

United Nations Economic Commission for Europe
Working Party on Land Administration
Real Estate Market Advisory Group

POLICY FRAMEWORK FOR SUSTAINABLE REAL ESTATE MARKETS

*Principles and guidance for the development of a country's
real estate sector*

Geneva, 2010

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

*
* *

The designations used and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

ECE/HBP/147

Copyright © United Nations, 2010
All rights reserved
Printed at United Nations, Geneva, Switzerland

UNITED NATIONS PUBLICATION

UNECE Information Service
Palais des Nations
CH-1211 Geneva 10
Switzerland

Phone: +41 (0) 22 917 44 44
Fax: + 41 (0) 22 917 05 05
E-mail: info.ece@unece.org
Web site: <http://www.unece.org>

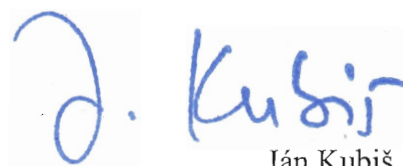
PREFACE

A fully functioning and well regulated real estate market can be an important factor to enhance the economy of countries in the UNECE region, both through upgrades in the housing stock and building capacities as well as the development of mortgage finance. The real estate sector also plays a fundamental role in the transition and consolidation of green economies, with the related generation of employment and growth. Finally, a solid real estate economy is necessary to guarantee mobility of the labour force and improve adjustment to migration flows within countries.

Analyses of the current global economic crisis have shown that unclear regulatory frameworks in the financial and real estate sectors were among its main causes. The crisis brought up a range of problems and demonstrated the urgent need for UNECE to respond by providing guidance and promoting sound real estate markets in the region.

The present *Policy Framework* complements current efforts by authorities in the region to stem the effects of the current economic downturn. The criteria defined for sound real estate markets should not only help accelerate the economic recovery in the short run, but also promote long-term sustainable development and green economies. The study offers institutional advice on issues such as the establishment of financial markets backed by real estate as collateral, harmonized valuation standards for real property and transparency in investment risk assessment. It also advocates a more integrated and holistic approach towards the establishment and management of real estate organizations, especially for economies in transition.

I trust this work offers a general overview of the institutional pre-requisites for a solid real estate sector in the region, which in turn will facilitate the achievement of social and economic objectives. The principles proposed by the REM Advisory Group will serve as a permanent contribution to government authorities as well as private investors, real estate appraisers and consumers at the time of discussing particular actions to be undertaken in each national context.



Ján Kubiš

Executive Secretary

United Nations Economic Commission for Europe

CONTENTS

	Pages
Abbreviations	iii
Introduction	iv
Background and aims of the study	v
Principles	1-17

ABBREVIATIONS

CEN	European Committee for Standardization
CHLM	UNECE Committee on Housing and Land Management
Eurostat	European Union statistical office
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross domestic product
GNP	Gross national product
ISO	International Organization for Standardization
LTV	Loan-to-value ratio
PPP	Public-private partnerships
REM	UNECE Real Estate Market Advisory Group
TPAC	Third-party arbitration courts
UNECE	United Nations Economic Commission for Europe
WPLA	UNECE Working Party on Land Administration

INTRODUCTION

The Real Estate Market Advisory Group (REM), a subsidiary body of the United Nations Economic Commission for Europe (UNECE) Working Party on Land Administration (WPLA) was established by the Executive Committee of UNECE in December 2007 with the goal of assisting Member States in the discussion and implementation of policy recommendations related to the real estate sector. Over the last two years the REM Advisory Group has contributed to the work of the Working Party through capacity-building activities and the dissemination of information, good practice and know-how related to the real estate sector. The involvement of experts and professional real estate organizations through REM aims to enrich significantly ongoing policy debates.

