

*Presented at the FIG Working Week 2017,  
May 29 - June 2, 2017 in Helsinki, Finland*

# Fair, Efficient, and Accessible Property Markets

Richard Grover  
Oxford Brookes University  
UK

[rgrover@brookes.ac.uk](mailto:rgrover@brookes.ac.uk)

FIG Working Week, Helsinki, 30 May – 1 June 2017

# Efficient Market Hypothesis: The Dominant Approach to Analysing Finance Markets

- Developed by Fama and others in 1960s and 70s
- Applied to **real estate markets** by Brown and others from 1980s
- An efficient market is one in which **price fully reflects all that is known about a commodity**
- As new information is by definition **unknowable**, its impact cannot be predicted
- **Prices vary randomly** according to whether news is good or bad – markets are **fair** if they do not consistently favour either buyers or sellers
- Markets can be classified according to the **information embodied in the price**: weak (past prices); semi strong (public information); strong (inside information)

# Institutional Economics Critique

- Emphasis on role of institutions eg norms, values, regulations, legal systems
- Informational efficiency does not necessarily lead to **allocative efficiency** (use of resources) or **operational efficiency** (the way market functions)
- Informational efficiency is compatible with **monopoly** and distortions from **externalities** – monopoly from location and externalities from proximity
- Efficiency is a **relative concept** not an absolute – the issue is who benefits and who loses from change
- **Institutions reflect the interests of the powerful**
- **BUT** good quality information about properties and transaction prices is **essential for valuation** – worth investing in systems that collect and publish this data

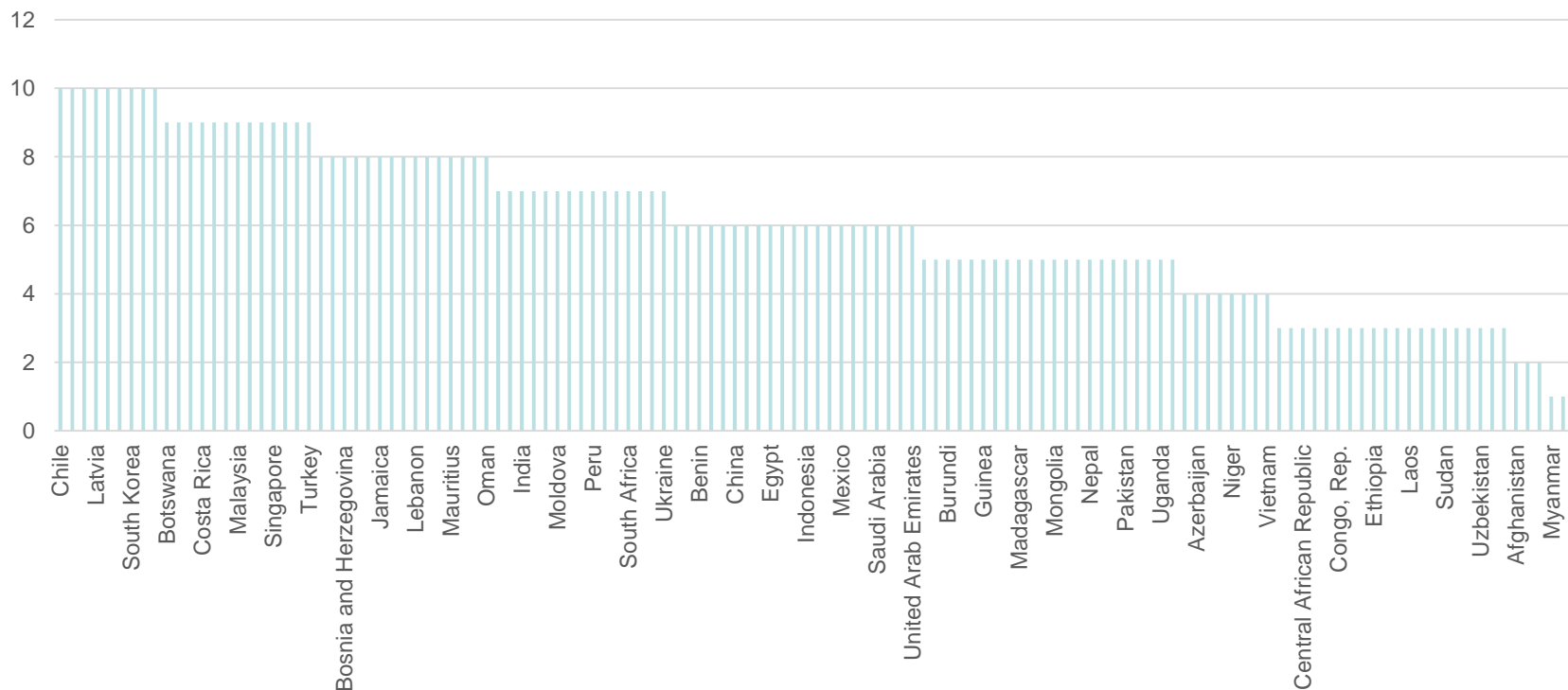
# UN Economic Commission for Europe (2010), *Policy Framework for Sustainable Real Estate Markets*

