Well-functioning Real Estate Markets – Criteria and Examples (9076)

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Motivation / Content

- Task force topic: Real estate market studies
  (describing, learning from each other, collect consistent experiences)

- Well-functioning markets? What is good, what is it not? (Highest prices?)
  For whom? which perspective? (public wealth?)

- Relevant indicators
  (affordable housing, reliable financing system, land consumption ?)

- Examples
  (ownership rate, overburdened households, planning gain)
Importance of real estate markets

- Real estate market is of enormous importance in economy and society
- Relevant for the stability of the financing system
- Big part of private wealth is held here (commercial and residential property)
- Requirement of a "place to live" (social part, neighborhood)
- Structure and design of towns and villages as cultural good (state/region)
- Ecological situation is more and more important for property markets

→ Well-functioning real estate market provides many advantages (private and public)
International Property Markets Scorecard methodology

Center for International Private Enterprise (CIPE)
International Real Property Foundation (IRPF)
Property Market Scorecard System (CIPE / IRPF):

Aim: objectively measuring the effectiveness of property markets

Focus: International property markets. Connection of property market and overall economic development
Property market risk assessment

3 levels of aggregation:

6 core elements (1. level)
3 lead indicators each (2. level)
3 measurable sub-indicators each (3. level)

Evaluation at 3. level (54 sub-indicators)
Core element Map of property rights
How to describe a country’s real estate market?

Which indicators are most important?

When is the market well-functioning - with accepted results? (satisfying, smoothly, ...)

When is a market not functioning – with unsatisfying results?
Result of a well-functioning real estate market system?

Result of a very strong property right?
No town – No village! Urban sprawl – inefficient land consumption
Structure to analyse market functioning at operative level

Legal Framework
Planning system, property rights, legal tools, taxes

Functioning
Stakeholders (priv. + publ.) adopting framework and market forces

Real Estate Market

Outcome
Market results
Real Estate Market

Aims
Policies of econ. and social development

Legal Framework
Planning system, property rights, legal tools, taxes

Functioning
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Outcome
Market results

FIG WORKING WEEK 2017
Surveying the world of tomorrow - Helsinki Finland 29 May - 2 June 2017
From digitalisation to augmented reality
Aims of land policies

… different aims in different parts of the world
… are necessary to evaluate if a market runs out of functioning

Some are common, some are special in some countries
• Provision of housing: ratio available flats to number of households
• Price level and change of prices: in relation to disposable income
• Tenure structure: increase ownership rate
• Reduce land consumption (to reuse brownfields before developing new greenfields)
• Sufficient supply, especially in affordable housing
Indicator: Ownership rate

- Important outcome of a country’s real estate market system!
- Evaluation?: High ownership rate indicates a well-functioning market system?
- Ownership rates are very different (40 – 95 % in OECD-countries)
### Policies to promote access to good-quality affordable housing in OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Owner-occupied dwellings</th>
<th>Market rented dwellings</th>
<th>Social rental dwellings</th>
<th>Other</th>
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</table>

Source: OECD Social, Employment and Migration Working Papers No. 176 – Policies to promote access to good-quality affordable housing in OECD countries
Indicator: Ownership rate

- Evaluation has to include market for rental dwellings.
- 2 sub-markets with different mechanisms are responsible (enough supply, meeting different demands)
- **Relevant indicator**: Ownership rate + rental dwellings (number of flats, rent level, ...)
- Example Germany: Land policy aim: raising ownership rate (no real success)
- Obstacles: high prices, financing system requires equity ratio, keep job mobility
Indicator: Land consumption rate

- In many countries important outcome of planning and real estate market system!
- Different aspects: Ecological: Protecting landscape against urban sprawl
  Economical: Using infrastructure efficiently, retaining agricultural land
- Evaluation: Land consumption rate under 30 ha per day (Germany)
  Preventing urban sprawl (Switzerland),
  Preventing reduction of agricultural land (China)
Example Switzerland:

- Permanent increase in population
- Scarceness of settlement areas (40% mountainous regions)
- → Prevalence of urban sprawl
- Action:
  → Changing the legal framework
  → Improve planning law
Revision of Swiss Town and Country Planning Act (RPG)  
(Revision 15. Juni 2012, Referendum 03. März 2013)

1. Local development plans (municipalities)
   • New settlement areas restricted to needs of next 15 years
   • If more, revision of plan within next 5 years
   • Re-zoning may cause compensation

2. Planning gain tax (20 % of gain in land value by new zoning)

3. Improving availability of land for housing (new tools)
   • Replotting procedure
   • Timeframe for house building

Other countries: Preventing urban sprawl not aim of land policy!
Indicator: Affordable housing

- **Enough supply** in affordable housing → big challenge for real estate market systems
- Separated market dominated by state institutions?
- Modern market economies are looking for public-private-partnership solutions
- Evaluation: **Overburdened households** and share of housing costs
House cost burden (EU 2010)

Fig. 4: Share of housing costs as a percentage of disposable income in the EU 27 by poverty status (2010)

Source: Pettini, A. 2012: CECODHAS Housing Europe: Housing Europe Review 2012, p. 3

“Population at risk of poverty”: Income below 60% of median national income
Figure 3.5: Housing cost overburden rate by poverty status in selected CEB member countries, 2013


Source: CEB graph based on EUROSTAT data updated on 12 February 2015, extracted on 16 February 2015 (iic_lvho07a).
Note: Data for “the former Yugoslav Republic of Macedonia” is for 2012.
Indicator: Planning gain tools

- Are limitations of planning gain necessary as correctives in the market system?

- They are used in many countries in very different models
  - New development areas (Switzerland)
  - Public monitoring of rents (Switzerland)
  - Betterment levy (UK)
  - Property tax (Taiwan)
  - Planning gain tools in administrative procedures (Germany: land reallocation, urban renewal)
  - PPP in urban development contracts (Germany)
Economic impact of the Munich Land Strategy

- **Property value**:
  - Value undeveloped land
  - Value developed land
  - Value developed land (net)

- **Gross value increase**:
  - Value undeveloped land: 30 Mio. Euro
  - Value developed land: 100 Mio. Euro
  - Value developed land (net): 2/3 of gross value increase

- **Net value increase**:
  - Affordable housing: 51 Mio. Euro
  - Provision of services: 12 Mio. Euro
  - Social infrastructure: 8 Mio. Euro
  - Land for public services: 5 Mio. Euro

- **Min. 1/3 of net value increase for developer**
Elements of a well-functioning real estate market

• Some key requirements / preconditions
  – Secured property rights
  – Sophisticated system of land use designation / planning system
  – Fair and efficient land and property tax system
  – Reliable property financing system

  – Monitoring systems of land and property market outcomes
  – Significance of property market in governance and administrative structures
  – Significance of education and professional skills in land and property aspects
Conclusions

• **Aims of land policy** are important for the "well-functioning" of a market and should be included in evaluations of REMS.
• Some aims are generally accepted, some are specific in different countries.
• Real estate market systems tend to **scarceness of supply** and hence **raising prices**.
• **Important indicators** for well-functioning markets are:
  – Supply and demand ratio: Enough and differentiated supply (incl. rental housing)
  – Income to property price-/ rent-ratio: Sustainable relation to income level
  – Overburdened households
  – Planning gain options
  – Efficient land use / land consumption
Thank you for your attention!

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