

FIG / World Bank Conference

Sustainable Real Estate Markets
Policy Framework and Necessary Reforms

19.– 20. Sept. 2016, Athens, Greece

Elements and Structure of Real Estate Market Studies (REMS)

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Indication for a well-functioning real estate market ?

The location with best traffic connection prevails at the market?



Outline

My topic: What is a well-functioning real estate market and how could we seize this ?

- REMS - Studies about a complicate conglomerate
- Main elements – idea of structuring the market structures
- Few examples
- Conclusions

REMS - Studies about a complicate conglomerate

- What is a REMS? Not: Property market reports
- Different approaches are in the focus of TF
 - UNECE/WPLA/REM: 10 principles and guidance for the development of a country's real estate sector
(Policy Framework for sustainable real estate markets, Genova 2010)
 - general and global economic perspective based on the experience of financial crisis
 - good examples of what the real estate market should provide (upgrading the housing stock, transition of green economies, guarantee mobility of people)

REMS - Studies about a complicate conglomerate

- What is a REMS? Not: Property market reports
- Different approaches are in the focus of TF
 - UNECE/WPLA/REM: 10 principles and guidance for the development of a country's real estate sector
(Policy Framework for sustainable real estate markets, Genova 2010)
 - International Property Markets Scorecard methodology
(International Property Markets Scorecard Guidebook, 7/2014)
 - measuring the effectiveness of property markets
 - understand interconnectedness of intern. property markets and critical connections to overall economic development



Core Elements of Property Markets

1. Property Rights
2. Access to Credit
3. Effective Governance
4. Rational Dispute Resolution
5. Financial Transparency
6. Appropriate Regulation

Center for International Private Enterprise (CIPE)

International Real Property Foundation (IRPF)

