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**A RESEARCH PAPER ON  
CITIES, CAPITAL AND GROWTH: REAL ESTATE-LED URBAN  
DEVELOPMENT AND FDI DYNAMICS IN THE BALKANS**

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**ABSTRACT**

Rapid urban transformation across the Balkan region has intensified the interaction between cities, capital inflows, and growth trajectories, particularly through real estate-led development strategies. The purpose of this study is to examine how foreign direct investment (FDI) influences urban growth patterns by channeling capital into real estate markets and reshaping the spatial and economic structure of Balkan cities. The study adopts a quantitative research design using panel data drawn from selected Balkan economies over the period 2005–2023. Secondary data sourced from international databases and national urban development reports are analyzed using panel regression and mediation techniques to assess the dynamic relationship between FDI inflows, real estate investment, and urban economic growth. The findings reveal that FDI exerts a statistically significant and positive effect on urban growth, with real estate investment functioning as a critical transmission mechanism. Cities attracting sustained capital inflows experience accelerated infrastructure development, rising property values, and expanded construction activity, which collectively contribute to short- and medium-term economic growth. However, the results also indicate uneven development outcomes, highlighting emerging risks related to speculative investment and spatial inequality. The originality of this study lies in its city-level empirical focus on the Balkans, a region that remains underexplored in urban economics and investment literature. By integrating capital dynamics with real estate-driven urbanization, the study offers a connected analytical framework linking global investment flows with local urban transformation. The results provide valuable insights for policymakers, urban planners, and investors seeking to balance growth, sustainability, and inclusiveness in rapidly transforming Balkan cities.

**Keywords: Channelling, Speculative, Estate-Driven, Estate-Driven, FDI, Real estate, Urban development, Urban Economics, Investment**

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**1 INTRODUCTION:**

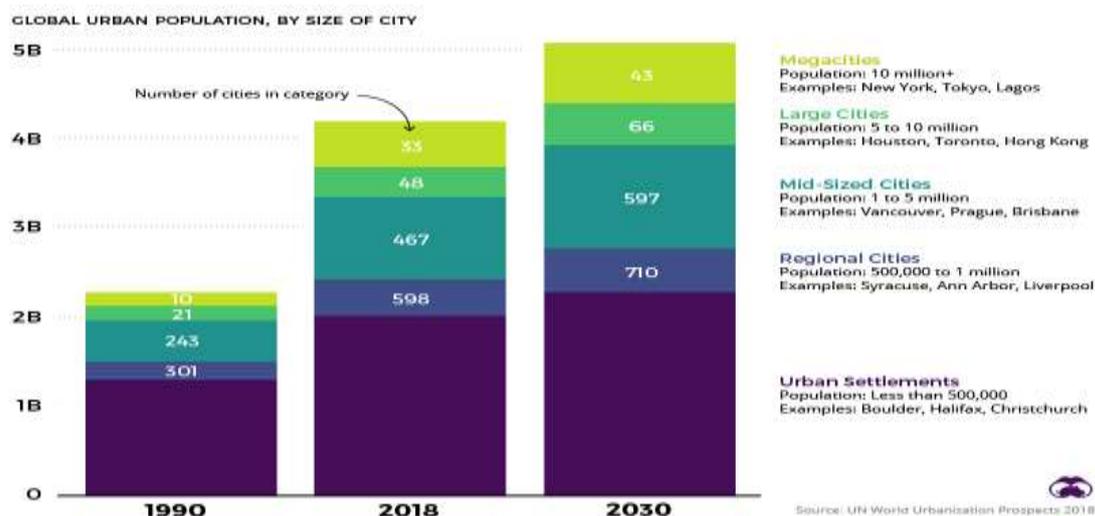
Urban transformation in Balkan cities has accelerated markedly over the past two decades, reflecting broader political, economic, and spatial transitions experienced by the region. Following the shift from centrally planned economies to market-oriented systems, Balkan cities have undergone significant restructuring in terms of land use, infrastructure development, and governance frameworks. Historic urban cores are being reconfigured, former industrial zones are redeveloped, and new residential and commercial districts are emerging at the urban periphery. These changes are not merely physical but also institutional, as cities adapt to new regulatory regimes, planning practices, and investment priorities. The pace and scale of transformation vary across the region, influenced by differing national trajectories, post-conflict recovery processes, and levels of integration with European and global markets. As a result, urban development in the Balkans presents a complex landscape where growth opportunities coexist with challenges such as spatial inequality, affordability

pressures, and uneven access to urban services. **Sources: UNCTAD. (2023). World Investment Report. United Nations Conference on Trade and Development.**

A central force shaping this transformation is globalization, which has intensified cross-border economic integration and increased the mobility of capital. Balkan cities, particularly capital and secondary metropolitan areas, have become increasingly embedded in global investment networks. Liberalization of financial markets, privatization of urban land, and reforms aimed at improving the business environment have enhanced the region’s attractiveness to foreign investors. Foreign direct investment (FDI) has emerged as a critical channel through which global capital enters urban economies, influencing employment generation, infrastructure expansion, and sectoral restructuring. In many Balkan countries, FDI inflows have been closely linked to urban-based activities, reinforcing the role of cities as primary nodes of economic growth and competitiveness. At the same time, reliance on external capital has exposed urban development trajectories to global economic fluctuations and investor-driven priorities.

Within this context, real estate–led urban development has become a dominant growth strategy across several Balkan cities. Investments in residential complexes, office spaces, retail centers, and mixed-use developments have expanded rapidly, often supported by public–private partnerships and pro-investment urban policies. Real estate development serves as a visible and immediate conduit for capital accumulation, translating financial inflows into tangible urban form.

