



FORMALIZATION OF INFORMAL REAL ESTATE

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Housing is important

FIG

- Living in a home that is decent & affordable provides for healthy conditions; people are able to perform better at jobs and in school.
- <u>We do wish people to be able to live</u> in homes that are decent & affordable.
- The question is how much can governments afford to provide? No country has enough public funds...countries need foreign investment & the involvement of private sector



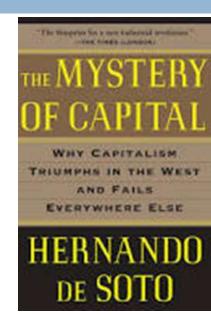
Photo by C. Potsiou

Title registration is important



Registration improves

- security of tenure,
- establishes property rights over the investment,
- minimizes lending risks and
- provides easy access to credit and funding mechanisms; enables the poor to unlock the value of their land; brings economic freedom
- it also improves legal protection, as well as legal empowerment of occupants/owners.



Karl Marx saw private property as the source of wealth and called for its elimination to promote equality.

A century and a half later, we know that a country without a formal system for registering private property rights <u>limits its own economic development</u> and <u>prevents its citizens from realizing their full potential</u>.

Informal solutions: dead capital



The economic transition process includes:

- Privatization
- Property registration

Informal development created dead capital;

it affects negatively the economy as well as the environment and has a major social impact.



Source: The World Bank

Content of the FIG/UNECE publication



Background: 13 years of research in the region

1. Definition / size of the problem in the various UNECE countries

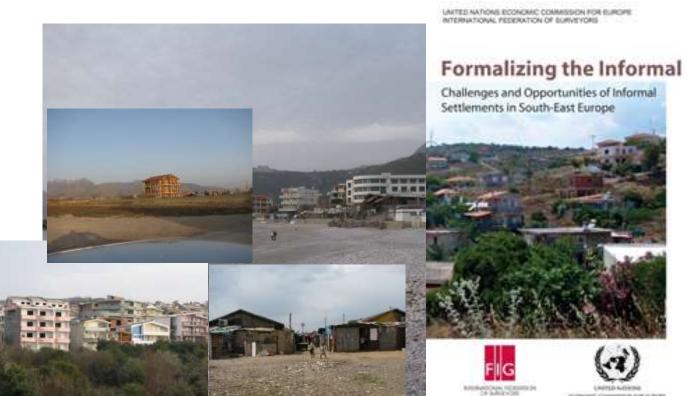
2. reasons /causes

3. various types of informal development in the various countries (with many

similarities)

Albania, Cyprus,
Greece, FYR of Macedonia
Montenegro, Pristina,
But also from
Georgia, Italy, Kyrgyzstan

4. Assessment of the adopted policies



Identified causes

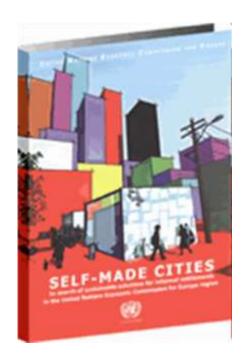


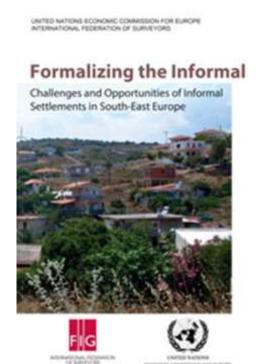
- Major political changes coupled with rapid urbanization, and often uncontrolled, massive internal migration, conflicts, marginalization, natural disasters, cumbersome authorization processes for home improvements and modernization, and corruption may be listed as some of the causes.
- absence of policies by the states and their failure to adopt pro-growth planning as well as affordable housing policies, weaknesses of the private sector, the lack of political will to develop land policies which would facilitate the recognition of existing tenure and private property rights and will aid the transition from centrally planned to market economies; and the failure or reluctance of state agencies to implement measures to support economic reforms.

