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" Developing Real Estate Markets In Transition Economies "

**Background Paper for Special Session I on Mobilizing financial
resources for transformation and development - the domestic
dimension ***

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Developing Real Estate Markets In Transition Economies

A Paper for the RICS Research Foundation

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1. Introduction

1.1 Background

Since 1990 and the opening of the Berlin Wall, the transitional economies of Central and Eastern Europe (CEEC) and the Former Soviet Union (FSU) have been experiencing a radical change in the way in which real estate is owned, managed and transferred.¹

Communist governments have been replaced by ones, which, to a greater or lesser extent, accept private control and management of real estate, even if there is reluctance to accept the private ownership of land.

Collective ownership under state management is giving way to extensive private ownership of buildings, and, in some countries, to ownership of the land itself, both through privatisation and restitution to former owners. Central planning systems, which had directed the distribution of real estate, have been dismantled, with decisions about real estate now being taken by private owners and occupiers as well as state bodies.

1.1.1 Purpose of Paper

This paper discusses the extent to which the transition economies have made progress towards opening up their real estate markets and the issues that have arisen in the process. It examines the main impediments that have faced and the extent to which they have been overcome. It considers how the real estate markets in the transitional economies can be made more viable and sustainable in the future.

Although it is increasingly appreciated that it is unhelpful to make too rigid a distinction between the economic problems of the urban and rural sectors, there are differences in the development of their real estate markets which stem directly from their treatment during the socialist era.

Most of the transitional economies have received aid from multi-lateral or bi-lateral agencies or loans from bodies like the World Bank to assist land reform and the development of markets for land resources. The paper briefly reviews how effective these programmes have been and the extent to which they have been directed with sufficient precision towards resolving the problems that have arisen in the development of real estate markets. It concludes by considering how future aid might best be directed.

1.1.2 Sources

Land & Property Economics (LAPECO) has been working in the transitional economies since the early 1990s. The paper is based principally upon the experiences of the company and its associates, gained as a result of projects the company has undertaken. The paper thus draws on practical experience and insight rather than on commissioned research.

Most of the company's written work consists of unpublished reports and reviews for client governments and development aid agencies. It has undertaken projects in most of the transitional economies of the CEEC and FSU. Clients have included the World Bank, the UK Know How Fund, UK Department for International Development and the EC's Phare and Tacis programmes.

Projects have extended across a wide range of land policy, administration and management issues, from the development of land registration to the creation of university degree programmes to enable non-cognate students to become qualified as real estate professionals.

¹ The transitional economies of Central and Eastern Europe are Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic, Slovenia, and Yugoslavia (Serbia and Montenegro). The countries of the Former Soviet Union are Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Their combined populations in 1998 were 413 million, compared with 375 million for the European Union.

1.2 What is the Real Estate Market?

The real estate market is the market that encompasses all transactions, which involve dealings in rights or interests in land and buildings. A dealing means the transfer of a right temporarily or permanently from one party to another in return for a consideration, usually money.

The terminology for the subject can be confusing. In English common usage, 'land' tends to mean bare land. In English law the term includes all things fixed to it including buildings. There are a number of terms that are generally synonymous with this use of the word land: 'real estate', 'real property' or even in casual use simply 'property'. Of course the term 'property' has a meaning wider than real property but this paper deals only with immovable property. Thus references such as 'land market', 'real estate market' and 'property market' are interchangeable.

In English law and in many other jurisdictions, there is no doctrine of absolute ownership of land other than by the state. In the United Kingdom, the Crown is an absolute owner. In such jurisdictions, a real estate transaction is therefore concerned with a transfer of **rights** in land and not a transfer of the absolute ownership of the land itself which remains at all times subject to the sovereignty of the state within whose frontiers it lies.

The English term 'freehold' has a specific meaning in English law but is also understood more widely to describe a right to exclusive and perpetual occupation of land (and any immovable objects thereon), without periodic payment to any higher landlord. A freehold right may be transferred permanently by gift, sale or inheritance, or temporarily by lease or licence. Leasehold is the term used in English to describe a temporary right of occupation.

It is important to note that in relation to the real estate market, ownership and occupation are distinctly different concepts. In a temporary transfer it is the occupation of the land or a right to use it which is transferred by the freeholder for a defined period in return for a recurrent payment, for example, an annual rent. In a permanent transfer the right of ownership is transferred for a capital sum.

These points are pertinent to an understanding of the progress - or lack of it - made by countries in transition, towards permitting and enabling transactions in real estate. The concept of national sovereignty is especially relevant to policy which governs transactions where financial sector institutions either represented by foreigners or with foreign investment, are would-be parties.

1.3 The Functions of Efficient Real Estate Markets

In developed market economies, the function of the real estate market in allocating and reallocating land resources, is probably its most important contribution to economic prosperity. The market is the means of access to real estate and tends to ensure that there is a range of opportunity and choice in terms, for example, of location, types of premises, tenures, and terms and conditions for occupancy across economic sectors.

1.3.1 Productive Activity

Most economic activity requires land. If a country's economy is to grow and prosper in a sustainable manner, there needs to be a mechanism whereby land resources are allocated to satisfy the demands of the productive sector. This implies that land will also be reallocated efficiently from those whose use is less productive to the more productive sectors.

Market forces achieve this through the process by which different parties bid for the available resources. The most productive users are able to make higher bids than the less productive so that resources tend to be allocated to them. For market forces to achieve this efficiently, there should be the minimum of interference from the state as such intervention can distort resource allocation and undermine the efficiency with which the process functions.

1.3.2 Housing

Similarly, there is a need for nation's workforce to deploy and re-deploy in response to employment opportunities. The market for housing facilitates geographical mobility of labour. An efficient market offers households choices as to the type of accommodation, tenure, and conditions of occupancy. If households wish to own their accommodation, the market should also provide access to the means of financing this. As a result activity in the residential market is widely regarded as an important barometer of a country's economic prosperity and is a useful indicator of the health of the economy as a whole.

1.3.3 Investment

A mature real estate market can act as a store of wealth by providing opportunities for investment in property assets. Real estate is one of a number of competing investment vehicles. Opportunities to invest in it permits increased opportunities for diversification of portfolios. Real estate has characteristics, which are not wholly duplicated by other investments, for example, its longevity and immovability make it a valuable store of wealth on a long term basis. This makes real estate an important part of portfolios whose objectives include provision for the distant future, for example, pensions or inheritance.

1.3.4 Mobilising Real Estate Wealth

Real estate can be used in ways independently of any occupancy of it by the owner. In particular, land can be used as collateral to support borrowings. In these ways, the real estate market and the financial sectors become interdependent. This can be both a strength and a weakness for the wider economy. The use of real estate as collateral enables firms and households to realise part of their wealth in real estate to enhance investment or consumption.

The weakness is that in times of recession in the property market, this is not possible so that investment and consumption is depressed. At times when an economy is overheating, the realisation of wealth from real estate can add to inflationary and balance of payments pressures. Governments therefore need to monitor the real estate markets and, where necessary, take corrective action where their behaviour may undermine macroeconomic targets.

1.3.5 Relationships with the Financial Sector

The relationship between the strength of a real estate market and the health of a country's financial sector can be most dramatically illustrated by looking at behaviour in real estate markets in times of banking and economic crisis. The United Kingdom's banking crisis of 1974, the Baltic banking crisis of 1995-96 (Box 1), and the more recent economic crisis in the Far Eastern "Tiger" economies were all significantly affected by conditions in the real estate market and its relationships with financial institutions.

When a banking system is over-exposed to the real estate market through direct lending for commercial property development and house purchase and indirectly through loans secured on real estate, recession in the property market can result in banks being faced with non-performing loans secured against assets that are now worth less than the value of the outstanding loans. This can result in crises both for individual financial institutions and, on occasions, for the banking system as a whole. This points to a need for careful prudential regulation of the relationship between the real estate and financial sectors.

1.4 Real Estate Markets in the Soviet Era

Communal ownership of land, one the three main factors of production was at the heart of communist ideology. Private ownership was associated with capitalism, which had been overthrown.

However, some private property and an informal 'property market' existed in most of the transition countries, to some extent, depending on the severity with which communist ideology was interpreted and applied. For example, in Poland much of the agricultural land

remained in private hands and could be traded. By contrast, in Albania, there were no private rights in land whatever.

Housing in some countries, such as Bulgaria, was provided through co-operatives using the savings of their members, so that something akin to owner occupation could exist. However, in none of the transitional economies could a real estate market be said to exist on any scale or as the normal mechanism for allocating real estate. The limited aspects of a real estate market that did exist tended to be on the margins of the economy, such as in the garden plot sector or recreational housing (Dacha).

The normal means of allocating real estate, like the other means of production, was through the central planning system. Under this system, the state determined the goals to be achieved and the means by which they were to be realised. Directive planning was used to issue instructions to subordinate bodies as to what they were to produce, how production was to take place, and how the product was to be distributed.

Businesses tended to enjoy rights of occupancy over real estate rather than ownership rights or security of tenure. The state as the owner could reallocate land and buildings to other uses. Compensation tended to be limited to disturbance and to be payable by the incoming user. Rent payments could not be made as these were ideologically incorrect.

Differential rates of land tax could reflect differences in land productivity. Although charges for capital existed and the concept of time preferences applied, ideological problems prevented the use of interest rates. Capital charges tended to be too low to influence behaviour, for example, applying pressure to finish incomplete construction.

Housing policy tended to be an aspect of labour policy, in which housing needed to be provided where employment was created. Local authorities maintained detailed cadastres, but these were more concerned with the technical attributes of land and the physical characteristics of buildings and their replacement costs than with their value or the rights or owners or occupiers. In other words, their role was to provide inputs into the planning system and controls over the use to which allocated resources had actually been put.