One initiative of the UNECE Real Estate Market Advisory Group (REM), with the support of the International Real Estate Federation (FIABCI), was the organization of a high-level roundtable discussion at the United Nations Headquarters in New York in December 2008. Speakers debated causes, effects and impacts of the financial crisis, with a particular focus on the real estate sector. A follow-up forum of experts took place in June 2009 in Rome, hosted by Tecnoborsa, where the draft of this publication and its major contents were the subject of in-depth discussions. The outcome is a set of principles that can serve as guidance for policy action. Each of the principles deserves more in-depth development, and will be the subject of future studies by REM.

The present framework in its current form is intended to give policymakers and other interested parties a reference for their future work relating to the real estate sector and its underlying market structures. REM will also use this document as a reference for its own future activities. The document is meant to be the starting point for in-depth investigation of a variety of aspects related to the real estate sector.

The principles take into account the long-standing experience and work of the UNECE Committee on Housing and Land Management (CHLM) and its Working Party on Land Administration (WPLA). The framework was developed by REM under the chairmanship of Mr. Giampiero Bambagioni, and with the cooperation of WPLA representatives and experts from across the region, including economists, legal experts and real estate market scholars from international organizations.

The task force consisted of Mr. Bambagioni (Chair of the Task Force), Mr. Wolfgang Amann, Mr. Enrico Campagnoli, Mr. Peter Creuzer, Mr. David Egiashvili, Mr. Brian Emmott, Mr. Jonathan Harris and Mr. Damir Pahic.

The drafting of the framework was supported by the UNECE secretariat: Ms. Christina Von Schweinichen, Ms. Paola Deda and Mr. Ariel Ivanier.

Additional support to the preparation of this study was provided by:

- Tecnoborsa and its related Technical–Scientific Committee (Tecnoborsa is the Organization of the Italian Chambers of Commerce for Development and Regulation of the Real Estate Economy)
- The International Real Estate Federation (FIABCI)

BACKGROUND AND AIMS OF THE STUDY

The origins of the present study trace back to the high-level roundtable discussion organized at United Nations Headquarters in New York on 16 December 2008, on “The Real Estate and the Financial Crisis: Causes, Effects and Impacts on Development”. Speakers at the round table underlined that the current global financial crisis was the result of inadequate regulation of real estate and financial markets. Real estate bubbles were allowed to inflate, mortgage lending was inadequately supervised, the financial markets were allowed to develop complex financial instruments that few understood, credit risk was inadequately modelled and credit rating agencies failed to carry out their fundamental role. Investors also failed to properly understand the instruments they were buying and consumers failed to evaluate the risks they were undertaking when buying inflated property. As a consequence, recessionary effects spread to the real economy worldwide.

At the meeting, experts also agreed on the need to develop a framework for promoting sound real estate markets as well as improved financing for the sector. Both could help promote stability and sustainability of the region’s economies and minimize the effects of the crisis. Subsequently, REM prepared the present draft document with 10 principles as the key components of a Policy Framework. These were discussed at a forum in Rome on 3 and 4 June 2009, organized by WPLA and REM and hosted by Tecnoborsa.

The present study incorporates the comments received during the Rome forum, the sixth session of the Working Party (Geneva, 18–19 June 2009) and the public consultations that followed these two events. Its findings should be taken into consideration in the context of a wider spectrum of other tools developed by CHLM and WPLA, such as the guidelines for housing finance, spatial planning, social housing and condominium management.¹

The document is structured as follows: each of the 10 principles and its underlying rationale is briefly explained, followed by a number of key indicators that should be considered by relevant authorities when implementing related policies. The study also advocates improved harmonization of national urban planning and building laws which, in some countries, are often regulated by diverse and contradictory legislation. Good governance should also complement appropriate and harmonized regulations in the building and real estate sector.