- Underlying concepts:
  - Sustainability
  - Good governance
  - Transparency
  - Accountability
  - Fairness
  - Efficiency
- 10 Principles

# The 10 Principles

- Integrated legal framework to control and protect rights of possession and use of real estate
- Efficient land register and cadastre to identify and protect rights through secure data
- Efficient services compliant with legal and voluntary regulations, international standards, ethical rules.
- Prerequisites for developing under- or unused resources eg spatial and urban plans, building regulations
- Good governance to create sound business climate based in unambiguous financial and investment rules
- Sustainable financing with access to credit and mortgages
- Transparency and valuation of real estate assets used as collateral
- Property valuations based on commonly shared standards
- Availability of social housing
- Training and capacity building to guarantee high quality services and building products

# Strength of property rights 2016

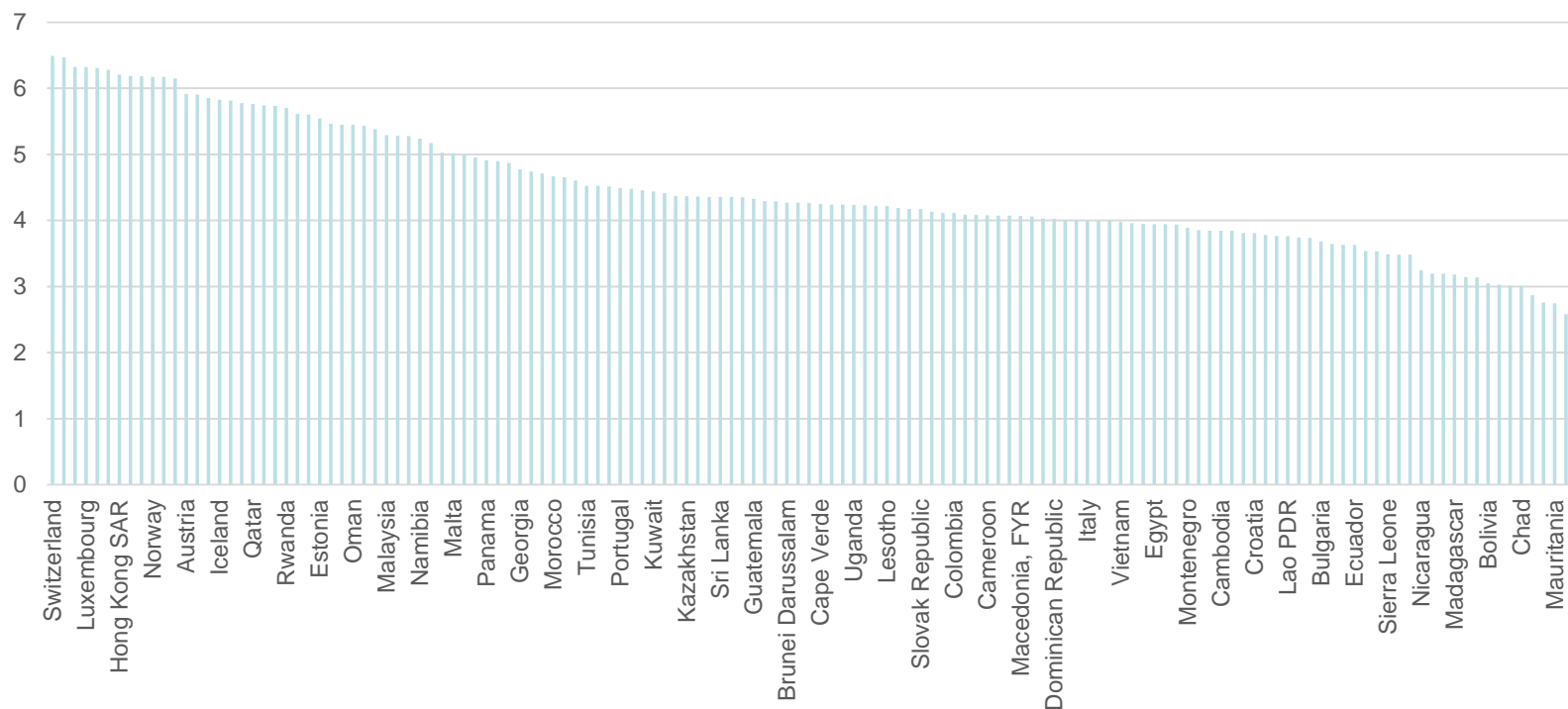


	2016	2006
Mean	5.67	6.12
Coefficient of variation	38.88%	39.60%
Distance of mean from best	1.74	1.60 SDs

Mean significantly worse than best.  
Wide dispersion around mean. No improvement on average 2006-16

Source: Bertelsmann Stiftung's Transformation Index (BTI)