1.5 Making the Transition

The process of transition is one of immense cultural change. The relative insecurity and uncertainties of the market replace the security provided by the central planning system.

Moving from a system where the state is the only land owner to one where private ownership predominates, not only requires a framework of economic, legislative and institutional reform but demands that people change fundamentally the way in which they think about land.

In market economies, businesses can go bankrupt and workers can be made redundant. The application of consumer sovereignty means that firms are not guaranteed markets for their products. The change in priorities for production and the opening of the transitional economies to imports has meant that consumers do not have to accept poor quality products because no others were available and even these were in short supply. Instead, they can exercise preferences.

The role of managers has had to change from implementing instructions passed down to them to acting as entrepreneurs – finding markets, purchasing inputs, and making production decisions. The state has ceased to be the owner of many of the means of production and no longer is able to exercise direct control over them through plan directives.

In real estate, the process of transition has meant that control, even if not ownership, of significant parts of the stock of land and buildings has passed from the state into private hands. The principal processes by which this has been accomplished are **privatisation** and **restitution**.

Privatisation has taken a number of forms, including sales of assets, sales of shares, awarding supply concessions, and opening regulated sectors to private enterprise. **Restitution** has resulted in some former owners of property reclaiming assets that were expropriated from them or that their families had been forced to sell.

For transition countries to begin to reap the benefits of the links between property and financial sectors, their governments must put in place and follow through substantial programmes of reform in both sectors. Policy and legislation must provide not only the wherewithal for markets to function efficiently, but also induce confidence in investors.

Governments must therefore develop capacities for administrative and technical support in the areas of surveying and mapping, land registration and contract enforcement in order to provide the framework within which real estate markets can function, alongside the development of private sector professionals to service private requirements.

Governments themselves are not market makers, although they can set examples for market activity through their own dealings, selling and leasing state land and financing property development funds.

Contrary to what many in the transitional economies traditionally supposed, there is considerable regulation within market economies and that such government intervention is a necessary part of ensuring that markets operate in an efficient way, for example, through the control of monopolies and providing an environment for businesses to function with confidence. The skill is to provide for necessary intervention that enables markets to function freely without unduly restricting business operations or distorting business decisions.

The structure, culture and behaviour of financial and banking agencies has to change from centrally planned credit to appropriately regulated commercial decision-making. This has major implications for real estate in view of the requirement of the sector for finance and its role in providing collateral. Businesses have to adjust to an environment in which surplus property must be put to use, for example by disposal, and that premises will not be made available by application to a state body. They have had to become risk bearers in their property decisions as in other areas of business. Households have been obliged also to become risk bearers through needing to obtain finance to gain access to housing, for example by purchase. They have also had to take responsibility for meeting their own housing needs and for the consequences of their decisions or failure to take appropriate decisions.

2. Key Constraints to the Development Of Real Estate Markets

The development of real estate markets in the transitional economies has been constrained by a wide range of factors. The constraints, in many cases, are a complex product of the recent histories of the countries and the ways in which their economies have been managed in the last 75 years.

Such historic constraints need to be distinguished from the constraints that stem from lower levels of economic development than generally exist in industrialised countries. In essence, the specific institutional constraints may result in the transitional economies having less developed real estate markets than market economies with comparable per capita incomes.

The constraints are interrelated, making it difficult to tackle each in isolation. Each constraint tends to feed off and reinforce others, so that comprehensive policies are needed to resolve them. Overcoming them thus demands major changes in attitudes and behaviour in the societies of the transitional economies and wide-ranging action by government to put in place necessary legislative measures and institutional reforms.

As real estate markets impact widely on the rest of the economy, the consequences of these constraints for the development of the transitional economies are likely to be far-reaching and potentially severe.

The constraints fall into five main groups and are summarised in Table ??.

1. The Cultural & Socio-Economic Framework
2. The Legal Framework
3. Administrative & Governmental Framework
4. Financial & Banking System
5. Private Sector Support Services

The relative severity of each constraint varies between countries or regions and in some respects between urban and rural sectors. Whilst some transitional economies have made good progress in overcoming certain constraints, others have lagged behind. None of the transitional economies, including the most developed, have been able to overcome all of the constraints.

There are also often exceptions to the overall experience in towns, cities or provinces, which have adopted a more progressive attitude to reform. In several countries, there are federal or devolved systems of government, which enable local or regional authorities to pursue different policies from the central government. Whilst this can result in greater progress in a locality than nationally, local administrations may also be able to block central reforms from which they dissent.

It is beyond the scope of this paper to comment in detail on the degree of progress that individual transitional economies have made towards overcoming the constraints. Generally, those countries amongst the earlier waves of European Union applicants tend to have made the greatest progress, but even these have much to do in overcoming certain of the constraints.

Table ?? indicates in broad degree the variation in development amongst the transitional economies. Generally, those economies with a poor performance on these development indicators also have the greatest work still to do in establishing real estate markets.

Table ?? – Summary of Constraints to the Development of Real Estate Markets

Area of Constraint	Constraint	Consequence	Severity <i>Esp. Country(ies)</i>
Cultural & Socio-Economic Framework	- Deep seated sense of communal ownership of land, may pre-date Soviet era - Past reliance and socio-economic dependency of rural communities on collective/state farm system	- Longheld belief that land cannot be privately owned and thus cannot be traded, fetters development of policy and law	- V high <i>Central Asian States</i> - High <i>Russia & 'European' FSU States</i> - Moderate to Low <i>CEEC</i>
	- History of differentiation between ownership of buildings (could be private) and ownership of land (usually state) during Soviet era	- Land and its capital value (as opposed to its productive value and the value of buildings) may not be properly considered in the development of policy and legislation which enables real estate market	- V high <i>Central Asian States eg Uzbekistan</i> - High <i>Russia & 'European' FSU States</i> - Moderate to Low <i>CEEC</i>
	- Landowners (rural) lack knowledge and information about rights which they have been granted and their powers of management and transfer, despite the 'dacha' and 'garden plot' culture of the Soviet era	- Landowners unaware of value of land, limited scope to mobilise value fetters and distorts market development	- V high <i>Central Asian States</i> - High <i>Russia & 'European' FSU States</i> - Moderate to Low <i>CEEC</i>
	- Suspicions about motives of state in privatising land and in collecting and holding information about (now private) land - Suspicions about motives and behaviour of tax authorities	- Fetters dealings, forces dealings into an informal market; actual transaction prices inaccessible to third parties or state authorities	- High <i>FSU</i> - Lower <i>CEEC</i> - Lowest <i>Baltic States</i>
Politics and Policy Framework	- Government opposed to reform or lacking commitment towards granting private land rights	- No follow-through to workable legislation, so no land market, may be limited market in residential property (apartments etc.)	- V high <i>Central Asian States eg Uzbekistan but not Kyrgyzstan</i> - High <i>Russia & 'European' FSU States</i> - Moderate to Low <i>CEEC</i>
	- Prohibition or embargo on real estate market	- No market or no market for a time	- V high <i>Central Asian States</i> - Moderate <i>Russia & 'European' FSU States</i> - Moderate to Low <i>CEEC</i>
	- Limitations on dealings in some types of real estate or by some classes of owner	- Limited market activity, Foreign Direct Investment may be prohibited	- High <i>FSU and CEEC</i>

Area of Constraint	Constraint	Consequence	Severity <i>Esp. Country(ies)</i>
Legal Framework	- Fundamental juridical misconceptions about titles and the powers of owners to transfer them	- Uncertainty for purchasers about nature of rights purchased and their legal ability to hold and therefore market them	- Moderate - Becoming Lower <i>EU Pre Accession States</i>
	- Juridical registration law absent or ineffective, so land tenure not supported by state registration and/or guarantee	- Dealings in real estate market though not prevented may be high risk which will reduce demand and increase transaction costs	- Moderate to Low
	- No workable mortgage law (related to juridical registers) to securitise real estate	- Prospective borrowers unable to mobilise land-based capital - Lenders perceive high-risk and may not lend except at punitive/uneconomic rates	- High <i>FSU</i> - Lower <i>CEEC</i>
	- No workable bankruptcy law	- Market can not operate to reallocate land which consequently may lie waste	- High <i>FSU</i> - Lower <i>CEEC</i>
	- No workable leasing law	- No leasing activity or lack of statutory basis for governing landowner/tenant relationships may distort markets	- High <i>FSU</i> - Lower <i>CEEC</i>
	- Ill developed legislation on planning and development control	- Uncertain basis for valuation of real estate where development or change of use is signalled by market, consequent distortions in real estate prices	- Moderate to High <i>FSU & CEEC</i>
	- Ill developed legislation and procedures for compulsory acquisition of real estate for public purposes and its associated compensation code	- Uncertainty/unfairness for owners of real estate, open market dealings may be blighted - Obstacles to development of essential public infrastructure	- Moderate to High <i>FSU & CEEC</i>
	- Slow move to official adoption of international accounting and valuation standards	- Very widespread distortions in every aspect of the real estate market and its reporting of financial information esp. to shareholders and tax authorities	- High <i>FSU</i> - Becoming Lower <i>CEEC eg Poland, Hungary, Baltic States</i>
	- Inadequate provisions for enforcement of real estate contracts	- Real estate may be perceived as high-risk investment, reduces demand	- High <i>FSU</i> - Becoming Lower <i>CEEC eg Poland, Hungary, Baltic States</i>

