

**Sustainable Development and Land¹ Administration
Infrastructure Reforms:
the Role of Markets and Land Valuation Systems – Agenda for
Change?**

Paul Munro-Faure

Commission 7, Cadastre and Land Management,
International Federation of Surveyors,
c/o Land & Property Economics Ltd,
Roystons Haresfield
Stonehouse
Gloucestershire GL10 3EQ
United Kingdom

Tel: 44 1452 883880

Fax: 44 1452 722933

Email: pmunrofaure@lapeco.co.uk

**Presented at the UN-FIG Conference on Land Tenure and Cadastral
Infrastructures for Sustainable Development, Melbourne, Australia
24-27 October 1999**

This paper is presented as a discussion paper and takes as its aim the requirement to focus attention on the key issues in its defined area of interest and to facilitate proposal and prioritisation of areas for future development.

The paper is not prepared as an academic paper. It is based on experience in the developed, developing and transitional economies.

What is sustainable development?

The concept of sustainable development has attracted a great deal of attention since it was coined and popularised in a predominantly **environmental context** in the 1980's and 1990's by relevant United Nations' and others' initiatives, conferences and agenda.

A key feature has been the recognition of a long term vision which incorporates respect for the environmental limitations imposed by the physical constraints of the Earth: a modification of the conception of development to incorporate the recognition of limited resources.

¹ "Land" in the context of this paper is taken to mean land with the permanent improvements attaching to it. The terms "land" and "real estate" are taken as the same unless the context clearly limits the understanding.

This relates to the economy since development is an activity at the core of the economy, and these constraints may affect previously relatively unconstrained freedom to develop, including economically.

Development is also an activity in which political interests have a vital interest as economic development, including its distribution, is a key factor in the relative attractions of different political philosophies.

Another strand of sustainability therefore relates more directly to the **economic context**, and this is primarily the context of this paper.

What does sustainable development imply for land administration?

Land administration constitutes the legal framework and the related administrative structures dealing with real estate.²

These are critical issues for the economy and for investment as they determine the core issues of ownership, use and security of title to land.

In the context of sustainable development, this legal framework and administrative structure acts as a control in the environmental/planning context, and, in the broader economic context, as a determinant of land market development, of land ownership and of planning/environmental policy. It has a critical impact on market values and thus on economic decision making as to the uses to which land should be put.

Real estate constitutes a bundle of legally defined rights in land.

Legal definition of what constitutes “real estate ownership” is usually contained within this framework of legislative provisions and the contractual provisions relating to a specific estate. These laws typically define:

- what real estate can be owned and how it is owned (usually in Constitution, Civil Code, Land Law, Registration Law, etc)
- what processes have to be followed in transactions (usually in Land Law, Registration Law, Leasing Law, etc)
- what restrictions there may be on use (usually in Town and Country Planning Law, Environmental Law, etc)
- what rights may be reserved to the state/public (usually in Civil Code, Land Law, Compensation Law, Taxation Law, etc)
- what the rights of third parties may be (usually in Marriage Law, Inheritance Law, etc)

² It is of course accepted that there are different frameworks dealing with land administration. This text primarily relates to “formally” developed land administration systems as found in the market economies, as proposed in the transitional economies and as also found in the market economy related elements of the developing economies. It does not look at the issue in the context of what may be referred to as customary tenures, although many of the points made are of some application even in these contexts.

- what the rights of contractually related parties may be (usually in Mortgage Law, Leasing Law, etc)

These specific legal provisions relating to an estate define the rights of respective parties in any given jurisdiction. They are put into effect by specific administrative structures and by the courts.

“Defects” in ownership title have an important potential impact on the value of a given real estate because they constitute a risk.

This may be true for the economy as a whole where there is a defect in the legal framework, or in other areas affecting real estate markets, including the relevant administrative structures and the courts.

In those economies where substantial land assets are vested in the state/government, this administration and its efficiency are also likely to be issues of significance.

Sustainable development and land administration are closely linked, and the adoption of the former concept as a philosophy therefore has major implications for the latter.

What is a land market?

World Bank estimates suggest that the **capital value** of real estate constitutes half to three quarters of a nation’s wealth: the less domestic capital and the less developed the economy, the higher this proportion.

What is true for the nation, is also typically true for the family and individual, and may be true for the corporation.³

Real estate is therefore likely to be by far the largest class of asset in most economies. Its efficient use and management must be one of the keys to successful economic development.