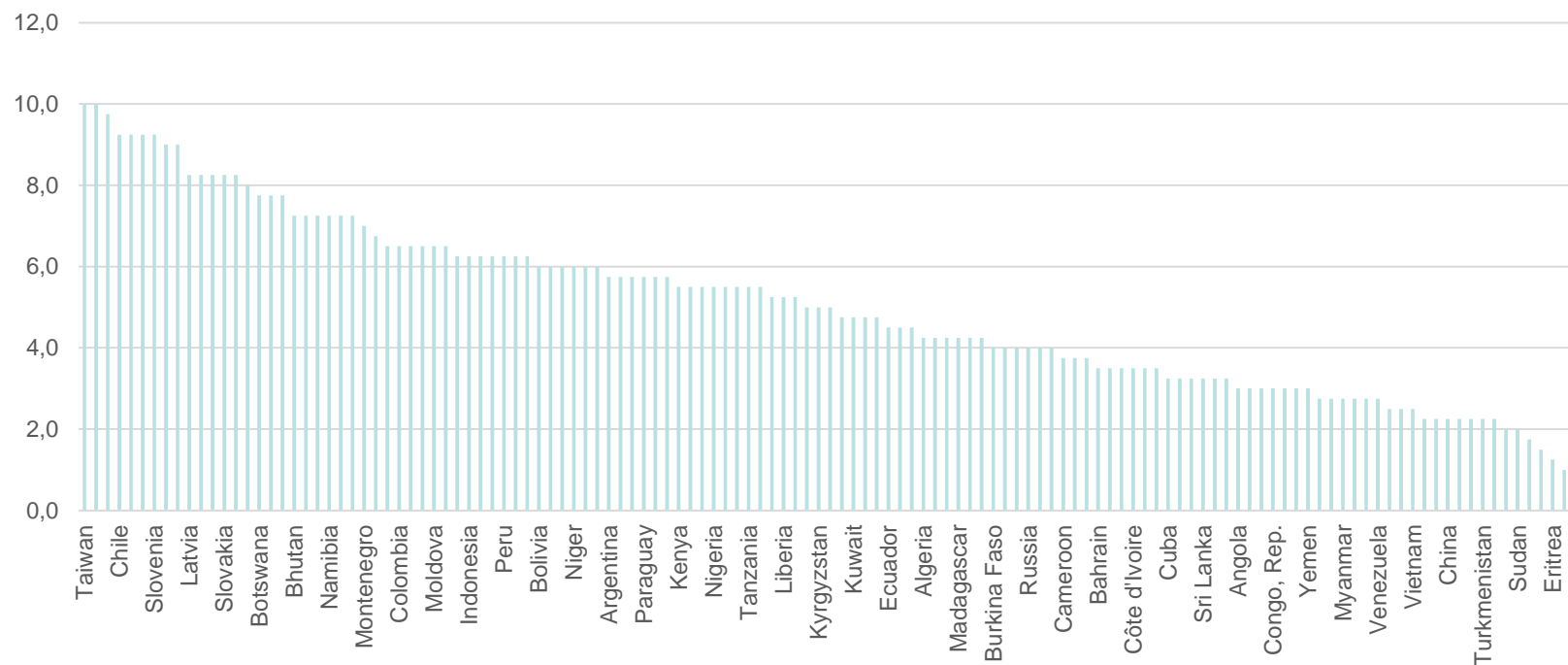
# Strength of property rights 2016-17



Mean	4.45
Coefficient of variation	21.53%
Highest as distance from mean	2.12 SDs

World Economic Forum (2016)