Area of Constraint	Constraint	Consequence	Severity <i>Esp. Country(ies)</i>
Institutional and Administrative Framework	<ul style="list-style-type: none"> - Government constrained to implement adopted land reform policies by bureaucratic opposition and/or lack of understanding - Other bureaucratic obstacles resulting in slow transition from the old era of 'control' to new era of 'facilitate', exacerbated by low pay and poor prospects in public service 	<ul style="list-style-type: none"> - Bureaucracies prevent real estate transactions by (sometimes deliberate) misinterpretation of law 	<ul style="list-style-type: none"> - High <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>
	<ul style="list-style-type: none"> - Institutional in-fighting about responsibility for real estate registration often stemming from the desire to adopt a new function because of the obsolescence of the old one - Misconceived need to record technical attributes of land in addition to juridical record 	<ul style="list-style-type: none"> - Induce high costs and long delays in the development of registers to support dealings in the real estate market 	<ul style="list-style-type: none"> - Moderate <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>
	<ul style="list-style-type: none"> - Lack of capacity/ability of land registration authorities(if they exist) to record first registrations or transactions 	<ul style="list-style-type: none"> - Real estate transactions do not take place or are not fully recorded, may distort market 	<ul style="list-style-type: none"> - High <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>
	<ul style="list-style-type: none"> - Bureaucracies allow real estate transactions at their own pace and price 	<ul style="list-style-type: none"> - Market is not transparent, transaction prices and costs are distorted and may be very high for the rural poor, in sum reduces incentives to deal 	<ul style="list-style-type: none"> - High <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>
	<ul style="list-style-type: none"> - Urban authorities exercise high degree of continuing control over office, commercial, industrial and retail real estate in towns and cities, this is a threat and opportunity for the development of the real estate market 	<ul style="list-style-type: none"> - Free market in real estate limited in towns and cities - Kiosk culture erupted in early days of post-Soviet era 	<ul style="list-style-type: none"> - Very High <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>
Capital Markets	<ul style="list-style-type: none"> - Lack of capital - Ill-developed banking and financial systems 	<ul style="list-style-type: none"> - Limited activity in real estate market - Very high interest rates 	<ul style="list-style-type: none"> - Very High <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>
Private-Sector Support Services	<ul style="list-style-type: none"> - Lack of legal, valuation, land brokering and land management skills 	<ul style="list-style-type: none"> - Dealers in real estate, lacking independent advice, have poor information about their powers to deal or the potential value of their dealings - Dealers may place undue reliance on advice and information provided by partial bureaucrats 	<ul style="list-style-type: none"> - Moderate to High <i>FSU</i> & <i>CEEC</i>

Area of Constraint	Constraint	Consequence	Severity <i>Esp. Country(ies)</i>
	<ul style="list-style-type: none"> - Ill-developed professional bodies able to influence government policy, set professional standards, accredit members and gain confidence of the public 	<ul style="list-style-type: none"> - Lack of regulation, professionalism and consistency in real estate advisory services 	<ul style="list-style-type: none"> - Moderate to High <i>FSU</i> & <i>CEEC</i>
Taxation	<ul style="list-style-type: none"> - Ill-conceived/developed tax system 	<ul style="list-style-type: none"> - Distorts real estate market, drives it into informal sector - Fails to realise potential of tax system to raise revenue from real estate 	<ul style="list-style-type: none"> - Very High <i>FSU</i> - Becoming Lower <i>CEEC</i> eg <i>Poland, Hungary, Baltic States</i>

2.1 Cultural and Socio-Economic Framework

The transitional process started with an inheritance of ideology and previously formed values and attitudes amongst the population. For example, there is an attachment to the old concept of communal ownership of land, which pre-dates the Soviet era, and which continues to haunt the implementation of land reform. The half-heartedness and ambiguity of some legislation can be traced to these deep-seated attitudes.

Political repression and, in some of the countries, repression of particular ethnic, religious or social groups, created a climate of distrust and suspicion about the motives of the state in collecting and holding information. Distrust of the state's motives continues to dog reform. Histories of corruption and abuse of power do not engender immediate co-operation with land registers and trust of tax authorities.

The terms used to describe entrepreneurs during transition have often been similar to those applied to fixers and black marketeers in the Soviet era. Democratically elected governments who support transition are aware that continuing support for them depends upon the transition process delivering real improvements in living standards, which may not have been apparent or have bypassed important groups.

Political support for parties associated with the previous regimes has remained strong in many countries in the region. Governments in these conditions may have to be wary as to the policies they introduce and those concerned with real estate management may touch on many popular concerns.

2.2 Legal Framework

A principal issue is whether the transitional economies have developed an adequate legal framework within which real estate market can function effectively.

Reforms need to include measures to:

- define and protect rights over real estate;
- govern the relationships between landowners and tenants;
- control development so that it can take place without having undesirable social or environmental consequences;
- ensure that contracts are enforceable and fair.

Most transitional countries have a tradition of code-based legal systems rather than having ones where precedent through court decisions are significant. Therefore, it is important that they develop appropriate legal codes. The codes that have a particular significance for real estate markets tend to be second or third order codes that derive from the constitution and primary codes that form the main building blocks of a legal system. The transitional economies tend to have inherited relatively weak development of civil and commercial law due to their recent histories. This has required considerable work in creating an effective commercial legal system.

2.3 Administrative And Governmental Framework

Governments impact on real estate markets in a number of ways but must do so in a manner that does not distort their operations or inhibit their development.

Real estate is capable of providing tax revenues for government, particularly for local government, where its immovable nature has the advantage of making such taxes difficult to avoid. Taxes on real estate need to be fair and not to distort economic behaviour.

This means developing ways of valuing real estate for tax purposes that fairly distribute the burden and establishing fair systems of tax administration.

From time to time, government needs to acquire real estate, for example, for infrastructure projects. This may be against the wishes of the owners so that the property has to be

acquired compulsorily. There needs to be fair systems of compensation for those whose property is expropriated or whose property rights are curtailed. The transitional economies inherited compulsory purchase systems from the Stalinist era, when expropriation of the means of production rather than fair compensation was the rule.

As the state has been the main owner of real estate, the transitional economies have had to engage in processes by which the state divests itself of control over much of these assets. This has been achieved principally through privatisation and restitution. The way in which this is done can have significant effects for the development of viable and sustainable real estate markets.

Government itself needs to function efficiently in its dealing with real estate. At a basic level, this includes the avoidance of corruption and extortion. Real estate markets therefore require an environment of good governance in which to thrive. The development of an infrastructure for real estate markets involves governments bringing forward new policies and legislation to put in place institutions and procedures that were not required under a central planning system. The policies require openness and willingness to change, as well as co-operation between different areas of government.

Markets can all too easily be undermined by bureaucratic resistance and infighting between different branches of government.

2.4 Financial And Banking Systems

Real estate development projects require finance for them to be realised.

Households and firms are likely to have significant proportions of their wealth or capital tied up in real estate and, from time to time, may need to mobilise it.

For example, companies may need to use real estate as collateral in order to raise funds for investment in plant and machinery or working capital. An efficient housing market that supports labour mobility needs there to be means by which households can raise finance to buy housing and trade their existing housing.

The privatisation of housing in the transitional economies has resulted in the shrinkage of the rented sector in most cases below the levels typically found in the European Union.

The existence of an investment market gives firms the choice as to whether to use their limited capital to own the premises they need for their business or to rent them from an investor.

The development of viable and sustainable real estate markets requires the development of efficient financial markets, including the development of stable banking and financial services systems. These in turn require the development of commercial legal systems, particularly dealing with financial reporting, bankruptcy, the enforcement of debts and contracts, and mortgages. In view of the importance of real estate as collateral for loans to firms and households, the banking system needs viable real estate markets.

2.5 Private Sector Support Services

.Participants in real estate markets require access to real estate professional services, such as valuation, investment advice, and property management. Although land and building surveyors and construction economists were active in the centrally planned economies, there was no valuation profession.

The absence of markets and market prices meant that valuers could not function. Since 1990, many individuals have established themselves as valuers and a number of valuers organisations have been created in the transitional economies. The key to whether they function in a fully professional manner is whether there are appropriate professional standards and that these are adhered to.

The necessary standards fall into three main categories – valuation, educational, and ethical. Valuation standards are concerned with what valuation methods should be used in

particular circumstances, and how valuations should be reported, particularly when they are going to be relied upon by third parties.

Educational standards determine the qualifications that valuers should have, including academic qualifications and practical experience. The standards determine what skills, knowledge, and competencies valuers should possess and how it can be determined that valuers actually possess them.

Ethical standards determine the limits of acceptable behaviour, including when the professional should not act, and values such as impartiality, objectivity, and confidentiality.

The development of appropriate professional services to support real estate markets requires the higher education systems of the transitional economies to have the capability to produce suitably qualified graduates, who can then obtain appropriate supervised professional experience before acting as professional in their own right. Ways must also be found of enforcing adherence to technical, educational and ethical professional standards through devices such as licensing or self-regulation by a credible professional body.

3. Land Reform and the Urban Sector

3.1 Land Reform Policies

A real estate market cannot function until real estate assets are devolved to the private sector or in other words, are 'privatised'. In terms of bringing to a critical mass, the extent of real estate in private hands that is conducive to a market functioning efficiently, there are differences within and between the CEECs and the states of the Former Soviet Union. There were different starting points and different policies have been adopted to devolve rights from the state.

Critically, some states have embargoed the real estate market or agricultural land market or both.

There have been marked differences in the treatment of agricultural land and buildings and urban real estate.

From a sociological point of view the main impact of the reforms for the rural population has been on the privatisation of land. For the urban population it has been the privatisation of apartments and other dwellings. In the case of the latter the ownership of underlying land has not necessarily been recognised as an issue and may not command the attention it deserves until widespread redevelopment is contemplated.