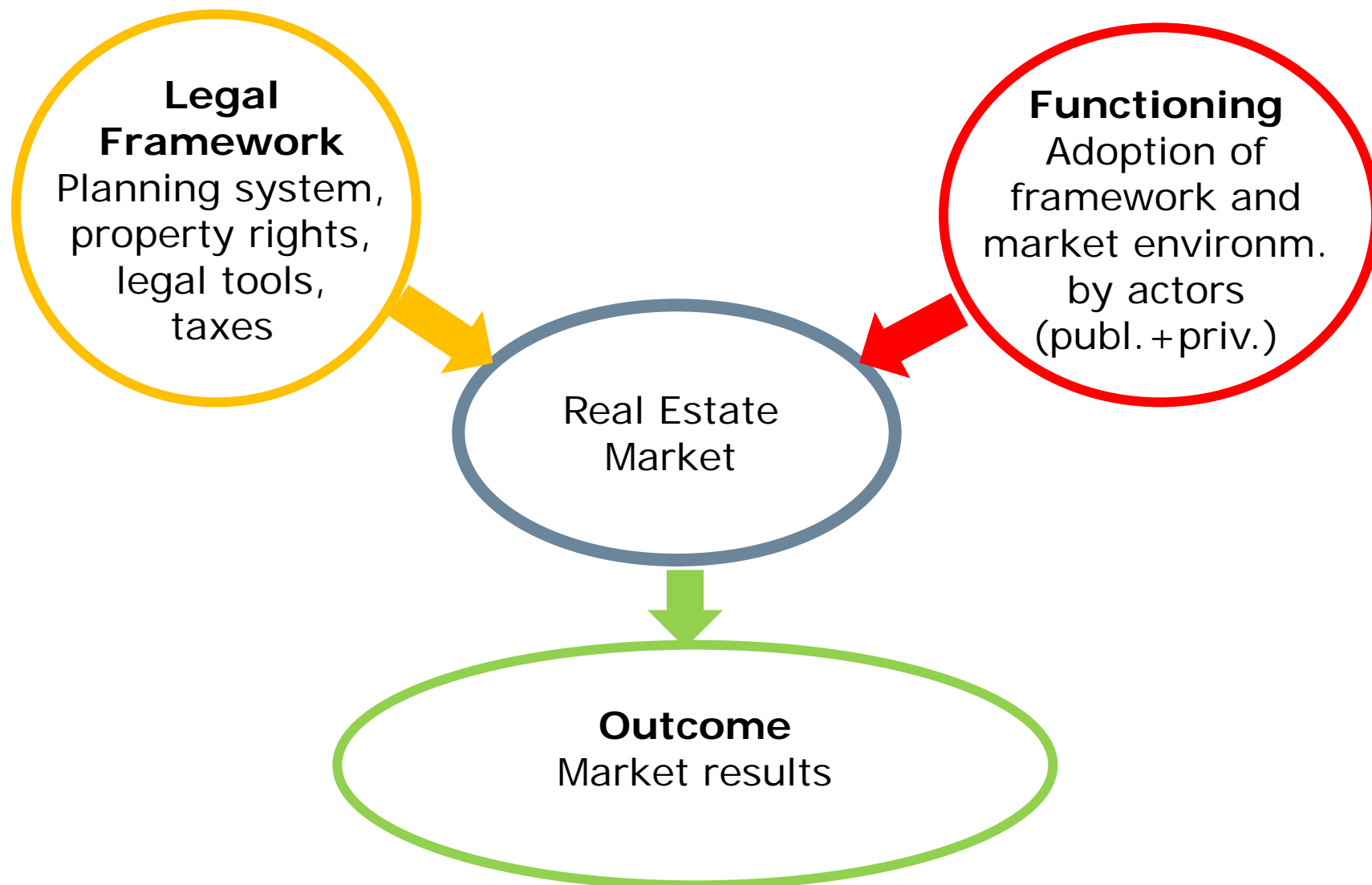
Additional approach

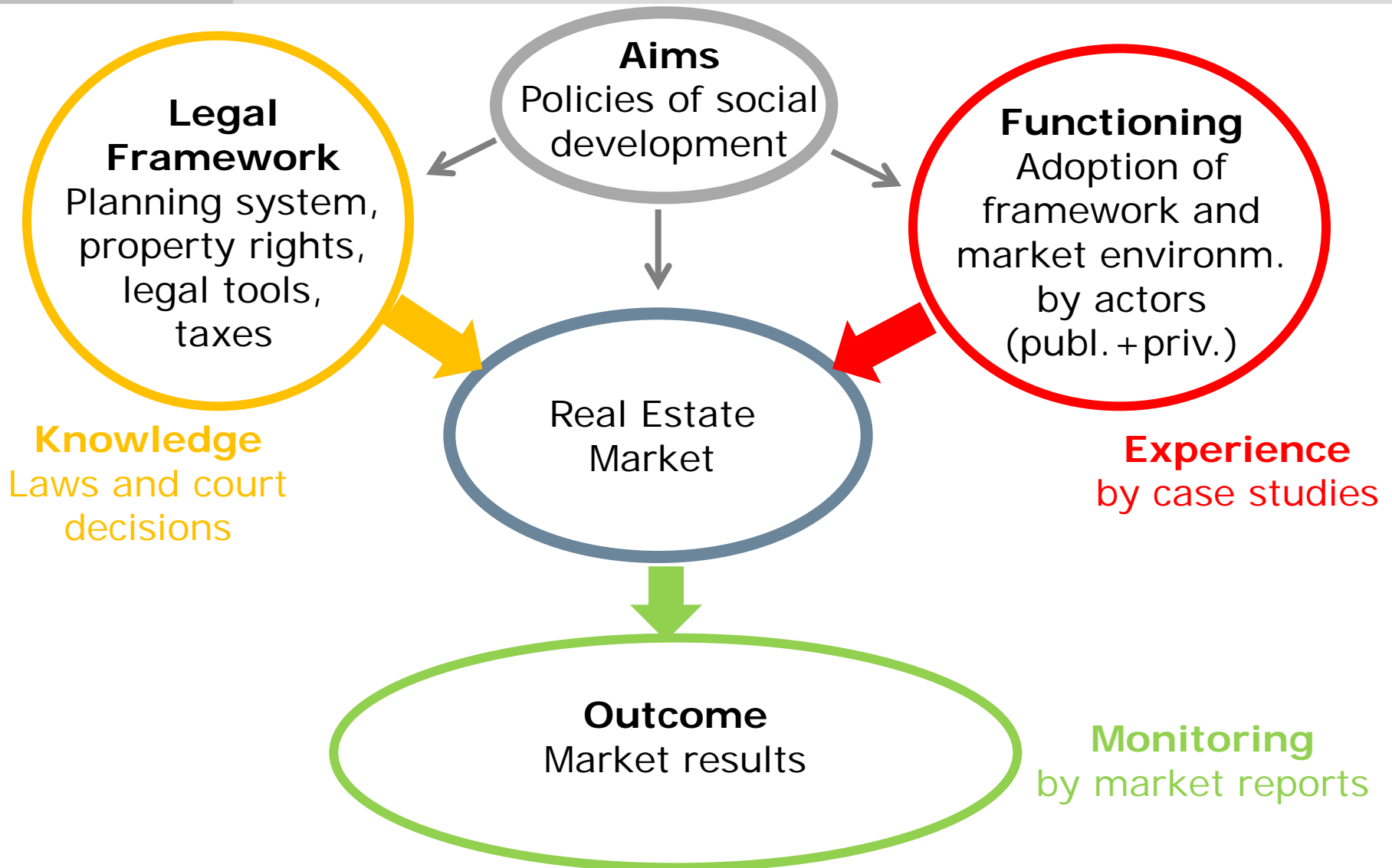
„Market-functioning“ differs

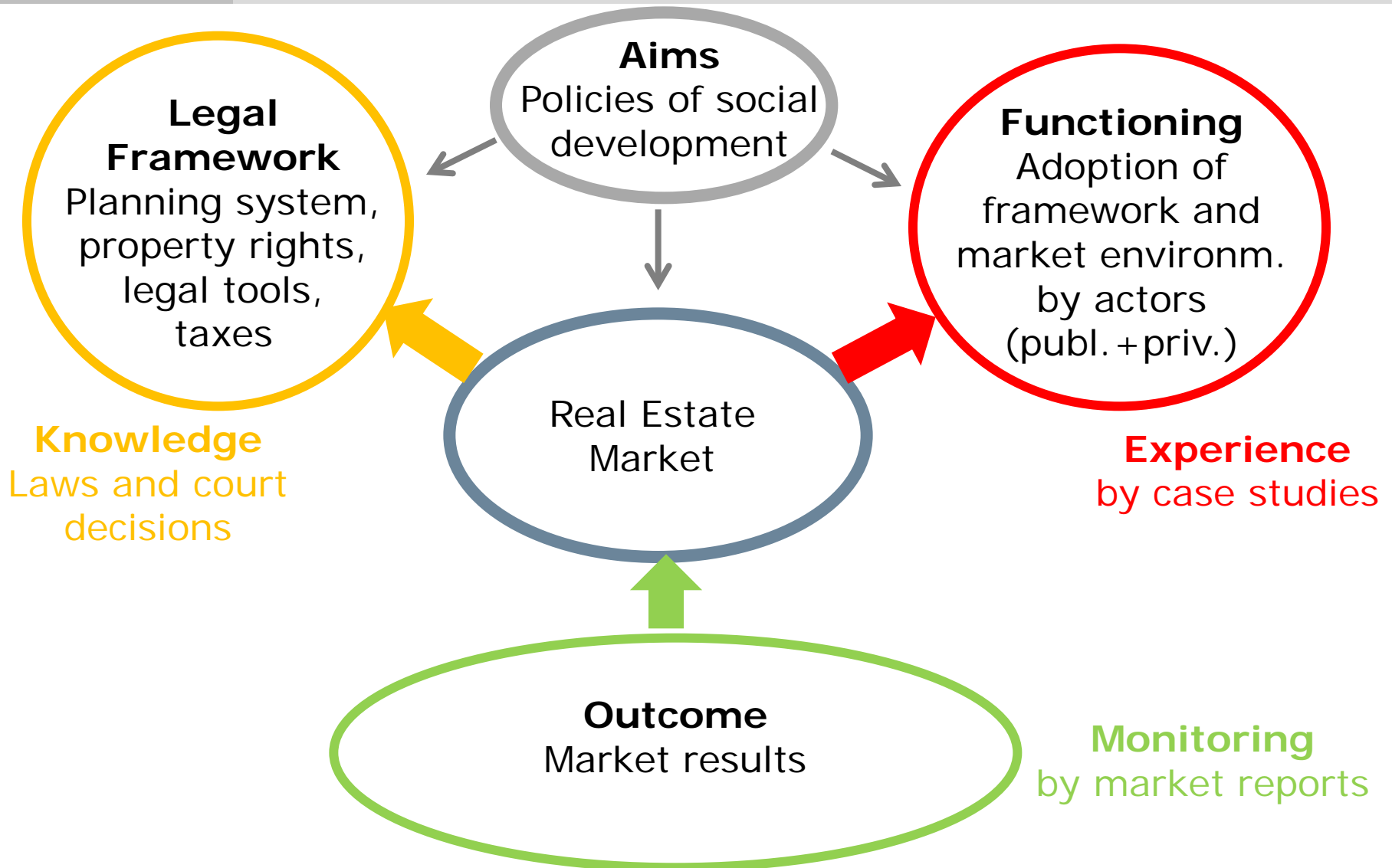
- commercial vs. residential markets
- metropolitan vs. small/ medium cities

A depressed view is necessary - to local level and to judge the results → case studies

- „local markets“: Market action takes place locally (local stakeholders, land owners, municipalities)
- „Traditions“: local or regional traditions of land tenure, land policy and cooperation (public vs. private)
- „Stakeholders“: Few dominating stakeholders (investors, developers, agents, land owners, officers)