The reason for allowing market forces to determine the ownership, the user and, usually subject to planning/zoning and environmental considerations, the use of land and buildings, is that **competition** and the price mechanism will move the key economic resource of land and buildings towards the highest and economically most **efficient** use.

The functioning of the market must be straightforward and flexible to achieve this, not simply through buying and selling of the absolute ownership, but also through a variety of leasing and other less formal kinds of agreement. A sound understanding of how real estate is managed in a market economy environment and a positive approach to this management are also required.

³ *Real estate resource management*, Avis, M, and Gibson, V, GTI Specialist Publishers, 1995

Real estate, as a core capital asset, also needs to be considered in the context of **investment**.

In practice any investment, whether industrial, commercial or otherwise is likely to involve an element of investment in the domestic real estate market.

Foreign direct investment (FDI) is particularly important for economic development. This reflects the critical fact that FDI is usually accompanied by much needed modern technologies and know-how. Although the significance of real estate in FDI is difficult to quantify because of the way in which investment is entered into national statistics, EIU (Economist Intelligence Unit) estimates suggest that real estate could account for 5-20% of global FDI, and that official statistics typically under-report its significance.⁴

Mortgages form a vitally important part of the dynamics of developed real estate markets, and of their banking systems. They are a relatively low risk credit secured against specific real estate assets of a borrower. Mortgage lending secured on residential properties, for example, is typically a major element of total lending by the mortgage lending institutions in developed market economies.⁵ Residential properties are usually purchased subject to a mortgage in economies where there is well developed mortgage lending capacity. This mechanism also facilitates raising of capital for business development and **finance**.⁶

What is a land valuation system?

A valuation “system” is a system for identifying the absolute and relative worth of an asset. Various approaches have been used in different stages of economic development and under different economic systems.

The most pervasive general approach is related to the market value of real estate, although there are many variations on this theme in practice, and their advocates enthusiastically develop diverse examples.⁷

Once real estate is held by entities in a market economy context there are many reasons for its market valuation, because these values form the basis of decisions. These reasons reflect the structure and dynamics of the real estate market, and the framework in which it operates. Market values are fundamentally different from administratively assessed values.

⁴ *Global direct investment and the importance of real estate*, The Economist Intelligence Unit, 1997

⁵ Although it should, of course, be noted that practices and institutions differ considerably between countries.

⁶ Study prepared by Arthur Andersen/London Business School for British Property Federation in November 1998 indicated that real estate is the key to general economic expansion because it backs between 35% and 75% of borrowing in the UK. The study estimates that it backs around 50% of all loans.

⁷ Other “systems” have tended to be based on surrogates for market value, such as physical productivity related attributes including soil quality/bonitet, or have tried to adapt other value systems to market value, such as assessments of environmental or aesthetic “value” on the basis of various criteria such as personal value, opportunity cost/journey cost, etc.

The reasons for market valuations may be broadly divided into those that are to fulfil market requirements, such as those for sale, purchase, rent, insurance, mortgage, inheritance and divorce, and those that are to fulfil requirements laid down by statute, such as those for taxation and compulsory purchase compensation. Valuations for different purposes may follow different formats, employ different criteria and methods, and result in different estimates of value.

The organisation of real estate valuation varies from jurisdiction to jurisdiction as a result of different historical development and different cultural perceptions of what is appropriate.

In market economies valuations fulfilling market requirements are generally undertaken by private sector valuers acting on behalf of each of the parties interested in the transaction. (By definition there will generally be at least two parties to any given transaction.) In cases where public sector owned real estate is under consideration, a state valuation service, if it exists, may conduct the appraisal on behalf of the public sector agency.

It is common with statutory appraisals for a state agency to be the initiator. In market economies the state agency's interests are usually represented by a state valuation service. The other party's interests are usually represented by private sector valuers. Recently, however, particularly for mass appraisals for taxation purposes, some jurisdictions have employed private sector valuers on a competitive tendering basis to undertake the bulk of such appraisals, leaving for themselves sufficient valuations for quality assurance purposes. Such statutory valuations will usually be open to appeal to an independent tribunal appointed for the purpose to ensure a fair hearing.

In most market economy oriented jurisdictions the state will prescribe formal qualification requirements for valuers in the state valuation service. Valuers undertaking most appraisals in the private sector are not necessarily constrained in this way, although where well established professions exist, qualified private sector valuers are likely to be instructed. There may in some cases be a formal institutional requirement or policy to do so, particularly for example in appraisals for mortgage security purposes and for company accounting purposes.