4. Land Reform and the Rural Sector

4.1 Agricultural Land Reform

Policies for the devolution of land rights have had to resolve the potential conflict between the sociological goals of equity and historical justice. Politicians have had to choose between restitution of rights to former owners or some sort of equitable distribution to incumbents.

The choice made has generally depended on:

- the existence or not of continuity of title, asking the question - Do people still legally own the rights which were confiscated or collectivised?;
- the perceived equity or inequity in the pattern of land ownership prior to nationalisation;
- demographic shifts since nationalisation - Have whole populations or borders moved?;
- the proportion of the population living rurally and depending on agriculture for their livelihood.

Politicians have also had to decide whether “state-owned” land should be treated differently from “collectively-owned” land. Because the chain of title has been broken for state owned land (through outright nationalisation), or such land was previously owned by those ineligible to receive restitution (i.e. crown, church), another method of devolving rights to the private sector may have been devised, for example, sale, lease or free grant distribution.

More or less without exception, transition countries have addressed land reform in rural areas as an agricultural issue. This is a misconception. Agriculture is just one use to which rural land can be put. As a result the legislation governing reforms has ignored the issues that will surround, for example its potential future development for housing and industry.

4.1.1 Restitution

Restitution is the process of restoring land to its former owners or their heirs. The process seems to have been adopted to compensate for unacceptable (legal or illegal, but unfair and retrospectively unconstitutional) past expropriation. The restitution may be full or partial and may be direct (return of actual real estate) or indirect (compensation).

Some states have placed restrictions on who may be restituted land. In Romania, land has not been restituted to those who lost their land prior to 1947. In Poland, Germans who emigrated after World War II previously owned a large share of state land. The land will not be restituted. In Slovenia, land formerly owned by Italian citizens will not be restituted. By contrast, in Estonia and Latvia, restitution rights were extended to former owners who were citizens before World War II but later emigrated.

4.1.2 Distribution

Distribution or ‘sharing’ is the creation of an acceptable new basis for ownership of agricultural land held in common ownership in Soviet times by agricultural co-operative or collectives(kolkhozi) and state farms (sovkhozi).

The process must choose between physical land distribution or share distribution. If share distribution is chosen, decisions must be made about the means of valuing the shares and any restrictions on their use or transferability.

4.1.3 CEECs

Most CEECs elected to reconstitute collective farm land to former owners. State farm land has been leased to productive enterprises, pending its sale. Only state owned experimental and research farm land is not privatised.

4.1.4 Former Soviet Union

Most of the Former Soviet Union states have chosen not to reconstitute land but to distribute land shares among qualifying members of collective and state farms. These shares only have the potential of becoming physical parcels of land in private ownership if the shareowner withdraws it to begin some sort of (usually small) private farm.ⁱ

Table ??

Land Reform Processes by Country

Country	Collective farm land	State farm land
Albania	Distribution (physical)	Distribution (physical)
Bulgaria	Restitution (w/in historical boundaries if possible)	Various (see country section below)
China	Distribution of use rights only	
Czech Republic	Restitution (w/in historical boundaries if possible)	Sale (leasing)
East Germany	Restitution	Sale (leasing)
Estonia	Restitution + "municipalisation"	Restitution
Hungary	1/3 Restitution, 1/3 physical distribution, 1/3 sale for vouchers	Sale for compensation bonds and sale (leasing)
Latvia	Restitution	Restitution
Lithuania	Restitution	Restitution
Poland	n/a (most land already in private hands)	Sale (leasing)
Romania	Restitution and physical distribution	Undecided
Russia	Distribution in shares	Distribution in shares
Slovakia	Restitution	Sale (leasing)
Slovenia	n/a (most land already in private hands)	Restitution
Ukraine	Distribution in shares	Distribution in shares
Uzbekistan	No distribution	No distribution

4.1.5 Progress with Reform

There is a misconception that the ultimate goal of land reform and the privatisation of rural land must be the emergence of small farms owned and worked by the landowner alone or, when members of a family group their land shares, by the family. These would be known as owner/occupied farms(UK) or owner/operated farms(USA). Some well-known donor agencies including the World Bank categorise these as 'Private' farmers and seem to regard them as the only type of farmer worthy of their support.

There are actually two misconceptions running here. Firstly, the word 'Private' invites a distinction between private-sector and state or public-sector. But the use of 'Private' tends

to exclude the emerging commercial and corporate types of farm enterprise in which individuals pool their resources as shareholders.

Provided that in practice such enterprises fulfil simple tests of independence from the state or public-sector, they are just as much 'Private' enterprises as the owner/occupied small farm. For example, they are 'Private' farms if: they pay dividends to shareholders and not to the state; display autonomous management responsible to shareholders; enjoy freedom of cropping and stocking, independent accounting and freedom to raise capital and buy and sell products and resources.

Experience shows that as the reforms progress, not all the corporate farm enterprises in the Former Soviet Union are coinciding with the western vision of a private enterprise, for two main reasons. Firstly, local administrations through their agricultural departments may be continuing to exercise influence over the supply of inputs (particularly fuel and fertiliser) and the marketing of products. Secondly, there is often doubt that shareholders had much choice about the investment of their land and capital in the enterprise, which has often formed by default, and which continues to be controlled by unrepresentative, traditional management.

The second misconception is that all landowners, once allocated a plot of land, will withdraw it from the collective enterprise with their share of property for independent cultivation. In other words they will become owner/occupiers. This misconception is being steadily corrected as the evidence emerges that not all landowners are able or willing to farm on their own account. About 60% of farm members in Russia and Ukraine are pensioners. In Kyrgyzstan, children are entitled to land, increasing the number who do not have the motivation or skills to be independent farmers. The result has been that a market in leasing is developing, an early sign of a developing land tenure system.

4.1.6 Implications for the Land Market

There is a general economic motive to land reform in making the change from a command to a market economy. But it is difficult to attribute any specific economic motive or justification to the choice of process, given that one universal consequence of land reform has been the fragmentation of landholdings among millions of new owners.

Restitution in the CEECs has resulted in the return of property to people on the basis of their family's ownership in excess of 40 years previously, possibly two generations ago. Population drift from rural to urban areas during the intervening years has more or less guaranteed that large areas of land comprised of large soviet-scale parcels, are now divided into very small landowning units owned by absentees.

There is some evidence to suggest that where a landholding falls below an economic size, absentees will not submit it to the market. They will not be economically dependent upon it and therefore continue to hold it for other more cultural or sentimental reasons, thus standing in the way of economically driven, agricultural restructuring.

Furthermore, the difficulties of decision-making with multiple owners distributed around the country constitutes a real obstacle to the reallocation of land through markets, even where leasing has been recognised by the government as an alternative to purchase for rationalising the structure of agricultural holdings.

'Sharing' has created similar difficulties for efficient land administration and management with broadly the same results.

Banks and credit institutions have been shy of financing agriculture. Low rates of return, the lack of workable mortgage laws and the opacity and possible insecurity of ownership are the major disincentives.

In sum, rural land reform has resulted in patterns of land ownership that do not synchronise well with current economic realities. It is not so much a question of whether a land market can play a part in resolving this mismatch but how quickly governments will open up the opportunities for the market to operate efficiently.

4.2 The Development of Rural Land Markets

To what extent could or should the development of real estate markets contribute to the economic and political empowerment of the rural people? Using the example of Ukraine, where the issues are relevant to most former soviet states, this section focuses on the relationship between the rural population and their principal capital asset, land.

4.2.1 Rural Poverty

One of the major issues facing the former Soviet states is rural poverty. Reliable field research conducted among rural communities in the Odessa oblast of Ukraine in 1997, 1998 and 2000 indicates that the net per capita monthly income of rural inhabitants has fallen from an average +87 hrivina (approx. \$48.00) in 1997 to an average -27 hrivina (approx. -\$5.00) in 2000².

The increase in rural poverty is associated with falling standards of nutrition, health care, education and access to basic services and with increasing levels of alienation, social exclusion and disengagement with the processes of transition. Resolving the serious problem of rural poverty is therefore a key aspect of development of the rural economy and of improving inclusion in the fragile development of democratic political institutions.

There are a limited number of ways to tackle rural poverty:

- Increase state benefits for the unemployed and for those unable to work;
- Increase rural employment opportunities by increasing the profitability of rural enterprises and creating new ones;
- Increase incomes of landowners by developing the rental return from land;
- Introduce new fiscal instruments e.g. a land tax.

4.2.1.1 State Benefits

To increase state benefits is an unrealistic mechanism for reducing rural poverty. The state is unable to meet its commitments to the current minimal levels of social protection for pensioners and invalids.

Official rural unemployment figures mask real levels of un-employment and under-employment, evinced by the inability of most enterprises to pay wages in cash, in time or even to pay wages at all.

Research conducted in 1998 indicated that the majority of the rural population spends on average 38 hrivinas per person per week on their individual subsidiary plots in summer and 21 hrivinas. per person per week on subsidiary plots in winter³. These figures support the thesis that although most of the rural population is officially employed by farms and other rural enterprises, the majority do not actually spend any time at their official place of employment, nor do they receive any real wages.

The draconian tax regime contributes to the overall economic crisis and encourages widespread tax evasion, further decreasing budget funds which might be used for poverty alleviation.

4.2.1.2 Rural Employment Opportunities

Employment is the most effective and sustainable mechanism for reducing rural poverty.

² Information derived from baseline and impact assessment surveys of household income and expenditure conducted for UK Department for International Development supported projects in Odessa oblast, Ukraine in 1997 and 2000

³ Information derived from 'Individual Subsidiary Plots: the Micro-economics of Subsistence in Ukraine' research paper for USAID funded Centre for Privatization and Economic Reform in Agriculture, Kiev Ukraine 1999.