In summary, the main aims of this document are:

1. To promote the understanding of some critical issues of the real estate sector, in order to better develop management tactics and strategies that might assist (depending

¹ See, for instance, *Restrictions of ownership, leasing, transfer and financing of land and real properties in Europe and North America* (UNECE: Geneva, 2003), *ECE Guidelines on Real property Units and Identifiers* (UNECE, New York and Geneva, 2004) and *Land Administration in the UNECE Region – Development trend and main principles* (UNECE, New York and Geneva, 2005).

on the level of development of national economies) with the identification of solutions to the current economic crisis worldwide;

2. To define rules and principles that might promote long-term solutions for sound real estate markets in different enforcement frameworks (according to the level of development of the national real estate markets) and in compliance with the respective legal systems, so that economic and social benefits will ensue.

The proposed principles should be based on widely accepted concepts, as follows:

- (a) Sustainable development: development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”²;
- (b) Good governance: effective decision-making and policy implementation as well as smooth interaction between different sectors of society. Good governance applies to legislative authorities, public administration, judiciary, private sector, and civil society in general;
- (c) Transparency: the possibility of having full access and knowledge of relevant information, of the criteria by which data is being used, and disclosure of the different aspects of decision-making processes;
- (d) Accountability: the extent to which political actors are responsible to society for their actions;
- (e) Fairness: the degree to which rules are equally applied to everybody;
- (f) Efficiency: the extent to which limited human and financial resources are used without waste, delay or corruption.

² United Nations (1987). “Report of the World Commission on Environment and Development.” General Assembly resolution 42/187, 11 December 1987.

PRINCIPLES

Principle 1 – *Integrated legal framework*

An integrated national legal system should be established and harmonized with the existing regional and international norms for the real estate sector. Technical reference frameworks should be set for the application of regulations in order to promote the proper functioning of the real estate market. In addition, a legal framework for land and land use should be available at the national level.

Rationale:

Norms and regulations, together with the systems set up by every country to control and legally protect the rights of possession and use of real estate, provide the necessary foundations on which to create and develop efficient and integrated markets. Without an integrated national legal system, all activities that involve management of and investment in the value of a property—and which in turn contribute to increase employment opportunities and the overall economic development of a nation—are considerably jeopardized.

Key indicators:

1. The right of ownership is a real right that allows persons to enjoy—fully and exclusively, within the limits provided for by the legal system—a given asset or property. A real property is defined by law as private, State or public according to the status of the legal entity who holds title to the right of ownership.
2. A clear, harmonized set of laws (i.e. civil code, land law, construction code, law on spatial planning) should be in place or established in order to enable investment in and exchange of real estate property by legitimate owners.
3. An efficient legal system and a well-trained, independent judiciary with a solid experience in real estate litigation, which is fully available to the poor and vulnerable people, should be set up to adjudicate on private property rights and contractual disputes (i.e. third-party arbitration courts (TPAC)).
4. Court rulings related to such adjudications should be enforceable.
5. Laws on property guarantees should be aimed at speeding up credit recovery whenever loans are not repaid. The system should be based on clear, efficient and rapid legal proceedings and the awareness that long enforcement times may be especially costly in economic terms (as the free exploitation of the guarantee estate is prevented) and in social terms (as the personal or third-party use of the attached assets is prevented).
6. Legal barriers that are arbitrarily established to the ownership of real estate by individuals, groups or legal entities should be eliminated in those countries where they still exist. However, the legitimate possession and productive exploitation of public real estate should be permitted, regulated and protected, including those cases where it is leased or rented to private individuals or legal entities. These rights of

use should be freely negotiable and transferable either for free or after compensation payments.

7. An effective and harmonized set of national urban planning and building laws should be developed to minimize differences in local legislation (when diverse and contradictory), thus contributing to more transparent development and administration.
8. Urban planning and building laws should give special attention to social housing and to the creation of an efficient and equitable rental/leasing market.
9. There should be a comprehensive set of laws for agricultural lands to allow transparent trade, legitimate property and possession rights, so that land use is not a source of disputes.
10. A comprehensive set of regulations should be developed and made available to regulate construction activities.
11. Legislation that strengthens the real estate sector and ensures efficient administration, operation and maintenance of buildings and lands should be key elements of the national policy.
12. Given the management responsibilities for preservation, ordinary and extraordinary repairs and maintenance that properties require in order to maintain their economic function over time, the following categories are specified for public ownership by State or local governments:
 - (a) Real properties instrumental for the management and administration of government institutions;
 - (b) Various categories of properties (such as buildings, lands, watercourses, roads, infrastructures, etc.) for used generally and that are of strategic value for the country;
 - (c) Real properties recognized as being of special historic, archeological or artistic interest.