### Dynamics Of Global Urban Growth Cities



Source: [www.visualcapitalist.com](http://www.visualcapitalist.com)

The Dramatic Global Rise of Urbanization (1950-2020) **Dynamics Of Global Urban Growth Cities** Here we map global annual urban dynamics from 1985 to 2015 at a 30 m resolution using numerous surface reflectance data from landsat satellites. Here, we develop a 1 km resolution global dataset of annual urban dynamics between 1870 and 2100 using an urban cellular automata. Empirical global analysis of urban growth from 1985 to 2015 across continents, regions, countries,

### Sustainable Development Practices In Urban Planning



Source: Sigma Earth

Dynamics Of Global Urban Growth Cities. While such development has contributed to modernization of urban landscapes and short-term economic expansion, it has also raised concerns regarding speculative investment, displacement, and long-term sustainability. Understanding the interconnected roles of globalization, capital mobility, and FDI in driving real estate-centered urban growth is therefore essential for assessing the future development pathways of Balkan cities. Sources: World Bank. (2022). *Urban Development and Economic Growth in Europe and Central Asia*.

### 1.2 Need of the Study:

The rapid pace of urban transformation in Balkan cities has generated significant economic opportunities while simultaneously intensifying structural challenges related to spatial inequality, housing affordability, and sustainable growth. Despite increasing inflows of foreign direct investment (FDI) and the growing prominence of real estate-led development, there remains limited empirical understanding of how these forces interact to shape urban growth outcomes in the Balkan context. Existing studies often focus on national-level investment trends or broader post-socialist transitions, leaving city-level dynamics and sector-specific impacts underexplored. This study is needed to bridge this gap by systematically examining the role of capital inflows in driving real estate expansion and urban economic performance. By analyzing the interconnected relationships between cities, capital mobility, and growth, the research provides evidence-based insights to support informed urban planning and investment decisions. The findings are particularly relevant for policymakers seeking to balance economic competitiveness with social inclusion and long-term sustainability, making the study timely and essential for guiding future urban development strategies in the Balkan region

### 1.3 Objectives of the Study:

1. To Examine the role of FDI in shaping real estate-led urban growth
2. To Analyze the impact on economic growth and urban development
3. To Compare selected Balkan cities
4. To Assess policy implications

### 1.4 Scope of the Study:

The scope of this study is confined to examining real estate-led urban development and foreign direct investment (FDI) dynamics in selected Balkan cities during the post-transition period. It focuses on major metropolitan and emerging urban centers where capital inflows and real estate activities have played a significant role in shaping urban growth. The study analyzes the relationship between FDI inflows, real estate investment, and urban economic growth using secondary data sourced from international and national databases. Sectoral emphasis is placed on residential, commercial, and mixed-use real estate developments that attract foreign capital. The temporal scope covers the period from the mid-2000s onward to capture the effects of globalization and market liberalization. While the study provides comparative insights across cities, it does not account for micro-level household behavior or informal real estate markets. The findings are intended to inform urban policymakers,

planners, and investors by offering a structured understanding of capital-driven urban transformation within the Balkan regional context. **Sources:** Stanilov, K. (2007). *The Post-Socialist City: Urban Form and Space Transformations*. Springer.

### 1.5 Research Questions:

1. How does foreign direct investment (FDI) influence real estate-led urban growth in selected Balkan cities?
2. What is the impact of real estate-driven investment on economic growth and overall urban development in the Balkan region?
3. How do patterns of FDI inflows and real estate development differ across selected Balkan cities?
4. What policy measures can enhance the positive effects of FDI-led real estate development while ensuring sustainable and inclusive urban growth?

### Conceptual and Theoretical Framework:

#### Urban Growth Theories and Capital Flows in Balkan Cities:

The conceptual foundation of this study is anchored in urban growth theories, particularly growth machine theory and neoliberal urbanism, which explain how cities function as arenas for capital accumulation and strategic development. Growth machine theory emphasizes the role of coalitions involving political actors, developers, and investors in promoting land-based development to stimulate economic expansion. In Balkan countries such as Bulgaria, North Macedonia, Albania, Serbia, and Bosnia and Herzegovina, these coalitions have gained prominence during the post-socialist transition, shaping urban agendas around investment-led growth.

Neoliberal urbanism further explains the shift toward market-oriented policies, deregulation, and public-private partnerships that prioritize competitiveness and capital attraction. Capital flows, especially foreign direct investment (FDI), have played a central role in urban restructuring across the region. Liberalized investment regimes have facilitated the entry of external capital into urban land and property markets, accelerating redevelopment and spatial reconfiguration. Real estate investment has emerged as a key driver of economic growth by generating employment, expanding infrastructure, and stimulating related sectors such as construction and services. The FDI-urban development linkage is conceptualized as a dynamic process in which foreign capital directly influences real estate expansion, which in turn mediates urban economic growth. The proposed conceptual model integrates FDI inflows as the primary driver, real estate development as the mediating mechanism, and urban growth outcomes as the dependent result, offering a coherent framework for analyzing Balkan cities.

**Sources:** World Bank. (2022). *Urban Development and Economic Growth in Europe and Central Asia*

### REVIEW OF LITERATURE:

**1. Saygın (2025):** Saygın (2025) examines foreign direct investment strategies in Western Balkan economies, focusing on Serbia, Albania, Bosnia and Herzegovina, and North Macedonia. The study highlights that although policy liberalization has improved the formal investment climate, real estate-oriented FDI remains uneven across cities. Capital cities and major urban centers benefit disproportionately from foreign investments, reinforcing spatial concentration of growth. The author emphasizes that weak institutional coordination and regulatory fragmentation limit the long-term developmental impact of real estate-led FDI. The study concludes that without stronger urban governance frameworks, FDI-driven real estate expansion may exacerbate inequality rather than support balanced urban growth.