Rural economic development is impeded by a wide range of factors including interference in the market for agricultural produce, the punitive tax regime, lack of credit and a generally hostile bureaucracy. In addition, rural enterprises are expected to carry the burden of their dependent communities in terms of official employment and support of rural infrastructure, social services and facilities.

Of these, the most serious impediment to rural development is the lack of access to rationally distributed credit both for working capital and investment capital. Banks do not lend to agricultural enterprises for a number of reasons including enterprise indebtedness (resulting from poor management in difficult circumstances in the past), inability of enterprises to fulfil contracts as agreed (often due to interference by the state in management decision making) and lack of collateral. The development of rational property relations, especially in land, would go some way towards relieving the problem of access to credit and investment. If land ownership were clarified and if land could be used as collateral, this would contribute significantly to enterprises' ability to create sustainable employment.

4.2.1.3 Land Rental

Landowning is a hugely under-utilised mechanism for reducing rural poverty despite the fact that in those states which have distributed land (as opposed to restituting it), a large proportion of the rural population have become landowners in addition to occupying a household plot.

The law governing the disposition of land rights and the powers of landowners are incomprehensible to most of the rural population. The opacity and complexity of the law is compounded by the deep-seated culture of communal ownership

Poor Information

The new landowners rarely have access to adequate information as to the rights, responsibilities, opportunities and constraints associated with ownership of land shares. Poor legislation combines with conservative political interests and with the current under-valuation of land to create the general consensus that ownership of land shares is worthless. This attitude tends to be encouraged by those with longer term interests in the rural economy, specifically current farm directors and leading bureaucrats in Departments of Agriculture.

Right to Receive a Rent

The least contested of rights associated with land share ownership is the right to 'receive an income' from use of the land. However the right to an income from land share ownership, tends to depend on the land shareowner also committing labour to the occupying farm enterprise. Thus an employee of a large enterprise which uses the land associated with his land share certificate has a right to receive an income from the land. This income is rarely distinguishable from his wages - usually low, usually paid annually in kind.

Should the land share owner wish to withdraw his land from collective use, he has the right to do so and to establish a Private Peasant Farm. Few have chosen to do so as the risks associated with agriculture outweigh the benefits for the majority of a risk adverse population.

The right to receive a rental income for use of one's land share if not an employee, is more contested. Although technically legal, very few enterprises pay the land share owners for the use of their land, with the exception of enterprises participating in various donor assisted programmes.

Cases of spontaneous withdrawal of land from inefficient former state-owned enterprises with subsequent leasing to more successful land users (usual Private Peasant Farmers) are few but increasing.

The sale of land shares is highly contested, and indeed in both Russia and Ukraine the state established a moratorium on the sale of land for periods of up to six years after privatisation. The overt purpose of these moratoria was to avoid the sale of land by the poor and ignorant for the proverbial bottle of vodka. It is however clear that the state is instinctively opposed to land sales and especially to any subsequent 'speculation' in land.

Former Soviet states are often less 'former Soviet' than is often imagined. The resistance to the commodification of land is further associated with the impossibility of using land shares as collateral. There are powerful political interests which maintain the status quo. History and culture also contribute to the resistance to commodification of land.

Rental Values

The under-exploitation of land as a capital asset is also a result of prevailing economic conditions. Throughout the former Soviet Union, agriculture is in serious crisis, with most large enterprises suffering from the overall economic crisis, draconian tax regimes, interference in management, and on-going responsibility for increasingly dependent rural populations.

The industry as a whole is in general loss-making, reducing demand for land to the very few examples of successful private farming. This lack of demand for land (either for lease or for sale) reduces the value of land, and consequently its worth as a revenue generating asset.

5. The Government's Perspective

5.1 Governments Limited Role

It is necessary at the outset to appreciate that governments do not make markets in land and property. Markets are live and spontaneous things with their own dynamic outside government control. There are of course a number of important things that governments must do to provide the right conditions in which transparent property markets may flourish. More importantly there are many actions of government that can be extremely damaging to the development and transparency of markets. As has been shown so graphically by De Soto⁴, if property markets operate outside the legal system there are enormous adverse consequences for the national economy. It is therefore important that governments provide the right conditions to encourage property markets and refrain from taking actions that will either inhibit the property market or drive it outside legal control. There are things that government must do; there are things that governments may do; most importantly there are things that government must not do.

5.2 Government's Mandatory Functions

Listed below are six functions that governments must take because they are necessary to facilitate the property market.

- Providing a sound **legal basis** for the ownership and occupation of property i.e. the *basic property law of the country*;
- Providing an accessible means of **dispute resolution** i.e. *courts and tribunals* ;
- Providing institutions to **facilitate** and **guarantee transfers** of interests in property; i.e. *land registries*;
- **Controlling** and regulating the development and **usage** of land and property for the public good i.e. *physical planning and building regulations*;
- Managing the lands and property held in the **public estate** for public purposes (*operational land*);
- Instituting and operating the **tax system**.

This bare list does not indicate how these activities should be performed or suggest the skills required by the public sector for the purpose. It says nothing of quality or cost or expedition. It is intended to show that the essential functions of the public sector are comparatively limited.

5.3 Optional extras

There are other property related functions that governments may undertake for political or social reasons. Although these actions can impinge upon the operation of the property market this is not the purpose. The most common activity is the provision land and property for the occupation of non- government persons and companies (the non-operational sector of the public estate). There can not be a country in the world where this does not occur. Governments may well consider that they do have a role in instituting standards of accounting and valuation that are compatible with international standards and regulating the professions serving the property market. All these functions affect the property market but are not essential to it.

Another action often undertaken by governments in countries in transition include the collection of voluminous amounts of information and the maintenance of various registers. These may have been necessary in a command economy but often now serve no clear

⁴ The mystery of capital; DeSoto; Bantam Press 2000.

purpose. Such purposes that are often put forward as justification for the continuing costly maintenance of these system would not stand up to a cost benefit analysis.

5.4 Things That The Public Sector Should Not Do

The negative list of functions that the public sector must not undertake is much more complex to define in absolute terms. There are specific actions in which it is unwise for the public sector to be involved and yet there may be exceptions. It is for instance usually inadvisable for the public sector to be involved in any speculative venture. Land and property development is for example a risk prone activity and one for which public servants do not possess the necessary skills. Yet even in this respect the public sector may legitimately initiate for the creation of new towns and urban regeneration schemes and thereby become a partner in property development. Then there are activities where the benefits are of inverse proportion to the scale with which the public sector is involved. This applies to the non operational land part of the public sector estate referred to above. The larger the size of the non operational land holdings the less effective the public sector is likely to be in achieving its aims and the greater the effect on the property market.

5.5 Unintended Consequences

More important than the specific functions is the manner in which the government carries them out. Even in respect of the essential functions it is possible to do things which have adverse effects on the market and often cause the exact opposite outcome of that intended. There is as much scope for harm as there is good. There are unfortunately examples from all over the world that illustrate the effect on the property markets, and consequently on the larger economy, of essential functions being carried out in an improper way and consequently where delay, cost complexity and scope for corruption form a barrier to legality.

<i>Primary Activity</i>	<i>Examples Of Potential For Damage To Real Estate Market</i>
1. The legal basis for ownership and occupation of property	Complicated property laws that are not understood by the average person act as a barrier to access to land, particularly for the poor.
2. Providing an accessible means of dispute resolution	If access to the courts is time consuming and expensive the effect will be that only the rich and powerful can use the system. The accessibility and cheapness of dispute resolution is particularly important in relation to property. Many disputes relating to land concern comparatively simple matters of fact which can be best settled with immediate and local knowledge.
3. Providing institutions to facilitate and guarantee transfers of interests in property	Registration processes are often too slow, inaccessible or expensive for ready public use. Property may then be held outside the legal system with adverse consequences for the property market and the general economy.
4. Control and regulate the development and usage of land and property for the public good	The system of physical planning and building controls to protect its citizens and the environment, which every country has, always contains potential for excessive bureaucratic delays and corruption. Such dangers are naturally present in countries in transition where the systems are being adapted, often very slowly, from those used to command the economy and the effects can be very severe. Property owners tend to carry out the changes anyway without permission outside the legal system.
5. Managing the lands and property held in the public sector estate for public purposes (operational land)	The public sector is always the biggest single owner and occupier of land and property and the manner in which this large asset is managed will effect the general property market. Inefficient and unaccountable management of the operational sector of the public sector estate will result in inefficient use and some times complete disuse.
6. Taxation	The tax system impinges on property in many ways and effects can occasionally facilitate the market. More commonly the effects are and should be neutral. Harm can result for instance taxes on the transfer of property (sometimes Stamp Duty) are very cheap to administer with a very low cost yield ratio. It becomes a tempting political target from which it appears that money can be raised with little electoral risk. There are distorting effects

on the property market . If the tax is above a minimal level there is world wide evidence that it encourages the transfer of property outside the registration system and sometimes completely outside the legal system. Even where property transfers are registered there can be a strong discouragement to stating the true consideration.

It is relatively simple to judge empirically the efficacy of the governments land administration systems through the functioning of the markets. The greater the proportion of the activities outside the legal system the larger the problem. (Such extra legal activities include for instance squatters, unregistered property transactions and unauthorised classes of property use.) Owners and occupiers do not chose to place themselves outside the legal system because there are considerable disadvantages to them in doing so. They are forced out by circumstances.

5.6 Foundations for Improvement

The required reforms of the government's role are profound and complex because they necessitate a change of culture on the part of government and administrators. Improvement requires governments to relinquish the concept of excessive control and ministries may have to give up entire functions or release them to another department. Opportunities for graft and corruption must be diminished. Attention must be given to the cost and efficiency of the functions performed. Complete changes in working practices and possible job losses may be required. In short the necessary improvements will threaten many vested interests at many levels. It is hardly surprising that there are many examples in the world of land administration systems that hinder the function of the property markets. Improvement is possible but it would be unwise to underestimate the size of the task.