Principle 2 – *Efficient land register and cadastre*

The security of real estate transactions should be enhanced by identifying and protecting property rights through the establishment of an efficient system for the registration, cataloguing, classification and updating of real property data, based on up-to-date land registry and cadastre records.

Rationale:

The identification and protection of property rights are based on secure data and information that are available to all parties. This necessarily implies the existence of an efficient cataloguing and classification system as well as ready access to information on titling, to which third parties can always refer to obtain proof of the legitimacy of the title of ownership over time. Secure private land ownership and security of tenure are integral part of good governance and a key condition for functioning real estate markets. For this purpose, regularly updated public registers and cadastral systems are needed to minimize risk of fraud in transactions and at the same time provide legitimacy to the lawful possession of an asset, which in turn will facilitate access to bank loans and insurance.

Key indicators:

1. An efficient, integrated system of identification, cataloguing and classification of real estate and property rights should be established so that every asset is associated with information on their legitimate owners/title holders.
2. The land cadastre and land registry should cover the entire country. To be accessible to third parties, and hence enforceable to anyone (including state authorities), all transactions affecting real estate property or use rights should be recorded in a public register. The signatures set on the relevant acts should be verified and authenticated by a public officer.
3. All public restrictions existing on properties should be well documented in public registers.
4. The identification and protection of property rights should be ensured as a prerequisite for the granting of real estate as guarantee, and hence as a key element for the access to mortgage loans and financing.
5. Security in legal transfer of property rights must be ensured by a clear system. The full legality of legal transactions regarding the sale of real estate must be guaranteed by clear identification of the parties carrying out the transactions. For this reason, it must become mandatory to have the signatures of the contracting parties verified and certified by a notary public or any other authorized official.
6. The information recorded in land cadastre/land registry should be open for public access at reasonable cost, however, personal data protection must be guaranteed according to existing national legislation.
7. The registration or recording of property rights for buildings and land should be comprehensive, accurate and up to date.

8. Ideally, the land registry/cadastral should be maintained digitally and should be based on a uniform spatial reference also used for all spatial planning purposes. All relevant public actors operating in the real estate market should also be able to access it electronically, authorized through digital signature.
9. The creation and registration of mortgages should be undertaken in a way that can be consulted electronically.
10. In addition, the public should have electronic access to information held by the central and local government concerning public planning and environmental policies.
11. Security of tenure, for each form whereby land rights are held, should be ensured.

Principle 3 – Efficiency of services

An efficient and transparent real estate market has to be consistent with legal and voluntary regulations, international standards, ethical rules and best practices.

Rationale:

To encourage economic development and contribute to social well-being, real estate markets should be efficient. This means that data and information on market trends should be accessible and based on clearly documented sources (e.g. Eurostat data). These requirements are essential to make purchases and sales safer and attract investments, as markets that are not transparent and have little data and information available are usually riskier. Riskier real estate markets also determine higher costs in mortgages and loans. Real estate markets should be in line with international standards and best practices as far as possible, as shared operational methodologies and procedures contribute to efficient, high-quality processes and professional services.