# Rule of Law, 2016

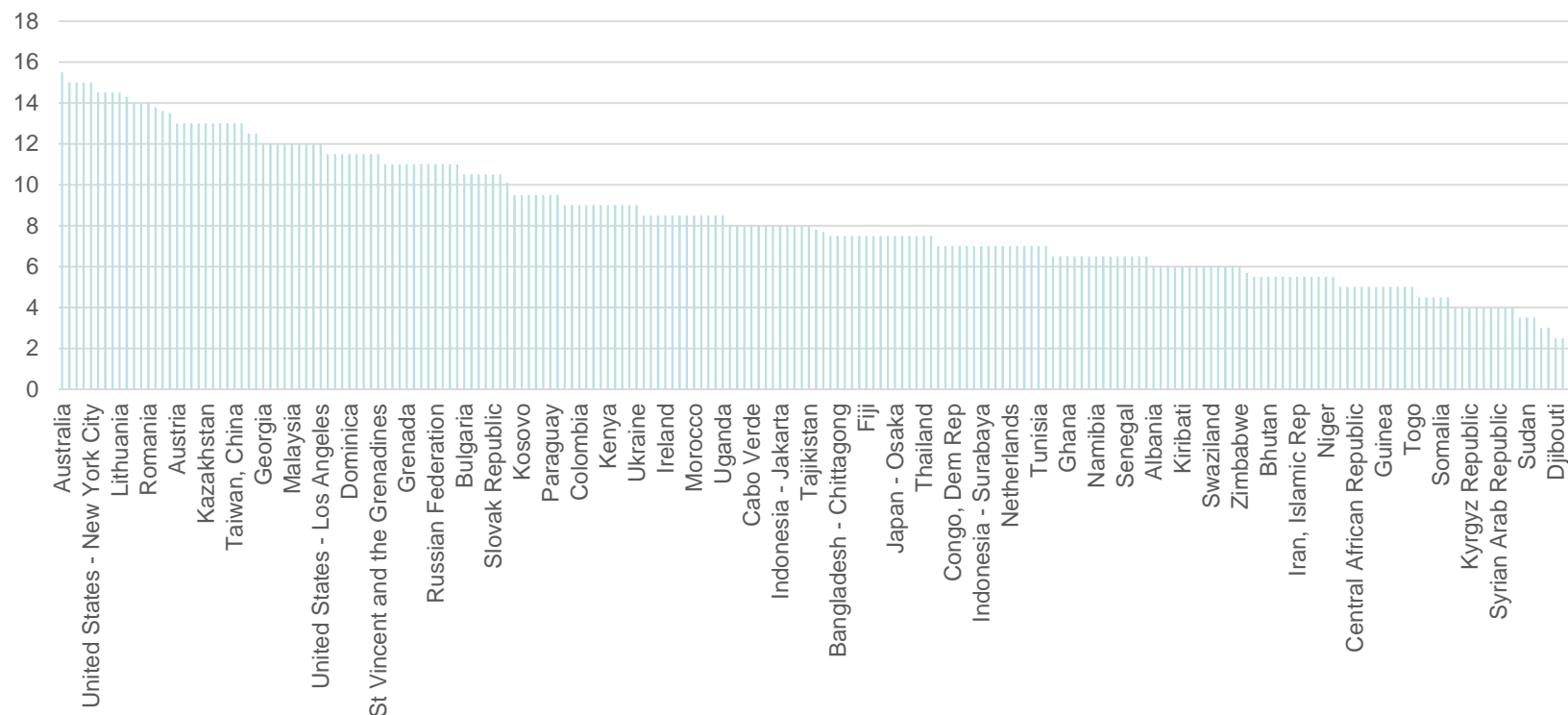


Mean	5.02
Coefficient of variation	42.92%
Distance of mean from best	2.31 SDs