The obvious



when neither the state nor the private sector provide the supply of appropriate real estate types and quantities to satisfy the current demand, people build informally. People should not be punished as a result.







Informality in the real estate sector is directly related a general informal sector

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- Informality is a prominent characteristic of development in the so-called frontier markets; it affects public revenues, productivity and job opportunity; non-productive, dead capital; competition is distorted
- Informality in the real estate sector is considered to be a social, an economic and an environmental challenge
- Since 2005 we have systematically encouraged countries to initiate where possible formalization projects
- We have assessed the policies adopted by the various governments (formalization or demolition)







a long-lasting, bureaucratic and expensive formalization process?



- we have also managed to identify and quantify the annual GDP loss caused by delaying the formalization of the informal real estate sector, and have proved that it can be significant and worthy of serious consideration.
- The formalization of informal development is the first important step towards formalization in the real property market.
- If there is little or no possibility of selling a house, home ownership can offer little in the way of capital accumulation.
- It is hard to make money from a house that cannot be sold, or nobody is interested to buy.

Why do we need some TG for a F-F-P Formalization?



Rationale for guidelines

Why do we need guidelines?

Policies adopted from the various governments to address the problem:

- often lack of a concrete Fir for Purpose Strategy and in many countries formalization is a long lasting, bureaucratic and expensive procedure
- > may start with the best of intentions but become bogged down due to administrative bottlenecks or change of government
- reflect that governments often understand the problem but they do not fully realize the size of its impacts

a Fit for Purpose solution is needed to meet the SDGs timely, reliably, inclusively & affordably

e.g., require all improvements, conformity to regulations, plus penalties to be undertaken by the occupants prior to any formalization; or provide planning amnesty, but require high penalties while ownership titles where missing are politically more difficult to provide

the momentum is missed

Economic impact

Direct: loss of taxation revenue & fees (informal real estate cannot be transferred, rented or mortgaged)

Indirect: no investment on informal real estate, loss of job positions & taxation revenue through undeclared income of labor in informal sector.

Social impacts

insecure tenure, risk for evictions or demolition

no access to credit, risky investment, permanent threat

lack of services, poor quality of construction/risk for health or life

Environmental impacts

flooding, pollution of waters, soil and air due to illegal wells and sewage systems; high energy consumption due to commuting and poor construction quality

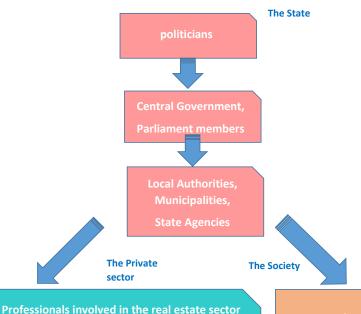
A solution to informal development is the most important step towards formalization in the real property market

- assist policy makers, government agencies, private sector, civil society
- contribute to the global effort towards the eradication of hunger and poverty by achieving the SDGs within the UN Sustainable Development Agenda 2030
- WB, UNHabitat, GLTN, FIG, FAO VGGT, etc

A General Guide



Who to use the guidelines?



lawyers, planners, economists, notaries, surveyors, civil engineers, constructors, real estate agents, appraisals,

Banks & Funding mechanisms

Education/Academia
Schools
Universities
NGOs

Should explain why a country would choose: to go beyond the established scientific/engineering/planning practice, in order to successfully deal with:

- the Property Market Challenges,
- Funding Challenges,
- Structural Stability Challenges,
- Environmental Challenges and
- difficult Ethical Challenges
- Hostile reactions to a formalization project



List of issues to be taken into consideration



- raising awareness about the economic and social benefits of formalization and other socio- economic realities
- legal and regulatory issues
- procedures
- technical advice

on how to:

- engage all parties
- provide incentives
- implement , register, improve, or demolish
- monitor the protected assets
- avoid corruption
- improve relevant policies for sustainable real estate markets