Key indicators:

1. A culture of good-quality, professional service, satisfying customer expectations, should be promoted.
2. Good practices should be promoted to improve the quality of projects, construction, and legal and customary rules for transactions.
3. A modern construction sector should be promoted, one which satisfies the new demand for properties (for residential, professional and production uses) that are of high qualitative standards and are technologically innovative. Efforts should be made to promote a green real estate sector and energy efficiency in buildings.
4. All services and skills required for the smooth operation of the real estate sector should be adequately developed, in particular for lawyers, surveyors, brokers, appraisers, asset manager, facility managers, consultants, fund administrators, managers of complex real estate services (i.e. in banking/credit sector, including non-performing loans and securitizations) and other professionals.
5. The skills and characteristics of various professionals should be well identified and the qualifications required to exercise a specific profession and any additional specializations should be defined. A culture of continuous professional development (see principle 10) should be encouraged for professional performance whose quality is acceptable from the customer's point of view.
6. Services should be based on high performance standards and on civil and professional liability rules. The strengthening of ethical standards and the adoption of specific codes of conduct (to be drawn up with the help of all stakeholders involved) should be promoted.
7. National methodologies should be integrated and harmonized with international professional standards and international best practices.

8. Voluntary, international norms that are specific of the building and real estate sector, such as those embraced by the International Organization for Standardization (ISO), or developed on a regional scale such as those embraced by the European Committee for Standardization (CEN) should be fostered. National regulatory organizations should acknowledge international standards at the national level.
9. Codes of conduct and monitoring of activities from all sectoral organizations should be encouraged, to measure the efficiency and quality of processes and services by the various professional categories.
10. Services should be competitive. More comprehensive information on the professional characteristics (e.g. required to compare services rendered, costs/fees, etc.) should be promoted.
11. The interests of the consumer should also be better promoted and protected in the real estate sector. The awareness should be cultivated that improved efficiency of the real estate market will generate a clear understanding of and ability to stimulate innovation and quality in services. The education of the consumer is essential for an innovative and productive real estate economy.
12. Real estate consumers/investors should be made more aware of their rights, which will consequently allow them to make better informed decisions.
13. Helping the consumer's/investor's capacity to make well-informed decisions in the real estate market is not only in the interest of professionals, but also helps ensure a more open, transparent and productive real estate economy.

Principle 4 – Prerequisites for development of sound real estate markets

A well-developed real estate sector contributes to the conversion of unused or underused resources into productive capital, hence increasing employment opportunities and reducing poverty.

Rationale:

Academic studies have stressed that the real estate sector can be a driving force for development in both emerging economies and industrialized countries due to its close interconnection with many other sectors of the economy. There are basically three levels of development of real estate markets: developed real estate markets, emerging real estate markets and non-existent (or informal) real estate markets. The development of the real estate sector (and related jobs), real estate financing (mortgages), management and land administration can decisively contribute to a country's development and hence produce effective social and economic benefits. Globally, these factors can assist in reducing poverty levels and contribute to improved employment opportunities everywhere.

Key indicators:

1. Spatial plans can be a key instrument for territorial development. They should be based on clear and unambiguous land records and uniform spatial reference. Efficient use of resources that encourages respect for landscape and the quality of the environment should be developed. These plans thus have both a regulatory and development function.
2. Effective and harmonized sets of urban plans and building regulations should be in place at local level by local authorities.
3. An integrated land administration system contributes to the following:
 - (a) Developing and monitoring the correct operations of land and real estate markets;
 - (b) Improving urban planning and development of infrastructure;
 - (c) Supporting more equitable land and property taxation;
 - (d) Guaranteeing ownership and security of tenure;
 - (e) Supporting environmental management;
 - (f) Providing property guarantee for credit;
 - (g) Protecting publicly owned land and facilitating land reform;
 - (h) Providing sustainable transactions and control of land use as well as measures to prevent and manage land disputes.
4. Energy efficiency and investments in renewable energy sources should be promoted for both the construction of new buildings and existing buildings' refurbishment. This will reduce energy consumption and contribute to reduced maintenance costs which in turn will affect the value of property, as high management costs greatly reduce market opportunity.
5. Widespread private ownership of agricultural land allows landowners to make strategic long-term investments, with access to credit, aimed at modernizing

agricultural production that is economically viable, while preserving the characteristics of the land.

Principle 5 – Good governance

Governments need to develop integrated policies for decision making. In order to create sound business climate and foster more stable real estate markets, these should be based on unambiguous financial and investment rules.