Source: Bertelsmann Stiftung's Transformation Index (BTI)



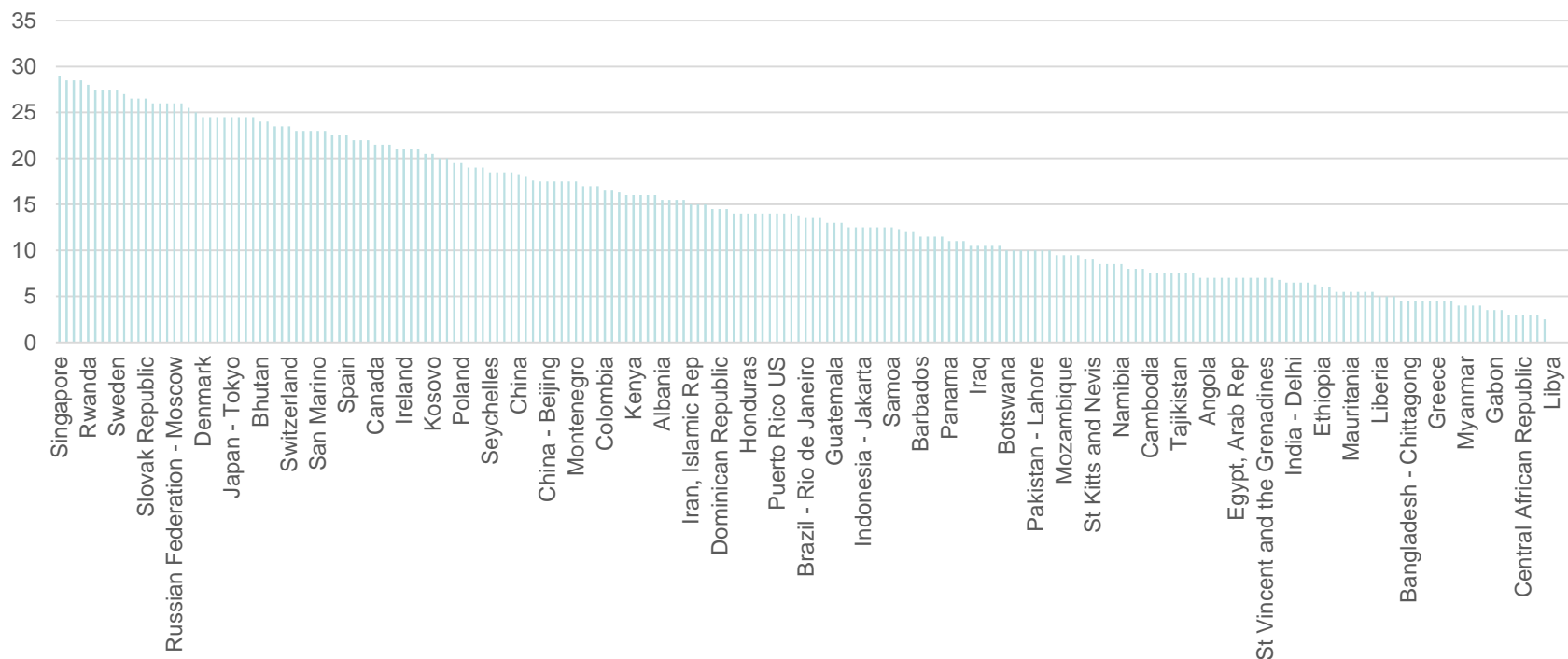
# Quality of judicial processes in enforcing contracts (out of 18), 2016