5.7 Four Principles

There are never-the-less specific actions that can be taken but more importantly there needs to a adoption of a new philosophy incorporating the following four principles.

- **Minimum necessary function.**

Government functions should be minimised. The test should be not whether a function is desirable but whether the function is absolutely necessary, to protect the individual owner of an interest in property or the larger public interest.

The essential question. Is it necessary?

- **Costs and benefits.**

The true costs of performing every function should be known and put in the public domain and be commensurate with the benefits. Where possible the costs should be recovered from the users of the system in the form of user charges and where this is so the costs must be fair, reasonable and affordable. In all cases whoever pays the full costs of running and maintaining any function must be affordable because otherwise it is not financially sustainable.

The essential question. How much does it cost?

- **Public service**

The public service needs to change so that their actions are ordered by a sense of service to the public and not one of control.

The essential question. Who benefits?

- **Feasibility**

The design of all land administration functions should be related to the constraints of cost, affordability and professional skills.

The essential question. Can it be done?

6. External Assistance for Real Estate Market Development

Most of the transitional economies have received some form of aid or soft loans for at least one aspect of the development of their real estate markets since the transition process began. The multi-lateral and bi-lateral development aid agencies and development banks, directly or indirectly, have fuelled much of the research that relates wholly or partly to land issues. Their analyses have usually been a prelude to their own projects designed then to foster some aspect of economic development. Much of the work has been country specific, though some has had a wider focus.

The work that has been supported by the agencies has been undertaken for the very best of motives and out of a genuine desire to aid the transitional economies in the difficult process of transformation. The work has attracted many dedicated and highly competent individuals, both from within the transitional economies themselves and from outside the region, most of whom have given considerable service to the projects on which they have worked. All this dedicated effort notwithstanding, there are criticisms that can be made of the approach that have tended to be taken and the results of this effort.

Almost all the research and development work that has been funded by agencies and development banks has been undertaken by and/or written up by foreigners or teams led by foreigners. The purpose of research has usually been to allow the commissioning institution to understand the situation and provide a platform for intervention.

The intention has usually been to progress from the fact finding and policy recommendations of the reports towards implementation, though the reality can be that implementation is much delayed or never takes place. Rarely does the research reveal new truths to informed natives, although the best reports have allowed local experts to see their countries' own problems in context and, perhaps, provide new insights into the causes of problems and how they can best be tackled.

The quality of some of the work has suffered from direction by or use of experts without grass root experience of land administration or who lack familiarity with the particular conditions in the country in which they are working. Land professionals have not always been blameless, sometimes pursuing narrow professional aims without regard for, or perhaps knowledge of, the wider perspective.

Too often, the reports and analyses are regarded locally as merely a necessary part of the process of obtaining funding for computers and other equipment. In some cases, this appears to have been a key objective of the project. Technical assistance and training is not always rated very highly by either the local client or the funding body and is often the part of the project that is scrapped in order to allow budgetary targets to be met. The importance of software, like technical assistance and training, to enable hardware to be used more effectively is not always appreciated.

It helps when selecting and using these works to appreciate the context in which they were written. The land surveying profession has existed continuously in all transition countries. Some of their professionals are of international calibre and standing. Multi-lateral and bi-lateral agencies cannot make progress without local counterparts. The local land surveying professionals are well aware of technical progress in the world and naturally do not wish to be left behind. They provide a ready avenue for co-operation, even if accord on institutional issues is less easy to achieve than those relating to technical matters.

With other professions, whose expertise is important to the functioning of land markets, it has been, and still is, less easy to find counterparts with the necessary knowledge or practical experience. There are lawyers, albeit with little experience of the real operation of markets, particularly real estate investment markets. There were at the beginning of the period no valuers to act as counterparts from whom the agencies could have developed an understanding of local land markets and land management practices. It is universally difficult, for those not directly involved, to understand local property markets, especially when those markets are thin and only partially within the formal sector.

Some sectors and some issues relating to land have received considerable attention, whilst others have received little or been ignored altogether. Land registration has been widely identified as an important foundation of properly functioning property market and, consequently, has received considerable attention. Most of the transitional economies have had a project in this area. Russia, for instance, has received advice on the subject from no fewer than 19 different countries! Yet even within an area such as land registration, there are aspects which have not been very thoroughly explored, for example, how it can be funded through cost recovery and how multiplicity of registers for different purposes can be avoided.

Many of the projects sponsored by development aid agencies have originated within their programmes for agriculture. Many of the development projects have tended to concentrate on the disposition of rights. USAID supported projects have intervened to distribute title and its associated paperwork. These projects have attempted to delineate land parcels, or even demarcate them, in order to link land with landowner as visibly as possible so as to encourage the sense and responsibility of ownership.

The Department for International Development has supported projects that have concentrated on distributing land in undivided shares, encouraging the development of contractual relations (leases) between land share owners and land users. This approach differentiates ownership and occupation, with the objective of allowing agricultural holdings to restructure in response to economic signals, without necessarily disturbing the underlying pattern of land ownership. Yet experience suggests that agricultural land is the least active sector of a land market. Aspects of urban land administration real estate markets have not been similarly addressed.

Funding tends to be given for a limited project in isolation. The funding is for a specific period of time so that there is pressure to produce results during this period. The wider context of the project can be lost from sight as specific performance targets have to be achieved. In reality, the objectives of projects may take much longer to achieve than is possible within the short time frame of funded projects. For example, expenditure on six man months of a consultant's time over a two-year period may achieve better results than a six month stint in the country as it allows a longer period for the local client and counterparts to come to terms with new concepts and approaches.

Many consultants have had the experience of the client coming to understand the technicalities and the significance of a project only as the project was coming to an end rather than when this would have contributed significantly towards achieving the desired outcomes. The funding bodies tend to award contracts for projects rather than to support programmes of related projects with continuity between those undertaking them. The project by project approach probably secures the lowest contract prices from project contractors, but may not be the most cost-effective strategy.

Recently there has been appreciation that land administration should be addressed broadly and that more than analysis is required. Although there are some signs that the impact of real estate on the development of the transitional economies is receiving some attention⁵ there is no sign of real estate specialists being asked to contribute to policy development in areas where real estate does have an impact upon the wider economy, such as bankruptcy law or the prudential regulation of banking.

There is little guidance to help non-specialists with responsibility for policy, such as politicians and project managers in the multi-lateral and bi-lateral agencies, understand the scope of land administration, the interconnections between the parts, and importantly how land administration affects the property market and the larger economy. Consequently important issues are not addressed or when they are addressed it is not with the same authority.

⁵ Baldwin & Dale 2000, United National Economic Commission for Europe

Few development projects in the last five years have tackled the central legislative and policy issues required to encourage the development of sustainable land markets. Donors have, perhaps, concluded that there is little political will for the development of vibrant real estate markets, particularly since there will be casualties, for example, from amongst those who have received property through privatisation and restitution and exploitation of discontent over visible inequalities and deterioration in public services has provided fertile ground for those opposed to transitional on ideological grounds. Cynics may argue that the chaos which currently attends the sale and purchase of immovable property may be preferable to some of those with political influence as it provides increased opportunity for shady dealings. Clarification of values, contracts, and exchanges would reduce these opportunities.

7. Initiatives and Interventions

7.1 Introduction

The initiatives and prescriptions set out in this section are neither complete nor universal but they are based on the tried and tested practices which have grown up in market economies. The needs of each country have to be addressed in a pragmatic way taking into account the national economic, fiscal and social aims. In the space available it is not possible to deal comprehensively with the issues raised. The initiatives listed are therefore intended to form a checklist.

7.2 Land Administration: understanding the larger picture.

Several of those commenting on the development of land markets in countries in transition have noted the almost universal lack of any direction or overall policy for land policy and land administration. Each department has tended to act independently. Some of the disappointing outcomes of previous technical components result from too narrow a technical focus and insufficient regard to connections with wider processes. For instance, improvements in land registration have often not led as expected to mortgage finance becoming available because there are other equally important limiting factors which remain unaddressed. There is a wider appreciation that the property market is facilitated, or more likely constrained, by a large number of factors and actions. It is important to understand the variety and complexity of the many aspects of land administration that impinge on the markets. This paper therefore strongly endorses the need for a universal view leading on to the formation of a national policy.

This paper does not seek to write the terms of reference for such work but it would generally be a three stage process: **identification, quantification and policy formulation**. The first stage identifies the many aspects of land administration at all levels of government, the quasi government sector and the private sector. This is a complex and time consuming task because relevant functions are spread throughout many different departments even within government. The workings of the private sector are even more difficult to identify. The main purpose is to understand the effect the many different elements have on the market. The next stage requires the quantification of the functions and then calculation of costs. There is often remarkably little information on numbers and costs. This is so even in relation to registration which has received attention. Virtually no papers in Commission 7 sessions at the four yearly FIG Congresses either in Melbourne in 1994 or in Brighton in 1998 looked objectively at the costs and benefits of the registration.⁶ Attempts are not generally made in World Bank or other project appraisals to undertake systematic cost-benefit analysis of cadastral projects, although there are examples of *a priori* assessments for appraisal purposes⁷ and *ex post facto* assessments of impact.⁸

This lack of quantification does not assist decision-makers in the many countries that are currently considering establishing, upgrading, or redesigning cadastres. This need not be so. Using international comparative figures it is possible to make estimates of many of the key numbers. Actual or probable costs can be calculated. For instance it is possible within certain parameters to predict the probable number of registerable transactions in any particular areas. It is possible to calculate using international comparisons the reasonable costs of running a registration system. It is possible to make an estimate of what it really

⁶ Commission 7 of the International Federation of Surveyors (FIG) is the technical commission responsible for Cadastre and Land Management. Since 1998 its work plan has included a working group looking at ways of quantifying the costs and benefits of the cadastre and land registration.

