

**The costs of main types of real estate transactions—
Establishing a base for empirical investigations**

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Overview

1. Definitions: Market, Property rights, Costs
2. Transaction cost components
3. Costs from users' point of view
4. Costs from societal point of view
5. Comparing across countries
6. Findings of B. Arrunada

Definitions: Market

Transaction: A negotiation about an exchange involving a commodity or service.

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

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

Procedure: A sequenced set of activities with defined outcome.

Activities are understood as typical courses of conduct (Weberian ideal types).

Asset: a sum of money or other item of economic value, including a parcel of land.

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 inducing restrictions
- Assessment of property value for mortgaging and for taxation
- Taxation of real property

Transfer of real property rights

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

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)

Costs: Users' expences for assistance

Relative number of cases in 2002		*	*		
	*	*	*	*	*
	*	*	*	*	*
	0 - 19	20 - 29	30 - 39	40 - 69	70- 100
	% of highest honorarium in 2002				

Model for reporting honorarium for professional assistance
The median cost is taken as honorarium for a 'standard' case

Costs: Users' point of view

- Honoraries to professionals
- The fees and duties to public services
- Cost of own investigations
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- Summary

Costs: National infrastructure costs

Organisation/Task	Personel costs	Technology costs	Other costs	Incomes (fees, etc)	Net sum
Land registry					
Cadastre					
Property assessment/ taxation					
Boundary disputes					
Compulsory sales					

National property transaction costs

- Costs of 'standard' case procedures * number/year of cases
- National infrastructure costs (Gross national expenditure on the real property)
- -----
- Summary

Comparing across countries

- Number of hours used by graduates and by technicians/ clerks
- Salary level, pension schemes of countries
- Currency levels, but ...

Findings of B. Arrunada: Title insurance?

"It is America's destiny to deliver some of its best attributes to a needy world. ..."

Hick, 1998 in Arrunada, 2002

Motivations for title insurance:

- Deficiencies of registration system and practices
- Lack of track indexes (~ cadastral maps)
- Insufficient guarantees offered by present institutional regime

Arrunada: The Economics of Notaries

Economic analysis of notaries in civil law countries, with a special focus on the organization of notaries in Spain. Arrunada argues that notaries in civil law countries provide both public services (monitoring legality and reducing litigation) and private services (minimizing private transaction costs).

Arrunada challenges the assumption that the notary system represents an inefficient monopoly, [rather it] results in lower total legal costs for equivalent services than common law systems.

[He provides] some statistical analysis of notary income and the comparative performance of notaries with other parts of the Spanish public sector.

Annotated Bibliography [on the] Legal Institutions of the Market Economy July 2000, prepared by the World Bank's Legal Institutions Thematic Group

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Thank you