Mean	8.32
Coefficient of variation	37.6%
Distance between mean and best	2.30 SD

Source: World Bank (2016) Doing Business

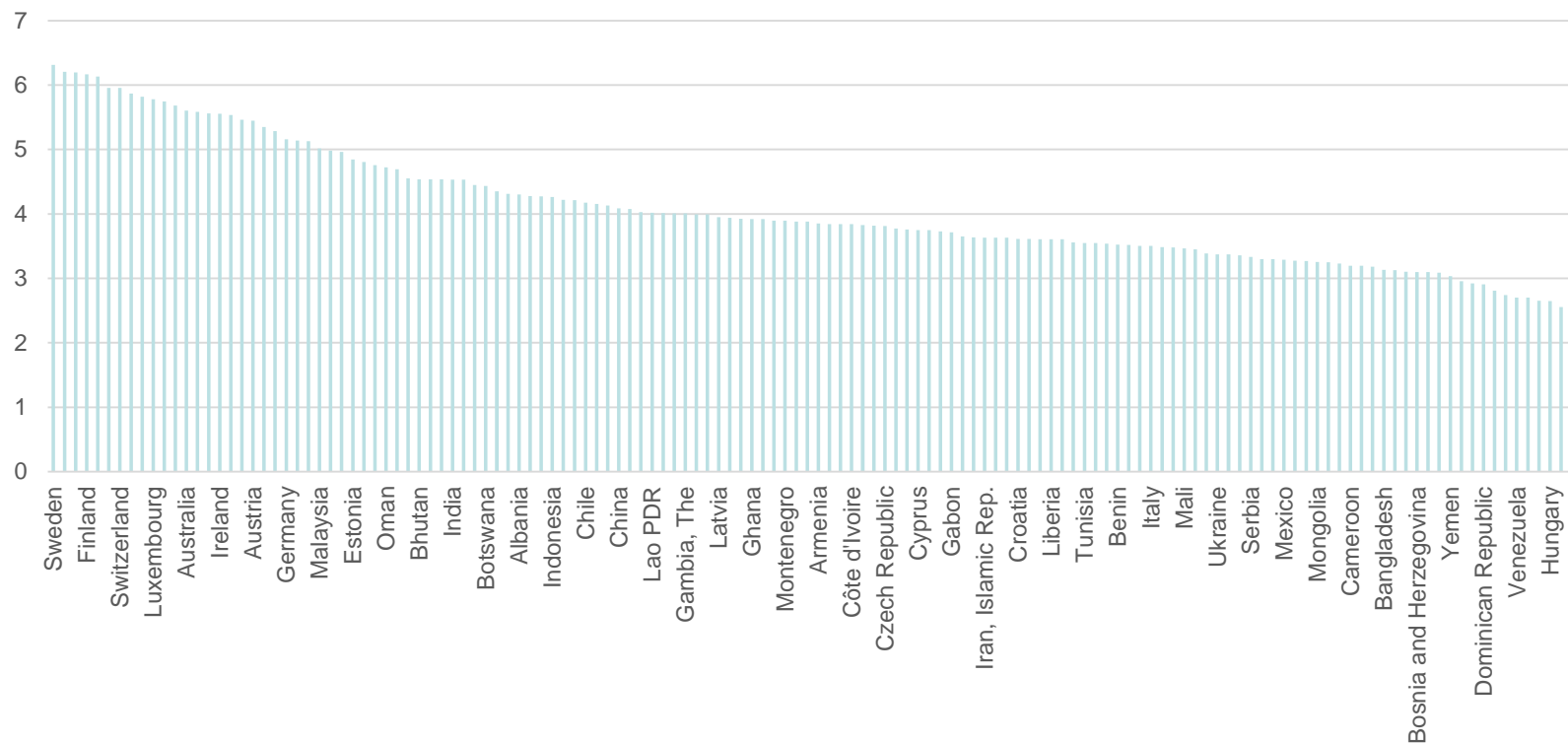
## Quality of Land Administration (out of 30), 2016



