

Assessing Real Property Transaction Costs

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Several Approaches are needed

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Overview

1. Definitions: Market, Property rights, Costs
2. Costs from users' point of view
3. Costs from societal point of view: Satellite Accounts
4. Components of Satellite Accounts
5. Summary

Definitions: Market

Transaction: The exchange of assets, here involving a commodity or service.

Commodities: E.g. ownership rights in real property.

Services: E.g. land registration, issuing of certificates, related professional services.

Asset: a sum of money or other item of economic value, including (the future flow of income from) a unit of real estate.

Procedure: A sequenced set of activities with defined outcome. Activities are understood as typical courses of conduct (Weberian ideal types).

Institutions are the humanly devised constraints that shape human interaction (North, 1990: 3).

Definitions: Property rights

Real property (immobile) rights are rights in a parcel of land and its fixtures, e.g. buildings and vegetation. Forms of property rights: Ownership, lease, copyhold, mortgage, and easement
 Restrictions: Compulsory purchase, taxation, spatial planning measures, preemption rights.
 For details see Bruce, 1993:
<http://agecon.lib.umn.edu/ltc/lctcb01.pdf>.

Ownership consists in the economic sense of the right to
 a) use an asset,
 b) to appropriate the returns from an asset, i.e.: enjoy the future flow of income from the asset, and
 c) to change its form, substance, or location
 (Williamson, 2001).

Definitions: Costs

- Transaction costs
 - Measurement costs: Assessing value of attributes of good
 - Enforcement costs: Making it costly to breach contracts
- Asymmetry of information: Rectified through guarantees, professional liability

Impartial and skilful third party (professional, officer) reduces individual costs

Main categories of procedures related to real property

- Cadastral procedures
- Quasi-cadastral procedures (identifying land, buildings)
- Transfer of real property rights
 - Sale of a unit of real property
 - ...
- Title and boundary disputes
- Spatial planning imposing (and lifting) restrictions
- Assessment of property value for sales, mortgaging and taxation
- Taxation of real property

Transfer of real property rights

- Sale of a unit of real property
- Inheritance
- Forclosure auction, Compulsory sale
- Expropriation, Forced sales
- Mortgaging
- Leasing
- Granting of easement

Cadastral procedures

- Subdivision (creation of new unit from one) [from more]
- Amalgamation (two or more units into one)
- Lot-transfer, reallocation (transfer of lot between two existing units)
- Boundary adjudication
- Primary adjudication (Creation of new unit by extending coverage of cadastral map)
- - (Separation of share in jointly owned unit)
- Cadastral recording of expropriation
- Cadastral recording of statutory land consolidation
- Boundary settlement (Quasi-judicial boundary determination)

Approaches to Cost Assessment: 1. Users' expenses



Costs in the Finnish process (4)

	SELLER	BUYER
SALE		
- Agent *	9600	
- No agent	365	
- Purchase witness	35	35
TAXES		
- Transfer tax		8000
TITLE		
- Application*		170
- Registration		60
MORTGAGE*		
- Bank fee		2000
- Registration fee		40
PARCELLING OUT*		850
Mandatory fees	400	8095
All included	9635	11155
*) not mandatory		

Approaches: 1. Users' expenses - Defining the transaction

Definition of the object of sale (Ljubljana consensus/Ceh, March 2004):

- parcel of vacant urban land,
- planned for detached housing,
- no infrastructure on the plot but it is possible to connect to the basic utilities (sewage, water, electricity, roads)
- no obligations (encumbrances)
- no existing mortgages, easements,
- no derived (future) mortgages, easements,

Approaches: 1. Users' expenses - Defining the transaction

Additional object criteria:

Case 1: Purchase price (market value): 20 000 EURO

Case 2: National average: Number of citizens in comparable town (settlement) is 25 000 - 50 000, plot size 400- 2000 sq. m.

Professionals (Real estate agent or Lawyer) are hired to provide all necessary services and information provision: (collect data about their services costs)

It is assumed that parties will not hire a valuer to determine the purchase price

Approaches: 2. National expenses - Extending from National Accounts

- The *System of National Accounts, 1993* is issued by UN and OECD, and used by governmental units, incl Nat'l Statistics
- The SNA93 is being revised these years, including aspects of transaction costs.
- The SNA93 includes a chapter (XXI) on Satellite Accounts.
- Satellite Accounts i.a. allow for linkage of physical data sources to the standard NA, e.g data on land
- SNA covers COFOG as well, cf presentation by Halme

Approaches: 2. National Accounts on real estate

- In SNA, natural assets are included in balance sheets only to the extent that they are owned, i.e. under the effective control of an institutional unit (21.35, cf .126)
- Such natural assets must be capable of bringing economic benefit to their owners, and normally they have a market price (21.35, .150)
- Governmental rooted services of land registry and cadastre specify the units of real estate and the important rights in them, in fact create capital, cf H de Soto

Approaches: 2. Satellite Accounts - Classification of agents (21.83 a..f)

- a. Market producers: Professionals, offering transaction services.
- b. Financial companies, offering mortgage loans
- c. Non-market producers: Land Registry and Cadastre, providing identification and recording services
- d. Government as a collective consumer: Owner of real estate ("producer for own final use"?)
- e. Consumers: Households (and companies?), enjoying benefits of transaction services, etc., and of law and order
- f. Rest of the world: Non-national owners

Approaches: 2. Satellite Accounts - Listing of activities (21.99)

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Approaches: 2. Satellite Accounts - The activity of producers (21.100)

- Analysis of output by kind of products and number of units produced:
- The destination of this output (consumption, capital formation, exports):
- The labor and fixed assets used, incl number of people:

Approaches: 2. The activity of producers: Output

- Cadastre: Number of new/ reshaped units of real estate;
- Land Registry: Number of rights/documents of different kind recorded
- Professions: Number of cases of different kind/ complexity performed
- Mortgage banks: Number of mortgages of different kind, sum of amount

Approaches: 2. Producer activity: Labor and fixed assets used

- Cadastre: Number of 'cadastral' employees of different kind; the cadastral database
- Land Registry: As above ; the land registry
- Professions: Number of 'property transaction' employees; measurement and computer equipment
- Mortgage banks: Employees; systems for mortgage recording

Approaches: 2. Satellite Accounts - The charging of fees and duties (SNA ?)

- Fees are collected for purely fiscal reasons
- Duties are intended to recover governmental costs, but cost recovery relations are complicated

Approaches: 2. Delimiting the Property Segment of Society

The Property Segment of society:

- Not Construction sector, but influenced by construction/ renewal
- Not Financial sector, but the mortgage part of it
- Real estate agents, and property related parts of other professions
- Mapping/ Geographic Information? (Property; Environment; Traffic; Construction)

Summary

1. Definitions: Market, Property rights, Costs
2. Transaction cost components
3. Costs from users' point of view
4. Costs from national point of view: Satellite Accounts
5. Components of Satellite Accounts

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Thank you