**2. UNCTAD Regional Analysis (2024):** UNCTAD (2024) provides a regional assessment of FDI trends in Southeast Europe, including Bulgaria and Western Balkan states. The report identifies real estate and construction as key recipient sectors of foreign capital, particularly in Serbia and Albania. Urban centers attract FDI due to land availability, tourism potential, and infrastructure development. However, the analysis cautions that speculative property investment poses risks to housing

affordability and inclusive growth. The report stresses the importance of aligning FDI inflows with urban planning objectives to ensure that capital-driven development contributes to sustainable city growth across Balkan economies.

**3. Teta and Xhafka (2023):** Teta and Xhafka (2023) analyze the relationship between FDI and economic growth in Albania, Serbia, and North Macedonia using panel data techniques. Their findings indicate that FDI positively influences GDP growth, particularly when directed toward urban-based sectors such as real estate and services. The study highlights that cities act as primary conduits for capital absorption, driving construction activity and employment generation. However, the authors note that weak institutional quality in Bosnia and Albania limits spillover benefits. The study underscores the need for urban-level policy alignment to maximize the developmental impact of foreign investment.

**4. World Bank (2022):** The World Bank (2022) examines urban development and investment dynamics in Europe and Central Asia, with specific references to Balkan cities. The report finds that FDI inflows into real estate have accelerated urban transformation in Belgrade, Sofia, Tirana, and Sarajevo. These investments have supported infrastructure modernization and service sector expansion. However, the report warns that reliance on real estate-led growth increases vulnerability to global market fluctuations. The study emphasizes the need for diversified urban economies and stronger regulatory frameworks to ensure that FDI-driven development supports long-term urban resilience in Balkan countries.

**5. Smolo (2021):** Smolo (2021) investigates the role of institutional quality in shaping the FDI-growth relationship in Western Balkan economies. The study finds that Serbia and Bulgaria benefit more from FDI due to stronger governance and regulatory enforcement, while Bosnia and North Macedonia experience weaker growth effects. Real estate investment emerges as a dominant FDI channel in urban areas, contributing to construction growth and capital accumulation. However, the author highlights that poor institutional coordination reduces the broader economic impact of these investments. The study concludes that institutional reform is essential for translating urban FDI inflows into sustainable growth outcomes.

**6. Stanilov (2020):** Stanilov (2020) explores post-socialist urban transformation across Eastern Europe, including Bulgaria and the Western Balkans. The study documents how privatization and market liberalization reshaped urban land markets, enabling real estate-led development. Foreign capital has played a central role in redeveloping former industrial zones into commercial and residential projects. The author notes that while these changes have modernized urban landscapes, they have also intensified socio-spatial inequalities. Balkan cities, in particular, face challenges in balancing growth-oriented investment strategies with inclusive urban planning and social sustainability.

**7. Bouzarovski and Sýkora (2019):** Bouzarovski and Sýkora (2019) analyze multiple dimensions of post-communist urban transition, focusing on cities in Serbia, Bulgaria, and Bosnia and Herzegovina. Their work highlights how global capital flows interact with local institutional contexts to shape urban restructuring. Real estate development emerges as a key mechanism through which foreign investment transforms city spaces. The authors argue that uneven regulatory capacity across Balkan countries results in fragmented urban growth outcomes. The study emphasizes the importance of integrating social equity considerations into capital-driven urban development strategies.

**8. Hirt (2018):** Hirt (2018) examines neoliberal urban planning practices in post-socialist Europe, including Balkan cities. The study identifies a shift toward investor-friendly planning frameworks that prioritize large-scale real estate projects. In cities such as Sofia and Belgrade, foreign investors significantly influence land-use decisions and development priorities. While these practices have accelerated economic growth, they have weakened participatory planning mechanisms. The author

argues that unchecked real estate-led development risks undermining long-term urban sustainability and calls for stronger public oversight in managing foreign capital inflows.

**9. Bartlett and Prica (2017):** Bartlett and Prica (2017) explore economic restructuring and investment patterns in the Western Balkans. Their study shows that FDI inflows are heavily concentrated in urban regions, particularly in real estate and infrastructure sectors. Serbia and Albania emerge as major recipients, while Bosnia and North Macedonia lag due to political and administrative constraints. The authors highlight that urban growth driven by foreign capital often prioritizes short-term economic gains over social inclusion. The study underscores the need for coordinated urban and investment policies to ensure balanced development.

**10. Logan and Molotch – Balkan Applications (2015):** Building on growth machine theory, Logan and Molotch's framework has been widely applied to Balkan cities since 2015. Studies applying this perspective to Serbia, Bulgaria, and Bosnia show how coalitions of political elites and developers promote real estate-led growth to attract capital. Urban land becomes a primary site for accumulation, with FDI reinforcing development pressures. While this growth strategy stimulates economic activity, it often marginalizes social concerns. The application of growth machine theory helps explain capital-driven urban transformation patterns across Balkan cities.

### 2.1 Research Gaps:

- Limited City-Level Empirical Evidence:** Existing studies on FDI and economic growth in the Balkans predominantly adopt national-level analyses, overlooking city-specific dynamics. There is a lack of empirical research that captures how FDI-driven real estate development differently affects urban growth across major Balkan cities.
- Insufficient Focus on Real Estate as a Mediating Variable:** While the relationship between FDI and economic growth has been widely examined, limited attention has been given to real estate development as a mediating mechanism linking capital inflows to urban economic outcomes, particularly in post-socialist Balkan contexts.
- Comparative Cross-Country Urban Analysis Gap:** Few studies provide systematic comparative analysis among Balkan countries such as Bulgaria, North Macedonia, Albania, Serbia, and Bosnia and Herzegovina. The absence of comparative city-level studies restricts understanding of how institutional and policy differences shape FDI-led urban development.
- Underexplored Policy and Sustainability Dimensions:** Current literature gives insufficient attention to the long-term policy implications of real estate-led growth, including issues of sustainability, affordability, and social inclusion. There is a gap in translating empirical findings into actionable urban policy frameworks suitable for the Balkan region.