Rationale

Good governance will contribute to making the real estate market more environmentally sustainable and more socially responsive to the need for adequate housing for all. It is necessary to develop policies for short-term actions to boost the real estate markets, which may stimulate more structural institutional reforms in the long term. This will minimize the recurrence of financial crises and their social impacts.

Key indicators:

1. An inter-sectoral approach to land policy and reforms should be supported and actively encouraged at the highest governmental levels.
2. Prospective buyers/tenants of any type of real estate should have no restrictions on their choice of tenure options, including sale, lease or mortgage.
3. No arbitrary price restrictions should be imposed by regulations on real estate-related markets (e.g. labour, capital land, construction materials), or related real estate services (e.g. brokers, surveyors, valuation experts) or real estate products (e.g. rents).
4. E-government and customer-friendly proceedings should remove substantial unnecessary delays in the administrative approval of procedures for real estate development.
5. The costs of real estate transactions in countries where they are presently too high should be reduced, to improve access to property and allow for greater housing mobility for relocation purposes (e.g. labour, study).
6. Additional legal constraints that inhibit (in part or in total) the freedom of private individuals to enter into private contracts as regards land should be removed.
7. All laws and procedures affecting property rights and transactions should be well documented.
8. Property rights should be protected and fair compensation be paid to affected asset owners in the case of expropriation for public reason.
9. Instruments such as urban redevelopment procedures and land consolidation during land reform should be promoted.

Principle 6 – Sustainable financing

Access to credit and mortgages as well as microfinance for low-income earners are essential elements of a healthy real estate market.

Rationale:

Credit policies directly influence real estate market dynamics in the sense that real estate assets form the collateral on which mortgages and loans are allocated. Competitive and affordable mortgage rates facilitate the purchase of real estate and have a direct influence on living standards. Competitive and affordable mortgage rates with easier repayment installments are increasingly an essential for both young couples and first-home family buyers. Competitive and affordable mortgages and loans, to provide access to private ownership or partial ownership for a growing number of citizens, would contribute to solving housing problems in the long run.

Key indicators:

1. Private investment in the real estate sector should be encouraged.
2. All relevant financial procedures affecting real property transactions should be developed and well documented.
3. Alternative forms of funding based on micro-credit should be promoted, first and foremost in economies in transition.
4. Average returns on investments in real estate and other investments in the industrial and financial sectors should be similar.
5. Small to medium loans may be secured on real estate to facilitate access to credit for vulnerable sectors of the population, especially in economies in transition.
6. There should be no arbitrary restrictions on regulated financial intermediaries allowed to engage in real estate financing.
7. Bankers should be given legal certainty to be able to recover loans with land and real estate as collateral, including *performing* and *non-performing* funds.
8. Insurance coverage against fire, standard risks and natural disasters should be available at internationally competitive rates.
9. All insurance companies operating in the jurisdiction of a specific country should be covered by an adequate regulatory regime.
10. There should be State incentives for helping young couples to purchase homes, through indirect aid (i.e. tax benefits to reduce interest payments) or direct aid (capital subsidies for the purchase/construction of homes).
11. A clear and efficient set of laws should be promulgated to contribute to fostering and protecting the investment of citizens' savings in real estate. Savings invested in real estate contributes to the creation of real GDP value. If resources are invested in this sector (either by the State or private individuals including through public-private partnerships (PPPs)), this increases opportunities for housing, infrastructure and utilities. Also, leasing helps meet the needs of those citizens who cannot afford buying a house, and thus contributes to greater housing mobility for labour relocation purposes.

Principle 7 – Transparency and advanced financial products

Transparency and appropriate valuation of real estate assets used as collateral for advanced financial products can produce social and economical benefits and reduce the probability of future financial crises.

