

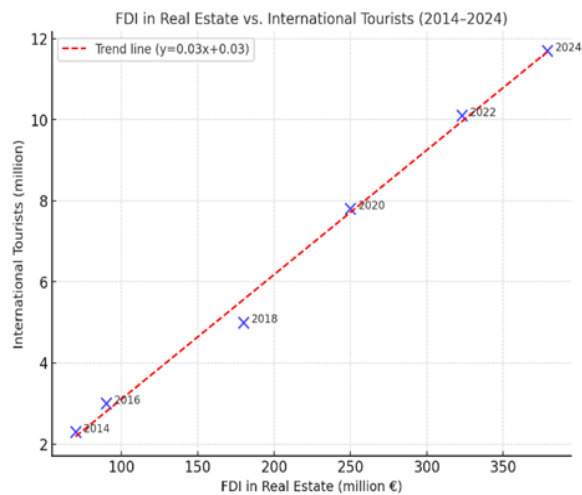
International Tourists (million) = $0.04 + 0.0307 \times \text{FDI in Real Estate (million €)}$

- Intercept: 0.04 → If FDI = 0, predicted tourists ≈ 0.04 million.
- Slope: 0.0307 → For every 1 million € increase in FDI, the number of international tourists increases by 0.0307 million ($\approx 30,700$ tourists)

Graph.4.1.1 Scatter Plot FDI in RE vs IT



Graph.4.1.2 Regression Line FDI in RE vs IT



Source: Processed by author

4.2 FDI and Tourism Revenues

Another important dimension of tourism development is the financial revenue generated by the sector. Tourism revenues increased from €320 million in 2014 to €950 million in 2024, while FDI in real estate rose from €70 million to €379 million during the same period. The average annual tourism revenue during the decade was approximately €607 million, compared to an average annual FDI inflow of €215 million.

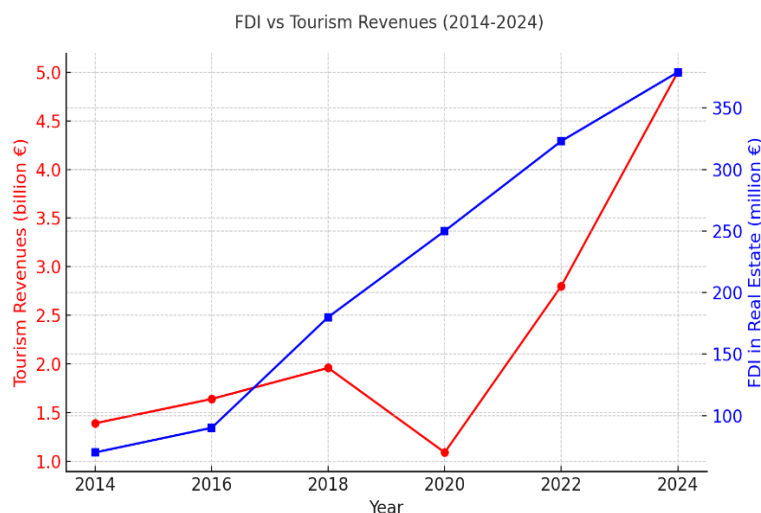
Table 4.2. FDI and tourism revenues in Albania (2014–2024)

Viti	FDI në real estate (mln €)	Tourism Revenue (mld €)
2014	70	1.39
2016	90	1.64
2018	180	1.96
2020	250	1.09

Viti	FDI në real estate (mln €)	Tourism Revenue (mld €)
2022	323	2.80
2024	379	5.00

Source: INSTAT, Bank of Albania

Graph. 4.2. Trends in FDI and tourism revenues (2014–2024)



Source: INSTAT, Bank of Albania (processed by author)

The graphical analysis again reveals parallel growth trends and shows that both variables follow a parallel upward trend.

4.2.1 Results of Correlation and Regression Analysis

1. Correlation coefficient ($r = 0.76$):

The Pearson correlation coefficient of 0,76 indicates a strong positive relationship between FDI in real estate and tourism revenues. When FDI in real estate increases, tourism revenues generally increase as well. Some exceptions can be observed, for example in 2020, when revenues fell due to the pandemic.