Mean	13.96
Coefficient of variation	54.04%
Best as distance from the mean	1.99SD

Source: World Bank (2016) Doing Business

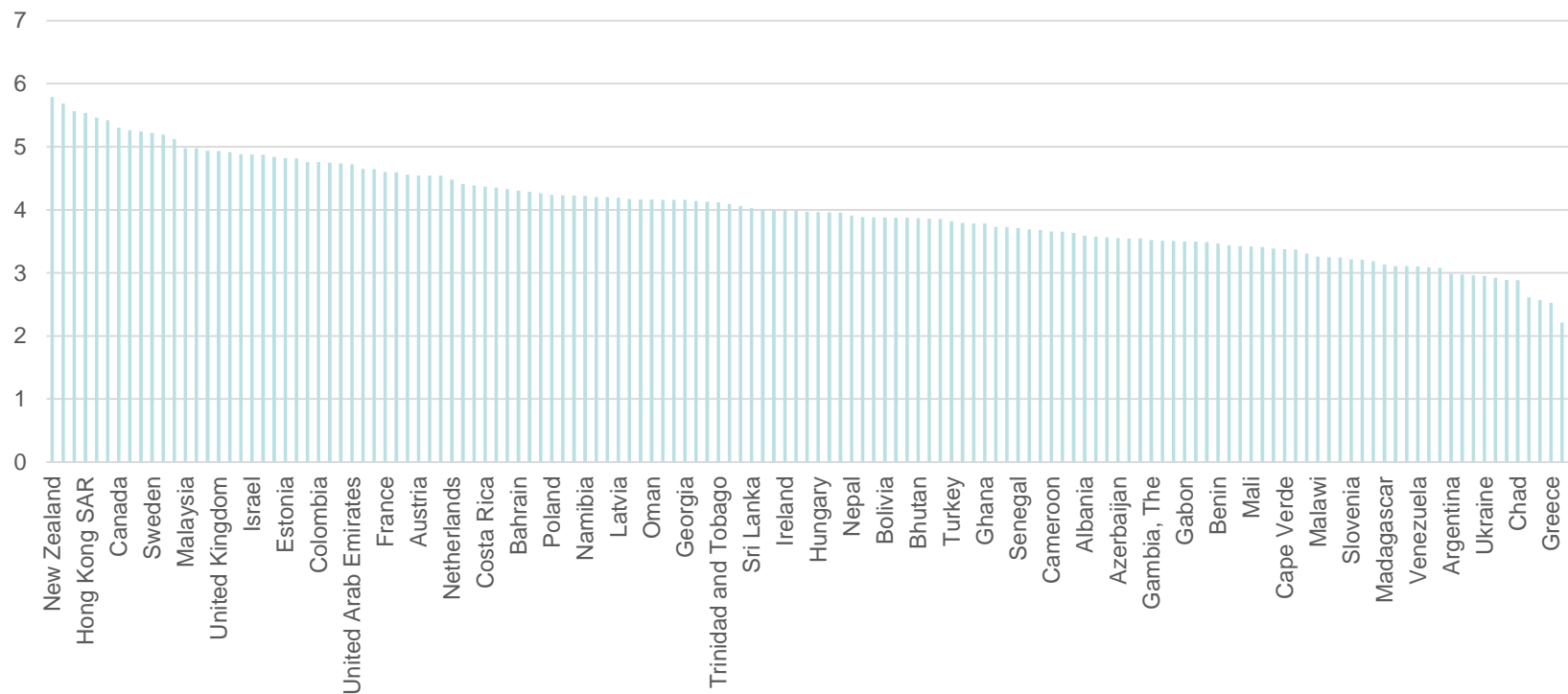
# Ethical behaviour of firms, 2016



Mean	4.07
Coefficient of variation	22.6%
Distance between best and mean	2.44 SD

World Economic Forum (2016)