Rationale:

The financial crisis has highlighted a key factor in the relationship between the real estate and financial worlds. The lack of transparency in the assessment of the value and the risk of investments in real estate assets, especially when it has been used to back financial products, appears to be one of the causes for the current crisis. The problem is exacerbated by the absence of compatible regulations at a global scale. The lack of harmonized legislation affects not only financial institutions and their financial products, but also the collateral and other warranties backing these products, which are often real estate assets. Consequently, any discrepancy in the assessed property value and the actual market value will increase the risks attached to real estate, as potential investors may be purchasing titles of uncertain value.

Key indicators:

1. The valuation and rating of the warranty-backed financial products must have a direct and transparent connection with the value and the risk of the real estate asset under warranty and they have to be assessed by an independent appraiser.
2. There should be a minimum capital reserve required to meet outstanding risk (i.e. solvency ratio).
3. There should be adequate transparency, research, publicity and monitoring of the criteria for financing real estate transactions, especially when real estate assets are used to back securitizations and/or advanced financial products.
4. The knowledge of market dynamics and access to information sources should be fostered (e.g., data on the number of transactions and leasing contracts signed in a given period of time, new construction permits issued, average times required for the conclusion of a selling/purchasing transaction, cost of loans). In this way, trend analyses may be developed in an objective and reliable way and be comparable at the national and international levels.
5. Objective and reliable periodical monitoring of real estate price trends (i.e. of sales and rental/leasing) should be performed.
6. Data have to be available and impartial statistics must be prepared. Analyses are necessary to provide information and awareness on the market dynamics to define appropriate economic, financial and credit policies.
7. Transparency of registrations and information on data of all different real estate transactions (sales and rental/leasing) should be ensured.
8. The more a market is open and transparent (and also accessible to foreign buyers), the more numerous the opportunities to have a functioning real estate market and realistic selling prices.

9. Loan-to-value (LTV) ratio has to be considered a basic prudential criterion for providing financing to private borrowers.
10. A prudential loan-to-value (LTV) ratio and the real estate rating must be considered basic criteria for real estate assets to be used as guarantee of advanced financial products.
11. Financial institutions should operate a credit scoring system when assessing lending in a standard format.
12. LTV is not the only valuable standard for providing financing to the private borrower seeking mortgage credit: a steady income (guaranteeing regular debt repayments), and a good repayment records are also relevant.
13. Banks and other financial institutions, real estate appraisers and risk evaluations must be conducted by independent experts and be transparent and public to the investors.

Principle 8 – Property valuation

Property appraisal criteria based on commonly shared valuation standards should be promoted, as it is essential to purchasing and selling activities, access to loans and the application of equitable taxation.

Rationale:

In order to contribute to the creation of more efficient and developed markets, it is necessary on the one hand to improve the reliability of valuation processes for transaction purposes or for landed-property financings based on prudent LTV ratios. On the other hand, developing and fostering the introduction of a real estate rating systems may reduce sector investment risk and encourage loans at lower interest rates. In addition, modern mass-appraisal systems contribute to tax equalization by avoiding very different tax rates being applied to assets with similar economic and technical characteristics.

Key indicators:

1. Property valuation for tax purposes should be based on transparent asset appraisal criteria according to international standards that are implemented at the local/national level.
2. Property valuation for mortgage or loan-granting purposes should be based on transparent criteria, according to international valuation standards that are comprehensible and reproducible also by third-party appraisers.
3. There should be sufficient transparency in data recording for information regarding comparable sales transactions to be readily available to all appraisers. Also, statistical data on the development of real estate markets should be obtained from the data on transactions and should be published on at least an annual basis.
4. The number and amount of taxes on land and/or transactions in land should not be disproportionate to the value of transactions in land that trigger the tax charge.
5. All market operators should have easy access to all the relevant information required to engage in a property transaction, according to existing national legislation.

Principle 9 – Social housing

Social housing should be considered as an integral part of the real estate market, as means to promote economic growth, urban development, reduction in housing pressure, and as a policy option to address the problem of informal settlements.