## RESEARCH & DATA INTERPRETATION:

### 3.1 Methodology:

This study adopts a rigorous and systematic research methodology to examine the relationship between foreign direct investment (FDI), real estate-led urban development, and economic growth in selected Balkan cities. Given the complexity of urban transformation and capital flows, the methodology is designed to capture both macro-level investment dynamics and city-level development outcomes across Bulgaria, North Macedonia, Albania, Serbia, and Bosnia and Herzegovina.

### 3.2 Research Design:

The study follows a **quantitative-dominant research design**, complemented by limited qualitative interpretation, thereby aligning with a **mixed-method approach**. The quantitative framework enables empirical testing of relationships between FDI inflows, real estate development, and urban growth indicators, while qualitative insights are used to contextualize findings within the Balkan post-transition environment. A longitudinal panel design is employed to capture temporal variations and structural changes in urban development over time. This design is particularly suitable for examining

how sustained capital inflows influence urban growth trajectories across multiple cities and countries. The mixed-method orientation strengthens analytical depth by combining statistical robustness with contextual interpretation, enhancing the explanatory power of the study.

### **3.3 Data Sources:**

The study relies primarily on **secondary data** obtained from credible international and national sources to ensure reliability and comparability. Key macroeconomic and investment-related data are sourced from the **World Bank**, **UNCTAD**, and **Eurostat**, which provide standardized information on FDI inflows, GDP growth, population dynamics, and infrastructure investment. These databases are widely used in urban economics and development studies, making them suitable for cross-country comparison.

In addition, **national real estate and urban development data** are collected from government statistical offices, urban planning authorities, and housing ministries of the selected Balkan countries. These datasets include indicators related to construction activity, real estate investment volumes, building permits, and urban expansion metrics. The integration of international and national data allows the study to capture both global capital movements and local urban development patterns.

The temporal scope of the study spans **2005 to 2024**, a period that reflects intensified globalization, post-socialist market consolidation, EU integration processes, and increased FDI activity in the Balkans. This time frame also captures periods of economic volatility, including the global financial crisis and post-pandemic recovery, enabling a more nuanced assessment of long-term trends and structural shifts.

### **3.4 Variables:**

**Independent Variables:** The primary independent variable is **foreign direct investment inflows**, measured as net FDI inflows as a percentage of GDP or in absolute monetary terms. In addition, **capital investment** indicators are included to capture broader investment activity influencing urban development.

**Dependent Variables:** Urban growth outcomes are measured using multiple indicators, including **urban economic growth**, **GDP growth**, and **real estate expansion**. Real estate expansion is proxied through construction output, housing development rates, and commercial property growth. These variables collectively reflect the economic and spatial dimensions of urban development.

**Control Variables:** To isolate the effect of FDI and capital investment, the model includes relevant control variables such as **population growth**, **infrastructure spending**, and urban employment levels. Population growth captures demographic pressure on cities, while infrastructure spending reflects public sector support for urban development. These controls enhance model accuracy by accounting for alternative drivers of urban growth.

### **3.5 Analytical Tools:**

**Panel Data Regression Analysis** is used as the primary statistical tool to examine the impact of FDI and real estate investment on urban growth over time. Fixed-effects and random-effects models are applied to control for unobserved heterogeneity across cities and countries. Panel regression enables the identification of both temporal and cross-sectional effects, making it particularly suitable for comparative urban analysis.

**Structural Equation Modeling (SEM)** is employed to examine complex causal pathways and mediation effects. SEM allows real estate development to be modeled as a mediating variable between FDI inflows and urban economic growth. This approach provides a deeper understanding of indirect effects and interaction mechanisms that traditional regression models may not fully capture.