Legal framework

- ... responsible for **the potential supply** of building land and of new properties
- Components are:
- Planning: liability of planning system, planning control system, plan- implementation tools
- Financing: Property tax system, distribution of servicing costs, availability of subsidies, etc.
- Property: tenure law and registration, rent and tenant law
- Cooperation: between tiers of government

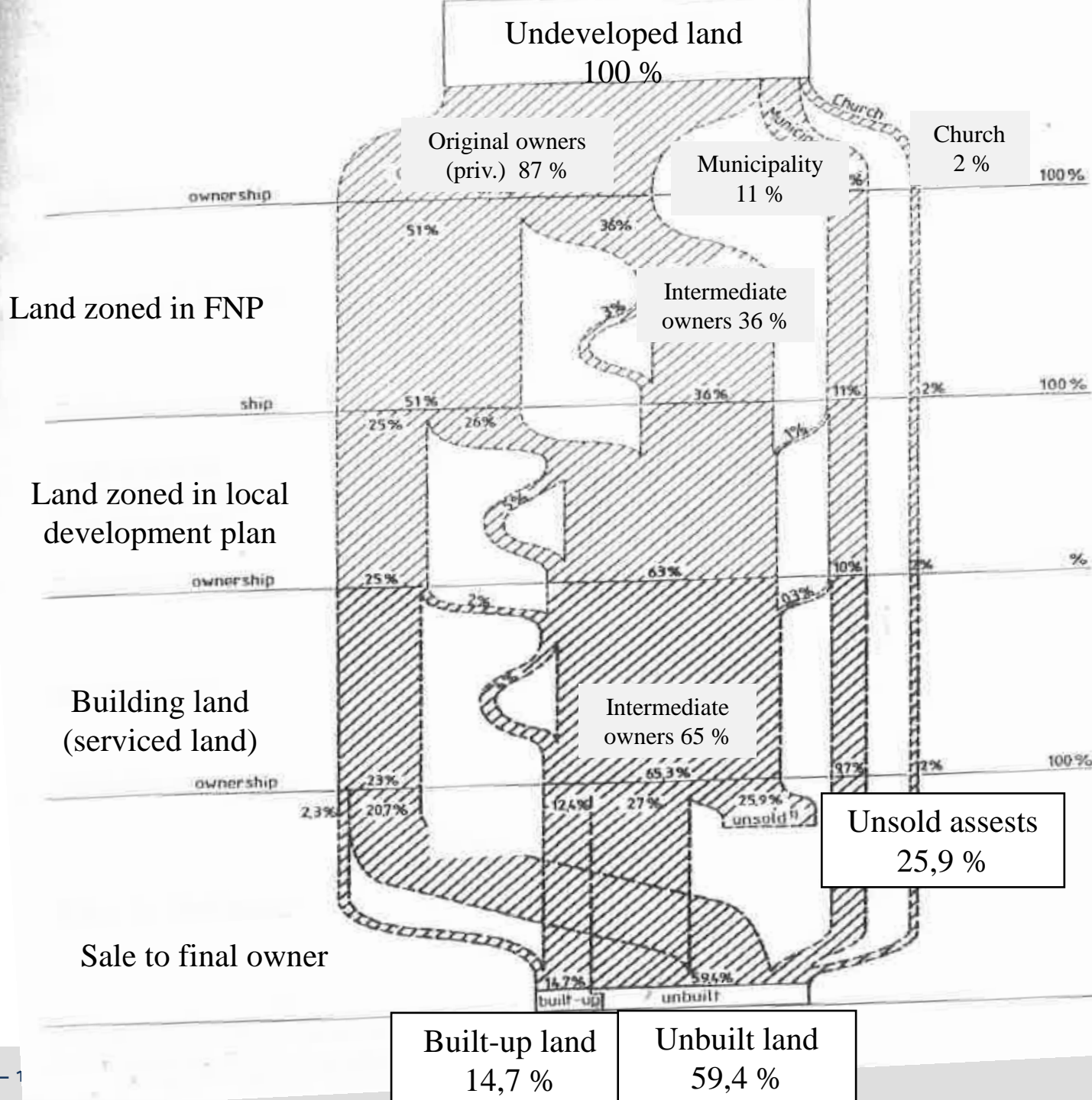
- Public stakeholders closely manage the supply of land, influence scarceness on the market and distribution of ownership

Functioning of the market

... responsible for **the available supply** of properties in adequate quality and price

- Stakeholders: active or passive role of municipalities, number and scope of developers/ investors engaged, housing associations and cooperatives
- Models of cooperation between private – public
- Implementation: the use of plan-implementation tools
- Price setting process, value capturing
- Changes of ownership during development process

Pattern of purchases during land development process



Source: Scholland, R.: Bedeutung der Funktionsweise des Bodenmarktes. AVN 1987, p. 78