Rationale:

Social housing can offer development opportunities for the real estate market and housing sector, and it can be a stabilizing factor for economic development. An innovative social housing policy can contribute to recovering and reconverting crumbling or underused buildings as well as stabilizing housing production by the undertaking of multi-year plans for construction of new housing units. It can also facilitate urban development and regeneration, contribute to ecologically sound standards in new construction and refurbishment, stabilize migration flows and reduce social tensions. In several Western countries, social housing has been implemented as part of national housing plans. Also, an excessive percentage of private ownership (i.e. over 80 per cent) may be a disincentive to housing mobility for labour relocation or study reasons. Basic preconditions for successful social housing policies are multi-year strategies, the establishment of institutions and an economic environment that stimulates policy continuity and long-term investments.

Key indicators:

1. A home is a basic investment for everyone, one which may not always be fulfilled by direct access to the real estate market. However, access to homeownership may be supported by government directly or through very-long-term loan opportunities. Every country should develop social housing policies that can respond to the requirements of all segments of the population.
2. National and local administrations should, in line with local housing requirements, implement long-term plans for soft-loan house leasing either through the recovering of the existing housing stock or through new construction. Early planning is recommended, as the implementation of social housing plans usually takes four to eight years from the first initiative to the time buildings are actually let.
3. Awareness should be raised about the importance of the State's commitment and intervention to promote social housing, and also to respond to the demand of poor and vulnerable groups. Awareness should be also raised on the fact that the provision of social housing for those in need is an obligation of government.
4. Rental and leasing policies should, on the one hand, favour the mobility of people for reasons of work and study and, on the other, make it possible to give concrete answers (e.g. through tax breaks by the State or State-supported social rents) to low-income groups.
5. A comprehensive, harmonized set of laws regulating rents, condominiums, management and maintenance, subsidies and social housing should be adopted.

6. PPPs in housing have showed convincing results in many countries. Initiatives should be developed in compliance with the UNECE *Guidebook on Promoting Good Governance in Public-Private Partnerships* (New York and Geneva, 2008).
7. Social housing (through public housing, PPPs, cooperatives, etc.) should be developed as integral part of a housing market. It should compete with private markets to stabilize housing costs.

Principle 10 – Training and capacity-building

To guarantee an efficient real estate market with high quality professional services and building products, investment should be made in training, upgrading and continuous professional development for all those who, in their various functions, are involved in the housing supply chain.

Rationale:

Training at every level in the real estate sector should be considered as a strategic factor, and therefore as a key element for the development and implementation of adequate economic policies and a range of professional services in line with the ever-growing expectations of consumers. Updated know-how and technological resources that contribute to the continuous redefinition of the planning, realization and management of building projects and services require specific skills. This includes not only basic training at the managerial level, but also continuous professional development and refresher courses for all actors in real estate and related professional services. These should be in line with international standards.

Key indicators:

1. Training of adequately prepared higher qualified, up-to-date professionals in the real estate sector is needed.
2. Access to various levels of training on the job is needed and should be guaranteed and encouraged to support the transition from university and post-graduate training to the professional real estate world.
3. Professional refresher courses should be encouraged not only as a prerequisite for top-quality professional services, but also as a driver of mobility within the sector.
4. Adequate training is essential for achieving—and in some cases to reinforcing—a culture of high standard service, top-quality production and efficient management and maintenance of real estate. Successful policies will contribute to innovative construction processes and to the evolution of real estate products.
5. The implementation of the standardization of methodologies and uniform technical language should be promoted.
6. A broader community of experts in the real estate supply chain should be involved. This would be in line with efforts to promote the greening of real estate markets, through developing innovative solutions for the sector.
7. The planning and design of effective systems to monitor and evaluate activities related to real estate, their implementation and results, should be fostered.
8. The interests of the consumer in the real estate sector should be better promoted and protected, pursuing improved efficiency of the real estate market and stimulating innovative and qualitative services. On the other hand, the education of the consumer is also essential.

9. Real estate consumers/investors should become more aware of their rights, which would increase their awareness and enable them to make more informed decisions.