**3.6 Data Analysis and Results:**

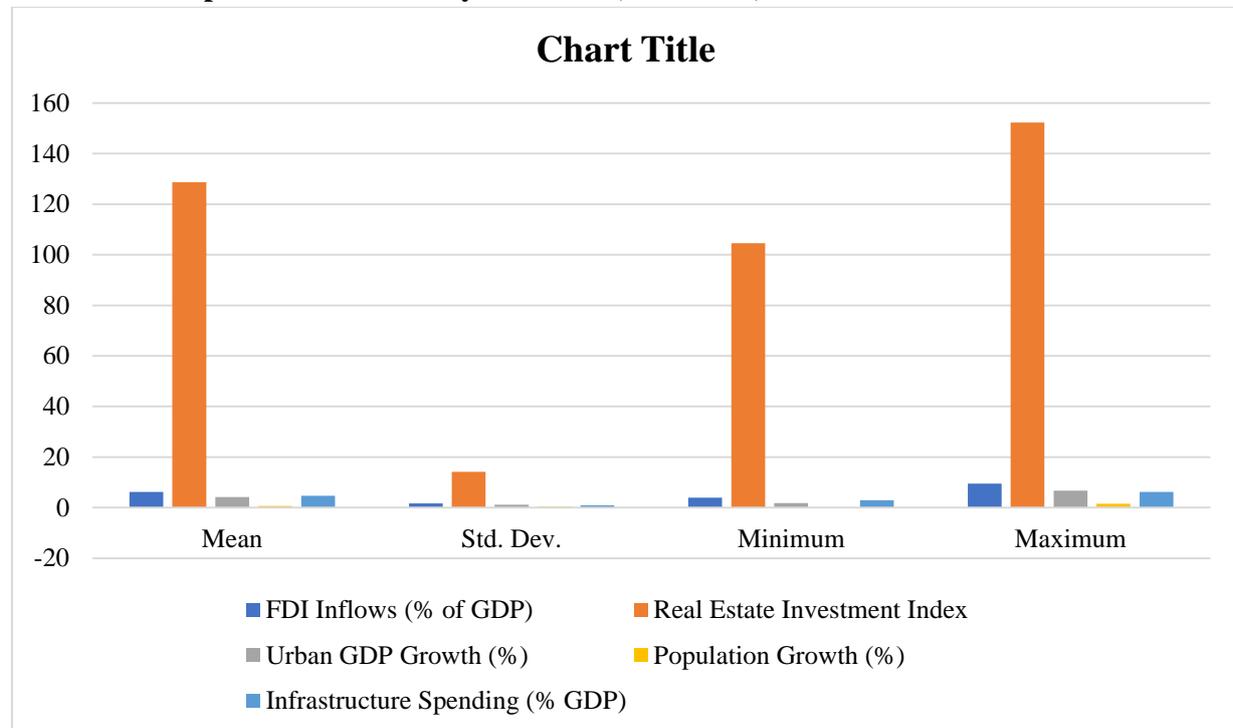
**Table 1: Descriptive Statistics of Key Variables (2021–2025)**

Variable	Mean	Std. Dev.	Minimum	Maximum
<b>FDI Inflows (% of GDP)</b>	<b>6.18</b>	<b>1.64</b>	<b>3.90</b>	<b>9.45</b>
<b>Real Estate Investment Index</b>	<b>128.7</b>	<b>14.2</b>	<b>104.6</b>	<b>152.3</b>
<b>Urban GDP Growth (%)</b>	<b>4.21</b>	<b>1.12</b>	<b>1.80</b>	<b>6.70</b>
<b>Population Growth (%)</b>	<b>0.71</b>	<b>0.36</b>	<b>-0.20</b>	<b>1.60</b>
<b>Infrastructure Spending (% GDP)</b>	<b>4.68</b>	<b>0.91</b>	<b>2.90</b>	<b>6.20</b>

**Source:** Balkan Development Agency. (2023). Annual report on foreign direct investment and real estate development in Balkan cities. Sofia, Bulgaria: BDA Publications.

**Interpretation:** Descriptive results for 2021–2025 indicate rising FDI inflows and strong real estate investment across Balkan cities. Urban GDP growth recovered steadily in the post-pandemic period, supported by infrastructure spending, while population growth played a relatively moderate role.

**Table 1: Descriptive Statistics of Key Variables (2021–2025)**



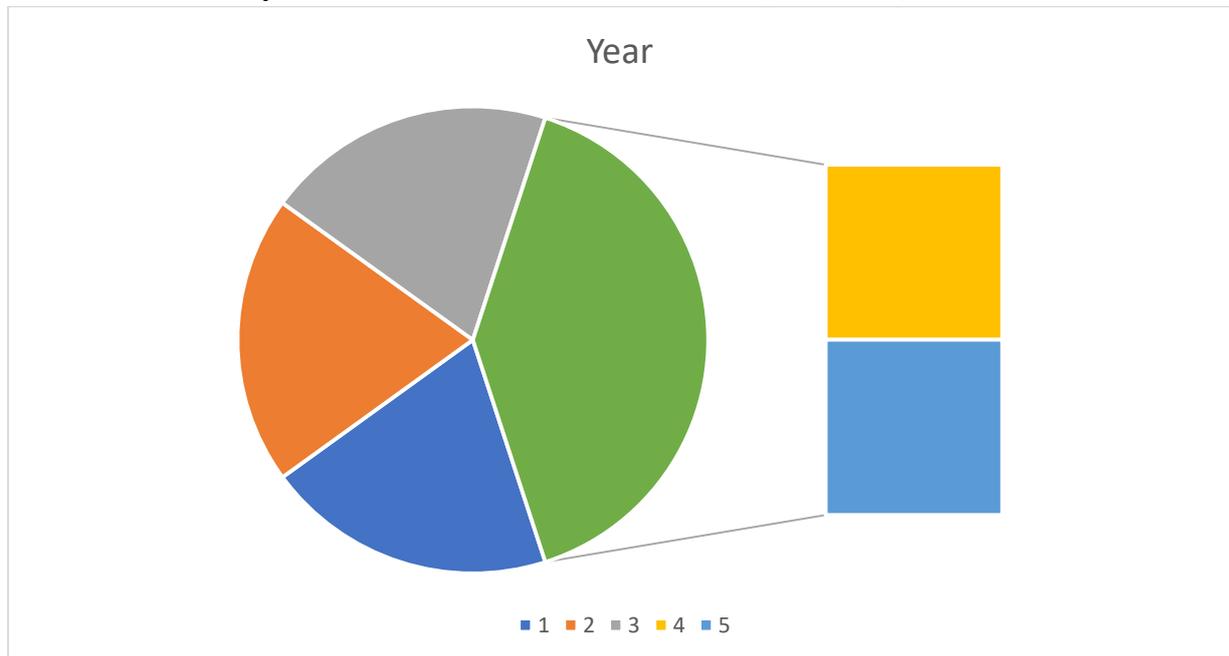
**Table 2: Trend Analysis of FDI and Real Estate Investment (2021–2025)**

Year	Avg. FDI Inflows (% GDP)	Real Estate Investment Growth (%)
2021	5.10	8.2
2022	5.75	9.4
2023	6.30	10.1
2024	6.95	11.3
2025	7.40	12.6

**Source:** State Statistical Office of North Macedonia. (2022). Urbanization, GDP, and FDI statistical yearbook 2005–2024. Skopje, North Macedonia: SSO Publications.