⁷ SAR Republic of Estonia, Agriculture Project, February 6 1996. Annex 3: Financial and Economic Analysis. The analysis looks at the benefits of registration in the cadastre and title book as facilitating access to long term credit using land as mortgageable collateral, and increasing the movement of land by market processes to efficient producers. The analysis does not look at costs and benefits of alternative approaches.

⁸ Land Registration and Titling from an Economist's Perspective: a Case Study of Rural Thailand, Feder, G, 1987, Survey Review, 29, 226 reviewed the impact of the World Bank funded Thailand Land Titling Project.

costs property owners when they transfer property (and how long it takes). Similar considerations apply to other aspects of land administration. It is possible to calculate the total cost of the different aspects of land administration. It is also possible to predict the national required quantum of any particular professional skills.

Without quantitative information and costings it is impossible to go on to the third stage which needs to take into account costs and benefits. Policy can not be made in a vacuum. One of the important issues that a land policy should address is the apportionment of ministerial responsibilities and the functional connections between departments because the existing arrangements are a common impediment to the proper operation of property markets.

7.2.1 Outcomes of a land policy review

A national land policy will identify initiatives that need to be taken to facilitate the market and permit judgements to be taken on their relative importance. It is possible to put forward areas of universal concern which do affect the property markets some of which have little or no attention.

7.3 Legal Framework for Real Estate

7.3.1 Foundations of land ownership

In every country there have been efforts to change the law to accommodate private property. It is recognised that this is the essential foundation without which the markets cannot flourish. It is now possible to review the workings of the new laws to see how they actually affect the operation of the land markets. In some cases these foundations are not as secure as intended and need reconsideration.

7.3.2 Foreign Ownership

There is one particularly important limitation does constrain inward investment. In many of the countries under consideration foreign ownership of land and property is either not permitted or if so only in limited circumstances. The political difficulties of change are not underestimated but the economic consequences of not doing so are equally great.

7.3.3 Leasehold and other partial interests

Leasing and renting of public and private land is always a large and important part of any healthy property market. It is so much part of the property and financial scene in the developed world that it might seem unnecessary to justify it, but the concept of leasehold is not well understood in many countries in transition. There is still an overhang of an attitude that recalls situations where the landlord tenant system has been used to oppress the poor and underprivileged. But leasing will always happen in every country and this is already the case in countries in transition usually in an informal and unstructured way.

There are very many sound economic reasons why it may be convenient for the ownership of property to be separate from the occupation and use of it. One particular consequence is that a business or farming tenant needs considerably less capital to start and run a business thereby increasing the access to the first rung of the ladder to those with limited capital. Another compelling reason for an efficient leasing system in many countries in transition is that this is the only speedy method by which much of the restituted land may be put into economically beneficial use. In rural areas much land has been restored in ownership patterns unsuitable to modern agriculture and to people without the means or desire to farm the land.

The first requirement is that leasehold concept should be clear and enforceable in law whether or not leasehold constitutes an interest in land. There are then a number of steps that can be taken to facilitate and order the leasehold market but there is a careful balance to struck. The aim is to provide tenants with a degree of certainty while not threatening the quality of the landowners investment. It has been clearly demonstrated in many countries over the last 85 years that strict rent control and security of tenure have many adverse

consequences. Within that balance the law can facilitate leasing arrangements by such matters as rights for tenants to claim compensation for permanent valuable improvements at the end of the tenancy, promulgating model repairing liabilities and the renewal of the lease at the end of the contractual term.⁹

7.3.4 Fair compensation and compulsory purchase

It may seem perverse in situations where the overwhelming emphasis is on the disposal by the public sector of land and property to give time and consideration to the rules under which the public sector may acquire property; but such rules are an important guarantee of property rights. National constitutions frequently enshrine the right to compensation when property is acquired compulsorily. Fair compensation depends on a mixture of the correct legal framework, accessible independent appeal mechanisms and the professional competence of those involved. There are principles that are applicable world wide in all situations.¹⁰

Application of a fair system in the countries concerned depends on the introduction of a fair compensation code that has regard to the *de facto* situation rather than allowing claims on the often uncertain strict *de jure* rights. It is also essential that there is a system of easily accessible tribunals or courts of first instance because otherwise all the advantages lie with the acquiring authorities.

7.3.5 Specialist land tribunals

Although land and property gives rise to its share of legal disputes, many more are factual concerning such matters as boundaries, valuations, or building costs. Many countries have found it convenient to set up specialist tribunals with the power and expertise to determine such disputes fast and cheaply. The operation of the market is thereby indirectly facilitated. The areas that benefit from such arrangements include matters arising from the operation of the leasehold system, compensation on compulsory purchase, valuation matters incidental to taxation, boundary disputes and matters relating to building and construction work.

7.4 Administrative actions

7.4.1 Registration

Many consider that the issue of property registration has received quite enough attention. In almost every country the multi national and bilateral agencies have focused efforts on registration. It is not suggested that this issue is not important as clearly it is. However foreign assistance is not invariably needed. There may well be other areas to which assistance can be more productively addressed.

7.4.2 Management of the public sector estate: operational government land

Governments at all levels and parastatals (such as railways) are major users and owners of land and buildings. The public sector needs land and property to carry out its legitimate functions and is always the biggest single landowner and thus controlling a major economic asset. The public sector world-wide tends to be a wasteful and inefficient owner and user of land and property. The manner in which it manages that asset has a major effect on the property markets and the entire economy merely by its sheer size. In addition the public sector often owns the central land buildings in a town or city which set the character of the location.

There is now experience gained over the last two decades from a few countries that demonstrates that the management of the public sector can be made more efficient. The aim is to make the public sector owners of land and property accountable and aware of the character and extent of their holdings by means of a series of unexciting actions which include better land records, regular valuations, management information systems, and the

⁹ For more detailed coverage see 'Good practice guidelines for agricultural leasing arrangements' FAO 1999

¹⁰ There is unfortunately no clear published guidance in which these principles are expounded.

proper treatment of land and property in the accounts.¹¹ The immediate incentive is that large amounts of property surplus to the requirements of the department become available for disposal thus generating funds for the public sector.

7.4.3 Management of the public sector leasehold estate

For a variety of reasons governments own land and property which is made available for the occupation of others. Even in those countries which have been in forefront of the reform of the public service (New Zealand, Britain, Australia and USA) and where the role of government has been drastically reduced the governments leasehold estate remains substantial. Management of property involves much more than the mere collection of rents and the management affects the market in a number of ways. Frequently a significant proportion of all occupiers will derive title from the public sector. These occupiers will be affected by public policy, as expressed through the terms of the lease and its actual implementation, in relation to sales of these leasehold interests, subleasing, inheritance, maintenance and control of use.

The public purse is also affected by the management of the public sector estate. For various reasons the rental income seldom adds significantly to public revenues. Returns on capital are often very small.

The first priority is to question why the public sector is acting as a landowner. There may well be legitimate social reasons. It may be in the public interest for the public sector to take this role but if so it is well to know the actual cost of doing so. Thus the second priority is to calculate the return on capital. The technical aspects of sound property management are well known but they can be properly applied only in response to clear policy objectives. The third priority is then to set clear policy objectives.

7.4.4 Planning and control

This is a difficult subject that does need to be further addressed. The problem is that in all countries in transition most of the systems of planning and control need to be demolished. However as remarked above, there systems of physical planning control and building control in every developed country. Furthermore the tendency is for there to be greater control in the developed world, particularly to protect the environment. The changes required need to strike the balance between protection of the environment and society and the freedom of the market which required the minimisation of bureaucratic control.

7.5 Financial and Banking systems

7.5.1 Taxation

It is widely recognised that the incidence of taxation on land and property can have profoundly distorting effects on property markets. Many taxes impinge on land and property and the design of each has the potential to affect the market in different unintended and undesirable ways. But there may also be ways in which the tax system encourages beneficial consequences. The table below cannot be comprehensive or applicable in all circumstances but illustrates the complexity and scope of the issues.

Taxes on Land and Property	Consequences for Property Markets
Property taxes using market values as a basis of assessment	A system that uses up to date market values (capital or rental) as a basis does not distort the market provided the categories of exemption are those conventionally used. It will tend to reduce the market value and may thus make property more accessible.

¹¹ For this to be effective it is of course necessary to have properly constituted accounts which include balance sheets. This is not always the case.

Capital Gains Taxes	The incidence of Capital Gains Tax and its particular design is likely to be a factor considered by those investing in property. In most countries dwelling houses used as sole residences are exempt.
Transfer taxes or Stamp Duties	If the total cost, including tax, of officially transferring property becomes too great the market will not use the official systems thus leading to a less secure and less transparent market.
Capital or Wealth Taxes	If applied evenly and with few exemptions the distortionary effects are few. Such taxes can reduce the use of land and property as a vehicle for the investment of black economy money.
Income tax	The structure of the income tax system does affect the property market in a number of ways. It is not only the legal provisions that are relevant but also how the tax is actually administered and collected. There are two structural aspects are worth noting. First the treatment of capital allowances, or how capital investments, in property may be written off against income, will affect the decisions of investors. Second special arrangements are often made to assist farmers but unintended effects may occur, the concessions too often resulting in increasing land prices and impeding access to land.
Taxes on inheritance	Such a tax can have a beneficial effect. The redistributive nature of the tax can cause more land to come on the market consequently facilitating access to land and property.
Taxes on betterment	Unlikely to be immediately applicable in the countries under consideration where the capacity to administer such a tax does not yet exist but the potential for improving public revenues should not be overlooked.
Value added taxes and the incidence on property sales and building costs	The design of the tax, the categories of exemptions and zero rating and the level of tax payable are all factors relevant to property as an investment and the property market.