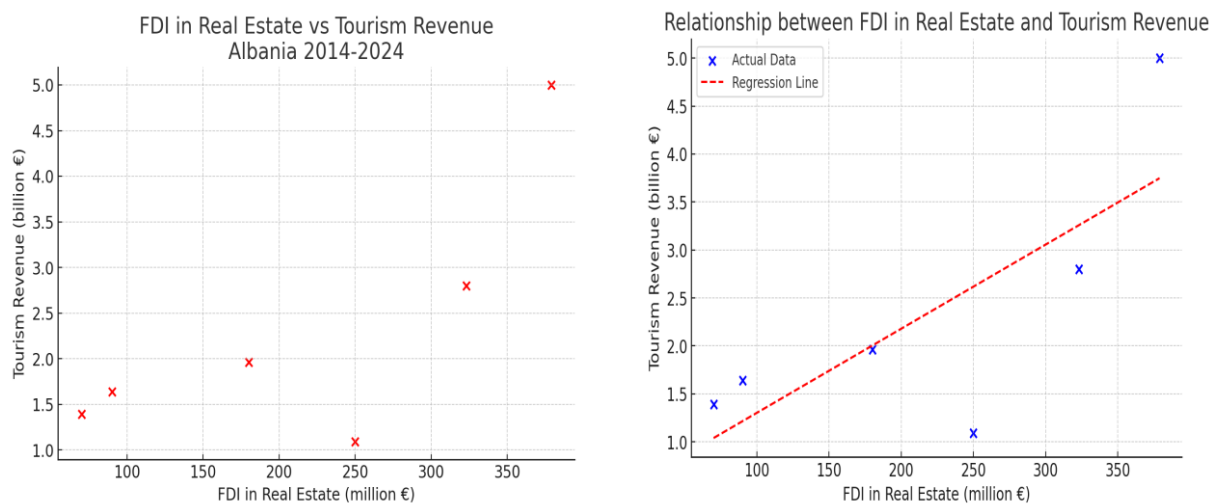
2. Linear regression result:

$$\text{Tourism Revenues (billion €)} = 0.426 + 0.0088 \times \text{FDI in Real Estate (million €)}$$

- Intercept (0.426): If FDI in real estate were zero, tourism revenues are expected to be around 0.426 billion €.
- Slope coefficient (0.0088): For every increase of 100 million € in FDI in real estate, tourism revenues are expected to increase by approximately 0.88 billion €.

Graph.4.2.1 Scatter Plot FDI in RE vs TR

Graph.4.2.2 Regression Line FDI in RE vs TR



Source: Processed by author

The descriptive results consistently show that higher levels of foreign investment in real estate coincide with the growth of international tourist arrivals as well as the increase in tourism revenues.

Although descriptive statistics cannot establish causality, the evidence strongly suggests that FDI in real estate and tourism development in Albania have grown hand-in-hand over the past decade.

4.3 Limitations

Data Availability and Reliability

Accurate and comprehensive data on FDI at the sub-sector level (specific real estate categories) and precise regional tourist arrivals may be limited. This could affect the granularity and robustness of the analysis.

Causality vs. Correlation

While a correlation between FDI in real estate and tourism development is expected, establishing causality is challenging. Other factors, such as government policies, marketing campaigns, or global economic trends, may also influence tourism growth.

Short-term vs. Long-term Effects

Some benefits of FDI, particularly those related to infrastructure improvements and destination branding, may take several years to materialize. A study covering a limited period might underestimate these long-term impacts.

External Factors and Economic Shocks

Global economic crises, pandemics (e.g., COVID-19), and geopolitical events could distort the relationship between FDI and tourism, introducing variability not attributable to investment alone.

Uneven Development and Social Impacts

Concentration of FDI in high-end real estate and popular areas may exacerbate regional inequalities. Social impacts, such as rising property prices and potential displacement of local residents, may also limit the broader positive effects of investment.

5. Conclusions and Recommendations

Foreign direct investment in Albanian real estate has accelerated dramatically, particularly since 2022, serving as a significant driver of tourism development. The scale and pace of this growth offer both opportunities and challenges. Foreign direct investment in real estate plays a crucial role in the growth of the tourism sector in Albania. Investments in hotels, resorts, and vacation properties expand accommodation capacity, improve infrastructure quality, and enhance service standards, which collectively attract more international tourists.

FDI tends to be concentrated in high-demand tourist areas such as the Albanian Riviera, Tirana, Gjirokastra, and Berat. While this generates substantial economic benefits for these regions, it may also lead to uneven

tourism development and increased pressure on local infrastructure in overinvested areas. Beyond direct impacts on tourism, FDI stimulates local economies by creating jobs, supporting small and medium-sized enterprises, and increasing tax revenues. Investments also introduce international management and construction standards, raising the overall competitiveness of Albania as a tourist destination. Although, FDI provides immediate boosts to tourism infrastructure and services, careful planning is required to ensure long-term sustainability. Overdevelopment in certain areas could exacerbate social and environmental challenges, including rising property prices, displacement of local residents, and environmental degradation. Policymakers should encourage balanced and strategic FDI that supports regional tourism diversification and sustainable development. Incentives could target underdeveloped areas, promoting equitable growth and reducing the negative effects of concentration in popular destinations. The evidence suggests that FDI in real estate is both a consequence and a driver of tourism development in Albania. By fostering quality infrastructure, enhancing services, and stimulating the local economy, it significantly contributes to the sector's growth. However, sustainable planning and monitoring are essential to maximize benefits while mitigating potential social and environmental risks.

5.1 Recommendations

- Develop a comprehensive national strategy for sustainable coastal tourism development.
- Strengthen urban planning policies to prevent overconstruction and environmental degradation.
- Encourage foreign investors to partner with local businesses, ensuring greater spillover effects in the domestic economy.
- Promote quality over quantity in tourism, focusing on cultural, eco-friendly, and year-round tourism rather than mass seasonal tourism.

By adopting these measures, Albania can maximize the benefits of foreign real estate investments while ensuring that tourism growth remains sustainable and inclusive.

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