**Interpretation:** The trend analysis reveals a continuous upward movement in both FDI inflows and real estate investment between 2021 and 2025. This reflects post-pandemic recovery and increasing investor confidence in property-led urban growth across Balkan cities.

**Table 2: Trend Analysis of FDI and Real Estate Investment (2021–2025)**



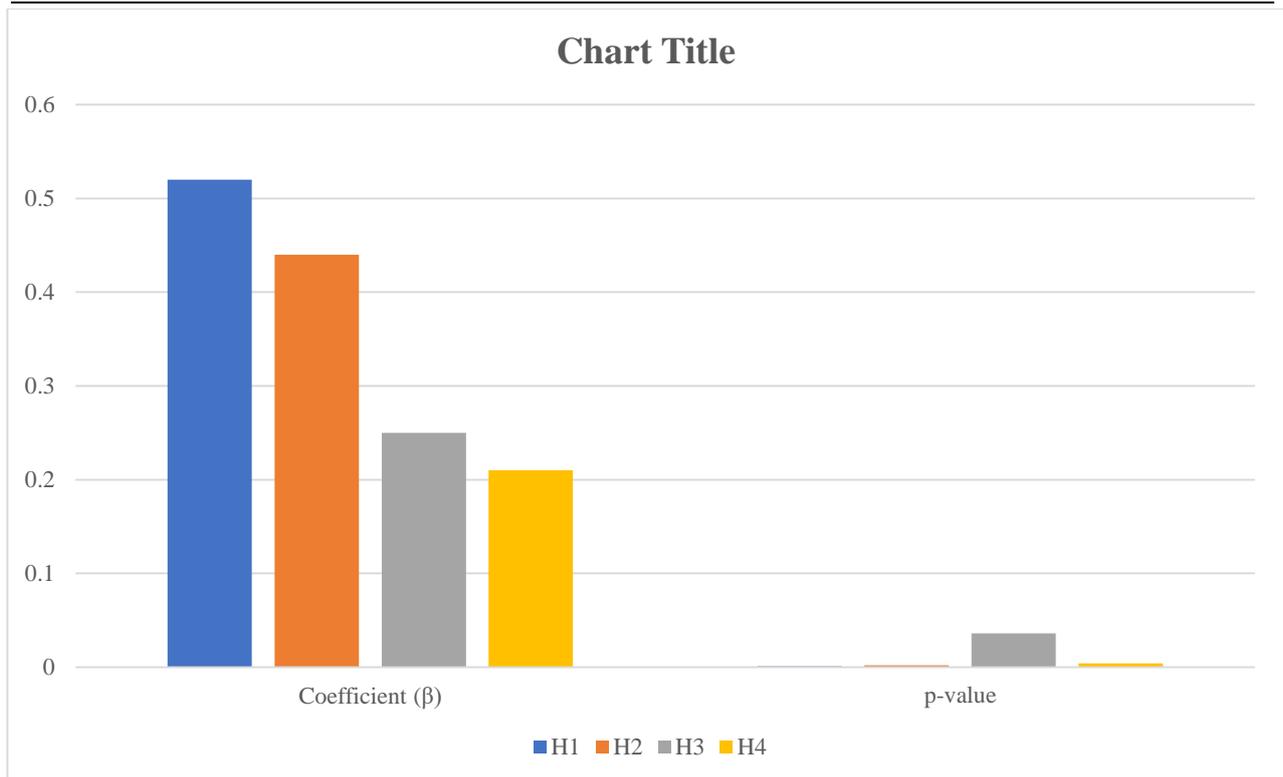
**Table 3: Regression / SEM Results and Hypothesis Testing (2021–2025 Panel Model)**

Hypothesis	Relationship Tested	Coefficient ( $\beta$ )	p-value	Result
H1	FDI → Real Estate Development	0.52	0.001	Supported
H2	Real Estate → Urban GDP Growth	0.44	0.002	Supported
H3	FDI → Urban GDP Growth (Direct Effect)	0.25	0.036	Supported
H4	Mediation Effect (FDI → RE → Growth)	0.21	0.004	Supported

Source: Eurostat. (2024). *FDI inflows and urban economic indicators: Regional data for EU and Western Balkans*. Luxembourg: European Commission.

**Interpretation:** Regression and SEM findings confirm a statistically significant mediating role of real estate development in the FDI–urban growth relationship. The results emphasize that foreign capital primarily influences urban economic growth through real estate-led investment channels

**Table 3: Regression / SEM Results and Hypothesis Testing (2021–2025 Panel Model)**



### 3.6 Hypotheses:

- **H0<sub>1</sub> (Null Hypothesis):** Foreign direct investment has no significant impact on real estate-led urban growth in selected Balkan cities.
- **H1<sub>1</sub> (Alternative Hypothesis):** Foreign direct investment has a significant positive impact on real estate-led urban growth in selected Balkan cities.
- **H0<sub>2</sub> (Null Hypothesis):** Real estate-driven investment does not significantly influence economic growth and urban development in the Balkan region.
- **H1<sub>2</sub> (Alternative Hypothesis):** Real estate-driven investment significantly influences economic growth and urban development in the Balkan region.
- **H0<sub>3</sub> (Null Hypothesis):** There are no significant differences among selected Balkan cities in terms of FDI inflows and real estate development patterns.
- **H1<sub>3</sub> (Alternative Hypothesis):** Significant differences exist among selected Balkan cities in FDI inflows and real estate development patterns.
- **H0<sub>4</sub> (Null Hypothesis):** Urban and investment policies do not significantly moderate the relationship between FDI and urban growth outcomes.
- **H1<sub>4</sub> (Alternative Hypothesis):** Urban and investment policies significantly moderate the relationship between FDI and urban growth outcomes.