Outcome of the market

... **results** produced by the real estate market system

Components are: (absolute figures and changes in time)

- Provision of flats (demand and supply)
- Tenure structure (ownership rate, tenant rate)
- Average size of plots and living space, land consumption
- Land reserve (serviced plots, but not in use)

- Volume of transactions
- Prices and yields (land and property)
- Ratio of loans, ratio of loan to value
- Ratio of housing cost to net income
-

Aims of land policies

... are necessary to evaluate the outcome
... if market runs out of an tolerable scope

Some aims are common, some are special per country

- Provision of housing: ratio available flats to number of households (>95 %)
- Tenure structure: increase ownership rate
- Reduce land consumption (to reuse brownfields before develop new greenfields)
- Enough supply in affordable housing (30% burden)
-

Additional approach

- Results of comparative research in 5 European countries
(UK, France, Netherlands, Italy, Sweden, Germany)
(involved persons: R.H. Williams, B. Wood, B. Needham, G. Ave, A. Mazza, H. Mattsson, H. Dieterich)
- Book series „European Urban Land & Property Markets“
- Published by UCL Press, London 1993
- Using the same structure (pattern of information)

Outline

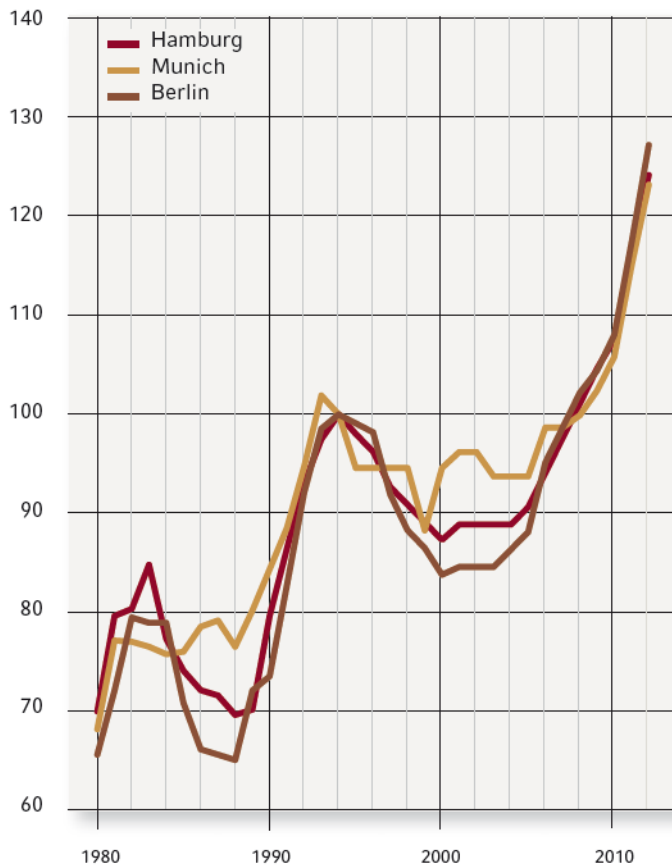
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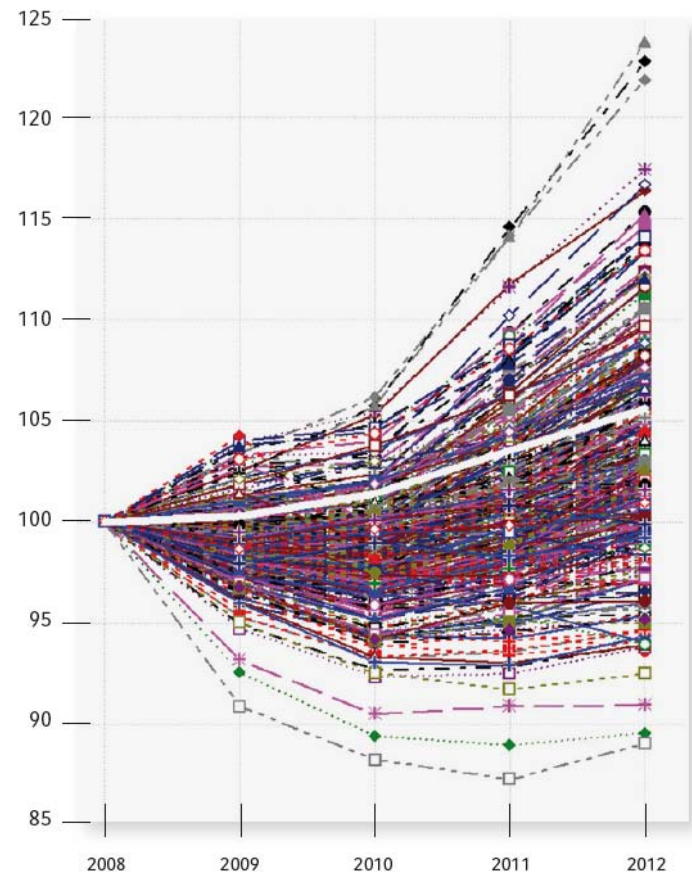
Strong increase of prices (e. g. Germany): Market failure?