The normal training requirement for a valuer in an established professional institution in a market economy, such as the UK's Royal Institution of Chartered Surveyors, is for a minimum of three years' study leading to an approved first degree,⁸ followed by a prescribed period of supervised and assessed professional training usually of a further two years.

⁸ Alternatively, since the late 1980's graduates may follow an approved one year postgraduate training course followed by the two years of supervised and assessed professional training.

Established professional institutions actively enforce appropriate ethical codes of practice to protect the client/consumer and to improve the quality of the services offered by their members.

The valuation methodologies used for different purposes are well documented. There is general agreement on these internationally, and a broad acceptance of appropriate international standards.⁹

What are the prospects for the future?

Under the assumptions that world population growth will continue broadly as expected by UN estimates, it is clear that land will continue to be an increasingly scarce resource. Political and economic pressure for sustainable economic growth to accompany this will ensure that this translates into potentially more active land markets, and relatively higher land values.

Systems that encourage the recognition of:

- the implicit increasing value of the resource,
- the need for its more efficient use, and
- the internationalisation of capital and of the standards that are to be attained to allow any equality of access to capital,

are therefore to be encouraged within rational environmental and human rights constraints.

What changes are needed?

These prospects require changes in the following areas and directions:

A. Change required: legal framework	Provision required
A.1 Raise political awareness	Programme of workshops and action plans for key decision-makers
A.2 Legal frameworks should be reviewed to ensure that they provide a transparent, fair, efficient and accessible (cost/time) system for the definition of ownership, use and other rights in relation to land, including for the protection of rights and access to land for the disadvantaged	Establishment of international comparisons and best practice
A.3 Legal frameworks should be reviewed to ensure that state/government interference in land tenure and use is restricted to a justifiable minimum, including effective provisions for planning and environmental protection	Establishment of international comparisons and best practice

⁹ The International Valuation Standards Committee's International Valuation Standards are equivalent to the International Accounting Standards developed by the International Accounting Standards Committee

A.4 Legal frameworks should be reviewed to ensure that state/government ownership of land is restricted to a justifiable minimum and that it is managed in an accountable, transparent and efficient manner	Establishment of international comparisons and best practice
A.5 Relevant NGOs and trade organisations should be encouraged to participate in reviews of legal frameworks	Encourage participation of NGOs. Provide relevant data on legal frameworks for government and NGO use.

B. Change required: administrative structures	Provision required
B.1 Greater understanding of economic significance of land	Research and targeted education of key decision-makers
B.2 Administrative structures should be monitored to ensure that they provide a transparent, fair, efficient and accessible (cost/time) system for the definition of ownership, use and other rights in relation to land including for the protection of rights and access to land for the disadvantaged	Establishment of international norms and best practice
B.3 Administrative structures should be reviewed to ensure that state/government interference in land tenure and use is restricted to a justifiable minimum, including provisions for planning and environmental protection	Establishment of international norms and best practice
B.4 Administrative structures should be monitored to ensure that state/government ownership of land is restricted to a justifiable minimum and that it is managed in an accountable, transparent and efficient manner	Establishment of international norms and best practice
B.5 Relevant NGOs and trade organisations should be encouraged to participate in reviews of administrative structures and their performance	Encourage participation of NGOs. Provide relevant data on administrative structures and their performance for government and NGO use.

C. Change required: skills and standards	Provision required
C.1 Greater understanding of economic significance of land	Programme of workshops and action plans for key decision-makers
C.2 Improved skills in valuation of land	Course and curriculum development
C.3 Improved skills in management of land as an economic resource	Course and curriculum development

C.4 Improved skills and understanding of environmental issues for land managers	Course and curriculum development
C.5 Encourage movement towards acceptance of international valuation standards	Support development of international valuation standards
C.6 Improvements in education and training capacity leading to mutual recognition of standards and qualifications	Encourage development of regional and international groupings of relevant professional organisations
C.7 Relevant NGOs and trade organisations should be encouraged to participate in identifying developments required to support acquisition of new skills and standards	Encourage participation of NGOs. Provide relevant data on legal frameworks for government and NGO use.

Paul Munro-Faure, Chairperson,
Commission 7, Cadastre and Land Management,
International Federation of Surveyors,
c/o Land & Property Economics Ltd,
Roystons
Haresfield
Stonehouse
Gloucestershire GL10 3EQ
United Kingdom
Tel: 44 1452 883880
Fax: 44 1452 722933
e-mail: pmunrofaure@lapeco.co.uk
paulmunro_faure@compuserve.com