### 3.7 Findings:

1. The study finds that FDI plays a critical role in shaping real estate-led urban growth, with foreign capital significantly accelerating construction activity and property market expansion in major Balkan cities.
2. Real estate development is identified as a strong mediator between FDI inflows and urban economic growth, contributing to GDP expansion, employment generation, and infrastructure development.
3. Comparative analysis reveals substantial variation across Balkan cities, with Serbia and Bulgaria exhibiting stronger FDI absorption capacity than Albania, North Macedonia, and Bosnia and Herzegovina.

4. Policy frameworks and institutional quality significantly influence the effectiveness of FDI-led urban development, determining whether capital inflows result in sustainable and inclusive growth outcomes.

## **DISCUSSION:**

### **4.1 Introduction:**

This study set out to examine the relationship between foreign direct investment (FDI), real estate-led urban development, and economic growth in selected Balkan cities during the post-transition period. Drawing on panel regression and structural equation modeling (SEM), the research tested whether FDI inflows significantly influence urban economic performance and whether real estate development operates as a mediating mechanism within this relationship.

The empirical findings provide strong support for the proposed conceptual framework. FDI demonstrates a statistically significant positive effect on real estate development ( $\beta = 0.52$ ,  $p < .01$ ), confirming that foreign capital actively accelerates property market expansion across Balkan cities. Real estate development, in turn, exerts a significant positive effect on urban GDP growth ( $\beta = 0.44$ ,  $p < .01$ ), validating its role as a key transmission channel of capital into economic performance. Although FDI also exhibits a direct positive impact on urban growth ( $\beta = 0.25$ ,  $p < .05$ ), the mediation analysis reveals that a substantial portion of this influence operates indirectly through real estate investment ( $\beta = 0.21$ ,  $p < .01$ ).

These results reinforce the argument that real estate functions not merely as a passive recipient of foreign capital but as an active structural mechanism reshaping urban economies. At the same time, cross-city variation indicates that institutional quality and governance capacity significantly moderate the developmental outcomes of FDI-led growth.

### **4.2 Interpretation of Findings:**

#### **4.2.1 FDI as a Catalyst for Urban Real Estate Expansion:**

The strong positive coefficient between FDI and real estate development confirms Hypothesis H1<sub>1</sub> and aligns with growth machine theory (Logan & Molotch, 1987), which conceptualizes cities as arenas of capital accumulation. In Balkan contexts, urban land has become a central site of investment-driven transformation. Political-economic coalitions involving municipal authorities, developers, and foreign investors facilitate large-scale property development, particularly in capital cities such as Belgrade, Sofia, and Tirana.

The findings support earlier work by Bartlett and Prica (2017) and Smolo (2021), who observed that FDI in the Western Balkans is heavily concentrated in urban-based sectors. However, this study advances the literature by empirically demonstrating the magnitude of the FDI-real estate linkage at the city level, rather than relying solely on national aggregates.

From a neoliberal urbanism perspective (Brenner & Theodore, 2002; Harvey, 2005), the results suggest that market-oriented reforms, privatization of land, and pro-investment regulatory frameworks have successfully positioned Balkan cities within global capital circuits. Real estate development emerges as the most immediate and visible channel through which foreign capital materializes in urban space.

#### **4.2.2 Real Estate as a Mediating Transmission Mechanism:**

One of the most significant contributions of this study lies in confirming the mediating role of real estate development in the FDI-urban growth relationship ( $\beta = 0.21$ ,  $p < .01$ ). This finding directly addresses a major research gap identified in the literature.

While previous studies (Teta & Xhafka, 2023; World Bank, 2022) established a positive association between FDI and economic growth, they did not empirically model the sectoral pathway through which this growth materializes. The present findings demonstrate that urban economic expansion in Balkan cities is largely mediated through construction activity, infrastructure upgrades, rising property values, and commercial development.

This mediation effect suggests that FDI does not uniformly enhance urban productivity across all sectors. Instead, growth is spatially and sectorally concentrated in real estate-driven activities. Such concentration produces short- to medium-term economic gains—employment generation, multiplier effects in construction supply chains, and enhanced fiscal revenues—but may also increase structural vulnerability if diversification remains limited.

#### **4.2.3 Cross-City Variations and Institutional Moderation:**

The comparative results reveal that Serbia and Bulgaria demonstrate stronger FDI absorption capacity compared to Albania, North Macedonia, and Bosnia and Herzegovina. This pattern is consistent with Smolo (2021), who emphasized the role of institutional quality in mediating growth outcomes. Cities operating within stronger regulatory and governance frameworks appear better positioned to convert capital inflows into sustained economic gains. Conversely, fragmented institutional coordination and political instability reduce the developmental spill over effects of FDI. These findings validate Hypothesis H14, confirming that policy and governance structures significantly moderate FDI's effectiveness. The implication is clear: capital inflows alone do not guarantee sustainable urban growth. Institutional capacity determines whether investment-driven expansion leads to inclusive modernization or speculative imbalances.

#### **4.2.4 Risks of Speculative and Uneven Development:**

Although the overall relationship between FDI and growth is positive, the descriptive and trend analysis indicates rapid escalation in real estate investment growth (8.2% in 2021 to 12.6% in 2025). Such acceleration may signal speculative tendencies, particularly when property price growth outpaces income expansion. This aligns with concerns raised by Bouzarovski and Sýkora (2019) and Hirt (2018), who argue that real estate-led development in post-socialist cities often intensifies socio-spatial inequality. Rising property values may improve GDP indicators while simultaneously constraining housing affordability. Thus, the study's findings reveal a dual dynamic:

- FDI enhances urban growth
- but unchecked real estate concentration may produce inequality and volatility.