Here: Differences in condominium prices

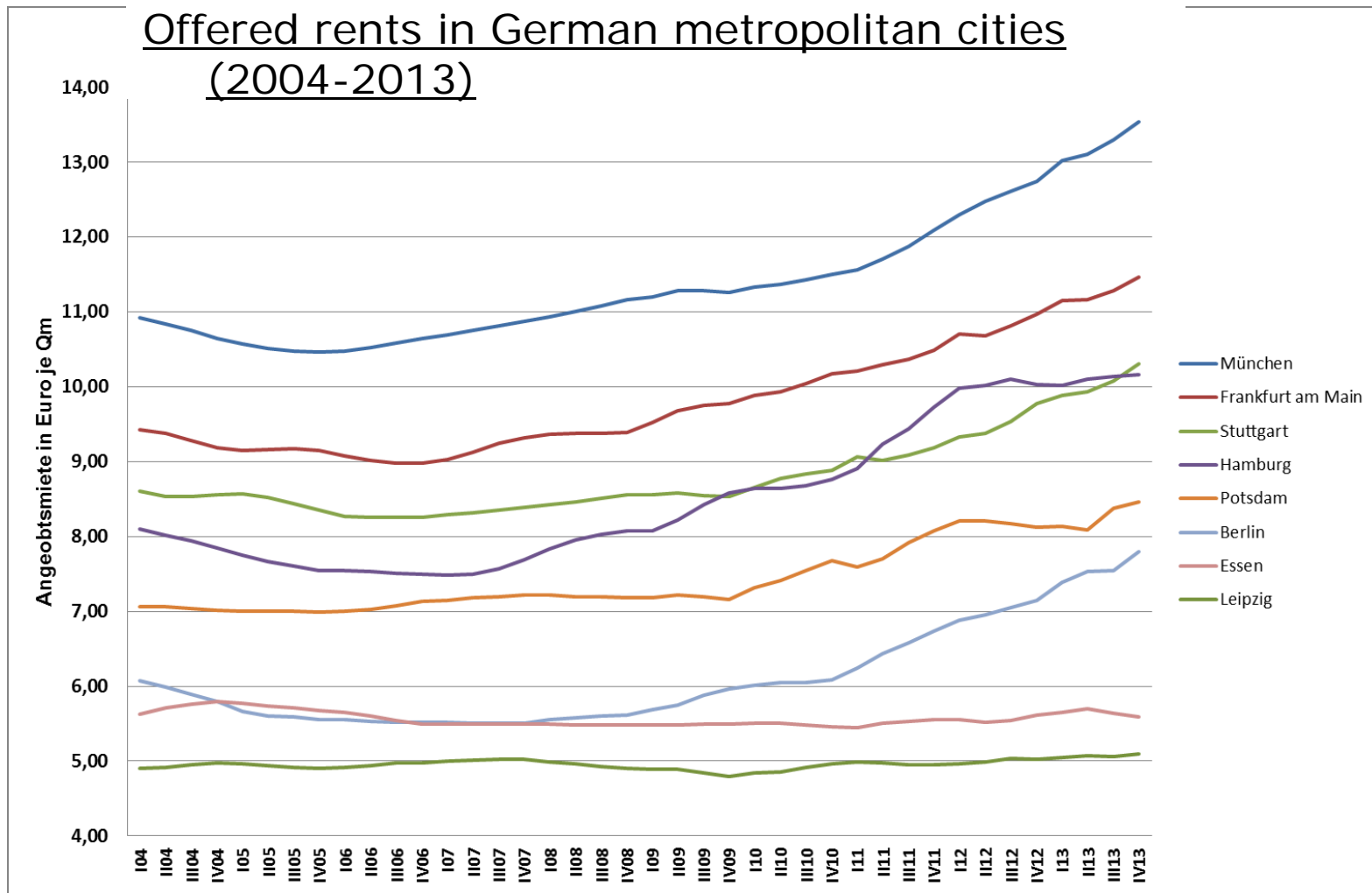
a. Index of nominal condominium prices
1994 = 100



Nominal prices for condominiums
(2008 = 100)