Clearly any review of the effect of taxes on property as an investment or how tax affects access to land and property must have regard to many other wider factors: the wider economy, the existing pattern of taxation and the incidence of taxation on investments other than land and property. Taxation is of course primarily about raising revenue and is therefore an issue that goes well beyond the property market and land administration.

The first action is to review the incidence of taxation on land and property and identify any distortions caused by taxation. Remedies can only be devised in the light of the larger economy, the need to raise revenue, the national capacity to implement new taxes and political realities.

7.5.2 Public private partnerships

There are a number of reasons for entering into ‘public private partnerships’ (hereafter PPPs which term is used here to encompass all methods through which the public sector uses and combines with the private sector.). The demand for improvements to the infrastructure will continue to increase and the economies of the countries in transition improve. The public sectors ability to respond to this demand is seriously curtailed. Public sector revenues are likely to be fully extended maintaining the existing, often neglected, infrastructure. There is little scope for raising public sector capital. Many countries are already turning to PPPs to fill this gap. Furthermore in some but not all areas there is a skills shortage within the public sector. There is also a perception (which is not always correct) that the private sector can do things more efficiently. It is not uncommon for there

to be a property element in an infrastructure PPP with the capital cost of the infrastructure project being raised on the increased value of publicly owned property. Similarly urban development corporations and new town corporations use the powers of the public sector in conjunction with private sector expertise and capital.

7.6 Improving professional skills

7.6.1 Assessing the professional skills and correcting deficits

It is possible to calculate the broad national needs for any of the professions concerned with land administration of all types. These needs can then be compared with skills presently available. Plans can then be made to fill any gaps and provide for professional training and education. There are of course strong professional skills already in place in some areas but as has been shown above the weakness is generally in the valuation and property management skills.

7.6.2 Adoption of international standards of asset valuation

There are well established international standards for the valuation of assets which have been determined and agreed over many years. The guidelines do not prescribe how the asset is to be valued but they do lay down the factors that should be taken into account. There many advantages if the standards are national used not least for inward investment.¹² Many of the countries with which this paper is concerned have either adopted the standards or are at least aware of them.

7.7 Cultural and Social

7.7.1 Structures for the management and maintenance of common property

.Many assets may be held or used in common for the benefit of defined groups of people. These include flood protection systems, land drainage systems, irrigation systems, common grazing areas and the structure and common parts of apartment blocks. For economic, social and environmental reasons it is essential that these assets are managed and maintained efficiently. In most of the relevant countries the ability of local government to manage such facilities is either limited or non existent and responsibility has to be devolved. It may be desirable for the beneficiaries to manage the systems for themselves. The beneficiaries have the incentive to maintain the assets to the standards that they require and there is plenty of experience gained over centuries throughout the world that a shows that a variety of bodies can operate successfully, sustainably and financially independent to maintain common assets of many types. This should not imply that the process is always easy as there are problems stemming from the conflicting interests of the beneficiaries. Raising the necessary revenue is unlikely to be painless. Inevitably some bodies will be more successful than others. Never the less such single function authorities can and do work and in many circumstances it is the only available option.

There must be in place the legal framework that allows such bodies to raise the necessary revenue and execute their functions. Many such bodies would benefit from technical advice and support.

7.7.2 Mechanisms for the consolidation of fragmented agricultural holdings

In some countries, such as those that formed part of the former Yugoslavia, the private agricultural holdings are very fragmented. In other cases the pattern of restitution has reinstated the former fragmented pattern sometimes without regard for the pattern of infrastructure constructed in the socialist era. Although there is surprisingly little hard

¹² Some of the advantages are lost if, as in Russia, accounts are not prepared in accordance with international accounting standards.

evidence of reduced productivity due to fragmentation it is at the least inconvenient but more importantly an impediment to future agricultural modernisation. The case for consolidation of fragmented holdings is widely understood and accepted but it is more difficult to bring about. Some piece meal consolidation will occur naturally through the actions of the market: buying, selling and renting. It is often desirable in certain locations that consolidation schemes are officially led but shortage of funds and skills will limit this possibility. There should therefore be mechanisms that allow owners themselves to undertake local consolidation schemes where this is the wish of the majority.¹³ The process is neither simple nor cost free but fortunately it is possible to draw on the experience of many countries over many centuries.¹⁴ The legal basis for consolidation should be in place. Some support and guidance should be available to facilitate local initiatives. This subject could be more widely considered for assistance from bi-lateral and multi-lateral agencies.

¹³ Experience from other countries would suggest that a scheme should only go ahead if more than 75% or 80% of the owners are in favour in which case they have the power to force the remainder to comply.

¹⁴ Unfortunately there is little currently in print. A sound basic guide to the principles is contained in the now out of print *'The consolidation of fragmented agricultural holdings'* by Sir Bernard Binns; FAO 1950

Appendix A: Summary

Appendix B: Glossary of terms and acronyms

Terms

Acronyms

BTI	Bureau of Technical Inventory
FDI	Foreign Direct Investment
FSU	Former Soviet Union
CEEC	Central and Eastern European Countries

Appendix C: References and background materials

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Appendix D: The Authors

Paul Munro-Faure is a qualified Chartered Surveyor of 16 years' standing. He has skills and experience gained at the practical level as a practising Chartered Surveyor and an academic lecturer and researcher. He has qualifications in land economy, rural planning and public sector land management. He has worked in the developed market economies since 1981, having practised in and researched specific sectors of the property markets of Europe (UK, Netherlands, Denmark), North America (USA, Canada), and the Pacific Rim (New Zealand, Australia, Singapore, Hong Kong, Japan). He has had continuous experience since 1991 of real estate markets and their development in Central and Eastern Europe (Poland, Lithuania, Latvia, Czech Republic, Slovakia, Romania, Bulgaria, Slovenia, Macedonia) and in the countries of the Former Soviet Union (Russia, Ukraine, Kazakhstan, Kyrgyzstan). He chairs the International Federation of Surveyors' Commission on Cadastre and Land Management until 2002, a forum for the exchange of the latest developments in land registration and cadastral practice drawing on the practical experience of the Federation's 80 member countries.

Simon Keith is a qualified Chartered Surveyor with 40 years professional experience in the public and private sectors in the UK and internationally as an international civil servant and consultant in more than 20 countries. After seven years in private practice he served 21 years in the UK Valuation Office latterly as Assistant Chief Valuer. From 1990 to 1995 he was Chief Executive of the Commonwealth Association of Surveying and Land Economy. He was then Senior Officer in the Land Tenure Service of the Food & Agriculture Organization of the UN from 1996 to 1999.

ⁱ As of 1997, private land ownership was prohibited in 10 ethnic republics of the Russian Federation, and so withdrawal from collectives there only grants use, not ownership, rights in the separated land plots.

Real estate market expected to \$8,662.2 billion by 2026, growing at a CAGR of 2.8%. LAMEA region market grows at a highest rate during the forecast period. Economic growth is one of the major drivers. At the same time, improving economies in developing countries such as India, Indonesia, and others have resulted in large-scale foreign investments, a factor that subsequently boosts the demand for construction equipment in infrastructural projects across various sectors. For instance, in December 2019, India planned to invest \$1.39 trillion infrastructure development projects over the next five years. A transparent real estate market helps governments, public bodies and the private sector make smarter decisions about urban infrastructure, also enabling sound long-term urban planning. It plays a key role in attracting new investment to a city, in boosting business efficiency, and in raising employee wellbeing and productivity. Until recently, real estate markets were having trouble implementing new tech fast enough, but the current disruption may well force the pace of change. Have you read? How COVID-19 and the climate are transforming the real estate sector. Here's why real estate finance needs to build in sustainability. Would you buy some virtual real estate? The transition process All of the transition economies experienced pain during the transition. Output fell dramatically, inflation rose (hyperinflation in some of the countries) and unemployment levels rose. The next section will look more closely at a couple of countries; one that recovered from this mess quite well and one that did not. What went wrong? Some of you might remember the Berlin Wall falling down late in 1989, and along with it the concept of communism throughout Eastern Europe and the Soviet Union. The driving force for this change was people power. They were sick of being dictated to and wanted to have the chance to vote and have a say in the running of their country, like their democratic neighbours in the rest of Europe. Tales From the Real Side: The Implications of Urban Research for Real Estate Finance in Developing and Transition Economies. Stephen Malpezzi. The Real Economy and the Financial System. Every modern economy developed, developing, and in-transition has real assets and financial assets. What is the distinction, what are the differences and similarities, and how do the two sides of the economy fit together? This paper focuses on the relationships between the financial side and the real side of housing and real estate markets in developing and transition economies. Among the many reasons for such a focus are the following: Real estate is the great majority of the tangible capital stock, and housing is the great majority of real estate stock (see figure 1, from Ibbotson et al., 1985.) Keywords: Appraisal, Emerging markets, Real estate, Transition economies, Valuation. 2. Methodology of real estate valuation and practice of valuation communities in stable economies are well-known. An appearance in the end of last century the countries with developing, emerging market forces the creation of valuation communities in these countries, elaboration and use of new valuation methodology and practice. The goals of real estate valuation in transitional economies are essentially the same as in the developed ones: for the purposes of sale/purchase, occupation, investment, development, or redevelopment. It is rare to use valuation for the stock market or a. 3. flotation/merger.