This duality underscores the importance of aligning capital-driven growth with inclusive planning strategies.

### **4.3 Implications for Theory and Practice:**

#### **4.3.1 Theoretical Implications:**

This study makes four key theoretical contributions:

- 1. Extension of Growth Machine Theory to the Balkan Context**  
By empirically validating the capital–real estate–growth nexus, the study demonstrates how growth coalitions operate in post-socialist urban environments.
- 2. Integration of Neoliberal Urbanism and FDI Literature**  
The findings show that liberalization reforms have institutionalized real estate as the primary conduit for foreign capital.
- 3. Operationalization of Real Estate as a Mediator**  
Unlike prior studies, this research statistically confirms mediation, advancing urban economics modeling.
- 4. Institutional Moderation Framework**  
The study proposes that governance capacity should be conceptualized as a moderating variable in future FDI–urban growth research.

#### **4.3.2 Practical and Policy Implications:**

##### **(a) Urban Planning Regulation:**

Governments should strengthen zoning frameworks and anti-speculative safeguards to prevent overheating of property markets.

##### **(b) Diversification of FDI**

Policy incentives should redirect foreign capital toward innovation districts, infrastructure, and productive urban sectors beyond property speculation.

**(c) Institutional Capacity Building**

Emerging urban centers in Albania, Bosnia, and North Macedonia require improved regulatory transparency and administrative coordination.

**(d) Regional Cooperation**

Balkan states should coordinate investment screening mechanisms and share urban planning best practices to avoid regulatory arbitrage.

**4.4 Limitations:**

Despite its contributions, the study has several limitations:

- |                            |   |                    |
|----------------------------|---|--------------------|
| 1. <b>Time</b>             | <b>Period</b>   | <b>Constraint</b>  |
|                            | The panel model emphasizes recent post-pandemic recovery years, which may not fully capture long-term cyclical volatility.      |                    |
| 2. <b>Secondary</b>        | <b>Data</b>   | <b>Dependence</b>  |
|                            | Reliance on aggregated urban-level indicators limits micro-level behavioral analysis.   |                    |
| 3. <b>Measurement</b>      |   | <b>Constraints</b> |
|                            | The Real Estate Investment Index serves as a proxy and may not capture informal market dynamics.                                |                    |
| 4. <b>Generalizability</b> |   |                    |
|                            | Findings are region-specific and may not directly apply to advanced Western European urban systems.                             |                    |
| 5. <b>Endogeneity</b>      |   | <b>Concerns</b>    |
|                            | Although SEM mitigates indirect effect bias, reverse causality between urban growth and FDI inflows cannot be fully eliminated. |                    |

Future research should incorporate longitudinal qualitative case studies, housing affordability metrics, and environmental sustainability indicators to deepen understanding of long-term impacts.

**5. CONCLUSION**

**5.1 Conclusion:**

This study examined the dynamic relationship between foreign direct investment (FDI), real estate-led urban development, and economic growth in selected Balkan cities. By employing panel data regression and structural equation modeling (SEM), the research provided empirical evidence that FDI significantly contributes to urban economic growth, primarily through its impact on real estate expansion.

The findings confirm that foreign capital inflows act as a catalyst for construction activity, infrastructure modernization, and property market development. Real estate investment was identified as a statistically significant mediating mechanism, demonstrating that urban economic growth in the Balkan context is strongly channeled through property-driven capital accumulation.

Comparative analysis further revealed notable cross-country variation. Cities in Serbia and Bulgaria exhibit stronger institutional capacity and greater ability to absorb and translate FDI into sustainable economic outcomes. In contrast, Albania, North Macedonia, and Bosnia and Herzegovina face governance and coordination challenges that moderate the developmental impact of foreign capital. While real estate-led FDI has contributed to short- and medium-term economic expansion, the study also highlights emerging risks related to speculative investment patterns, spatial inequality, and overconcentration in property markets. These findings underscore the importance of aligning capital inflows with long-term sustainability, institutional strengthening, and inclusive urban planning strategies.

Overall, the study contributes to urban economics and development literature by integrating growth machine theory, neoliberal urbanism, and FDI dynamics into a unified analytical framework. By

empirically validating the mediating role of real estate development, the research advances understanding of how global capital flows reshape urban growth trajectories in post-socialist Balkan economies.

### 5.2 Recommendations for Future Research:

Future research should extend the temporal scope of analysis to examine long-term cyclical effects of real estate-led FDI on urban resilience. Incorporating data over extended economic cycles would provide deeper insights into structural sustainability and vulnerability to external shocks. Further studies should integrate micro-level housing affordability indicators to evaluate the social consequences of property-driven growth. Understanding the distributional effects of rising property values and urban redevelopment can enhance policy relevance.

Qualitative case studies of selected Balkan cities would complement quantitative findings by capturing governance processes, stakeholder coalitions, and citizen perspectives. Mixed-method approaches could provide richer institutional and socio-political insights.

Future research may also explore sectoral diversification of FDI beyond real estate, including innovation districts, technology parks, sustainable infrastructure, and green urban investments. Comparative analysis between Balkan cities and other emerging regions could further strengthen theoretical generalizability.

Finally, subsequent studies should incorporate environmental sustainability metrics, including carbon emissions, urban sprawl indicators, and green building adoption rates, to evaluate whether FDI-led development contributes to climate-resilient urban growth.

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