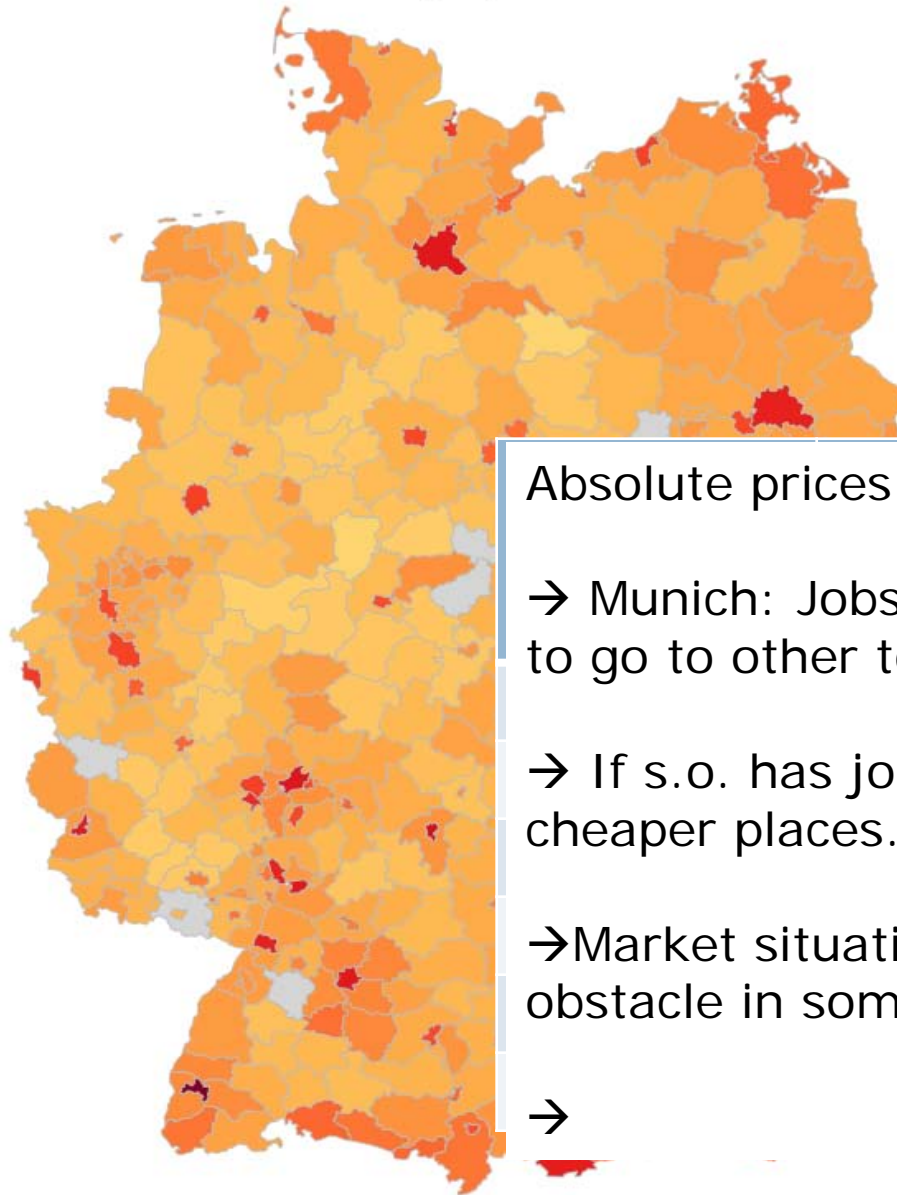
Offered rents in German metropolitan cities (2004-2013)



Source: Waltersbacher, BBSR, Vortrag 24.03.2014, Bonn

So viel kostet Wohnen in Deutschland

Anteil der Wohnkosten am Nettoeinkommen (2015)



Lowest rate: 8 % in Höxter

Highest value: 30 % in Freiburg

Part of housing costs from net income (2015)

Interactive map, Database property offers, Immoscout24

Absolute prices + increases p. a. are too high

→ Munich: Jobs like policemen or nurses decide to go to other towns

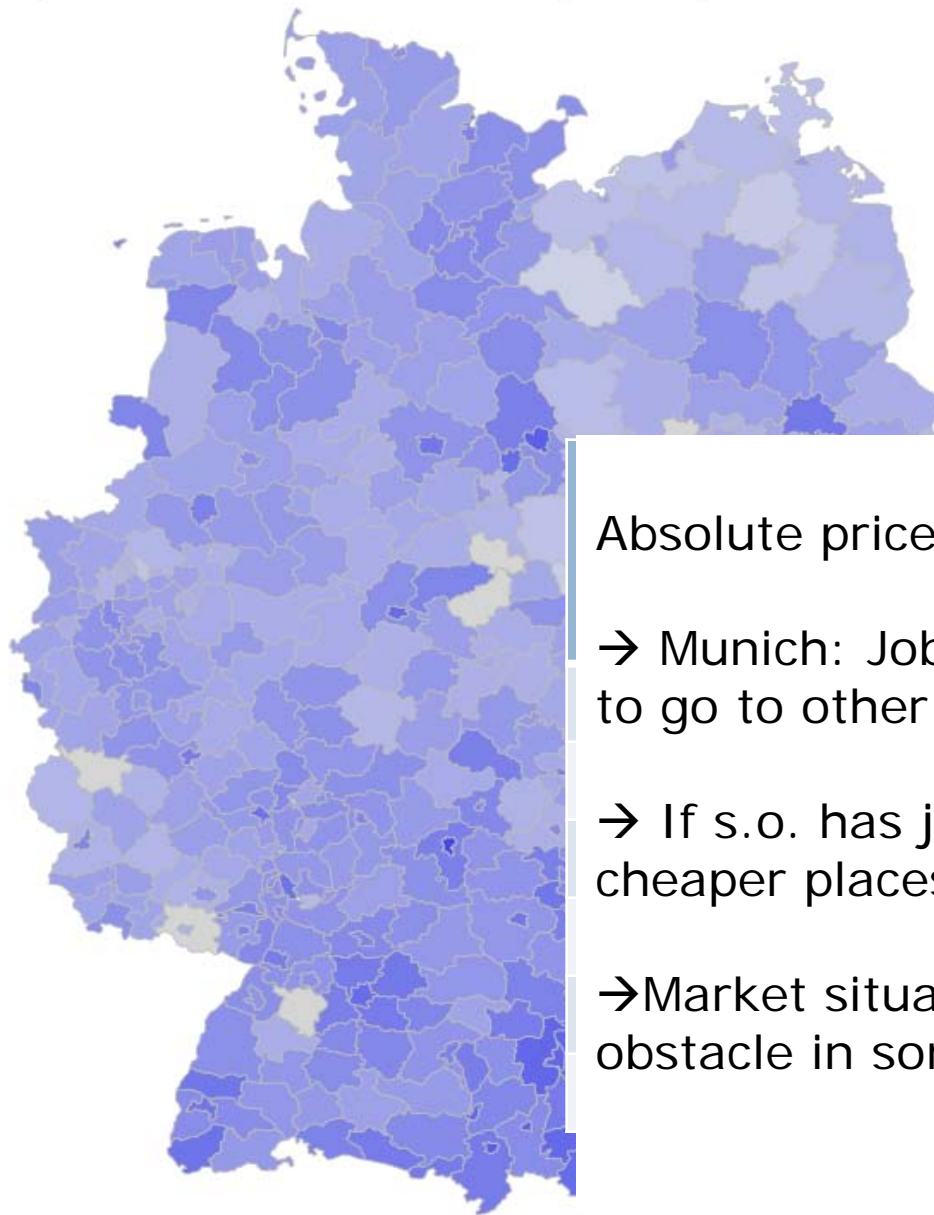
→ If s.o. has job alternatives he/she will go to cheaper places.

→ Market situation becomes a development obstacle in some south-German cities.

→

Quelle:

<http://www.spiegel.de/wirtschaft/service/immobilien-so-teuer-ist-wohnen-in-deutschland-a-1104953.html>



Increase of housing costs from net income (2012-15)

Interactive map, Database property offers, Immoscout24

Absolute prices + increase p. a. are too high

→ Munich: Jobs like policemen or nurses decide to go to other towns

→ If s.o. has job alternatives he/she will go to cheaper places.

→ Market situation becomes a development obstacle in some south-German cities.

Lowest rate: - 1,4 % in Ludwigslust

Highest value: 4,1 % in Würzburg

Quelle:

<http://www.spiegel.de/wirtschaft/service/immobilien-so-teuer-ist-wohnen-in-deutschland-a-1104953.html>

Informal Settlements

Are informal settlements a market failure?

Yes and No => Undesirable development, but

Satisfying the demand on a low level

(Weakness of public policy?)



Property transfer tax vs. mobility of people

- Germany:
 - 3,5 % unique at national level
 - Today: each federal state makes its own rate
 - Today average 5,5 – 6,5 %
 - Consequence:
 - Transactions are impeded
 - Land development process with 2-3 times selling and buying of a single plot becomes much more expensive
 - ... although the land supply has to be boosted
- Is mobility of people reduced?

Conclusions

- REMS need to investigate
 - The general view
 - The view to (local) functioning (→ case studies)
- The aims of sustainable urban development and land policy have to be involved (and discussed).
- Comparisons with similar structured countries are possible, recommendations a possible.

Thank you for your attention!



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