# Financial Market Development, 2016



Mean

4.00

Coefficient of variation

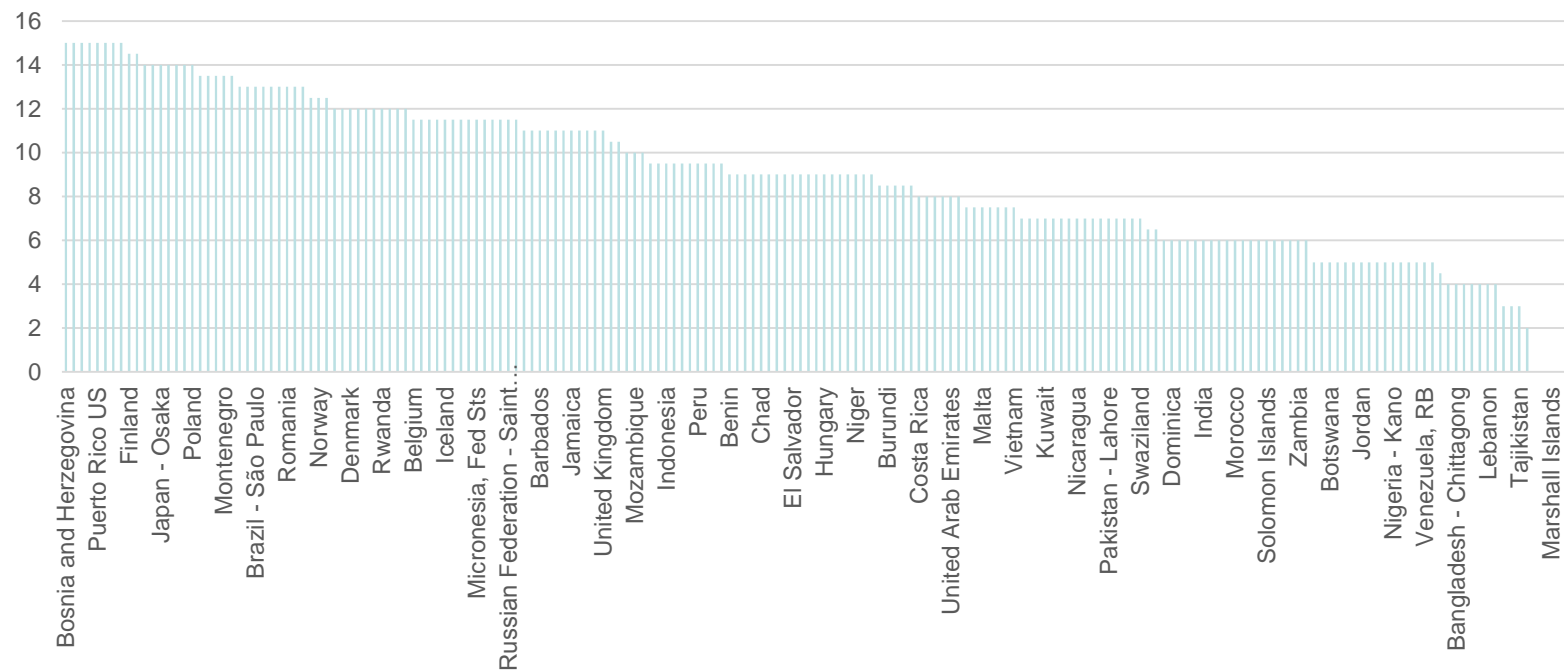
18.6%

Distances between best and mean

2.40 SD

World Economic Forum (2016)

# Strength of insolvency framework (out of 16), 2016

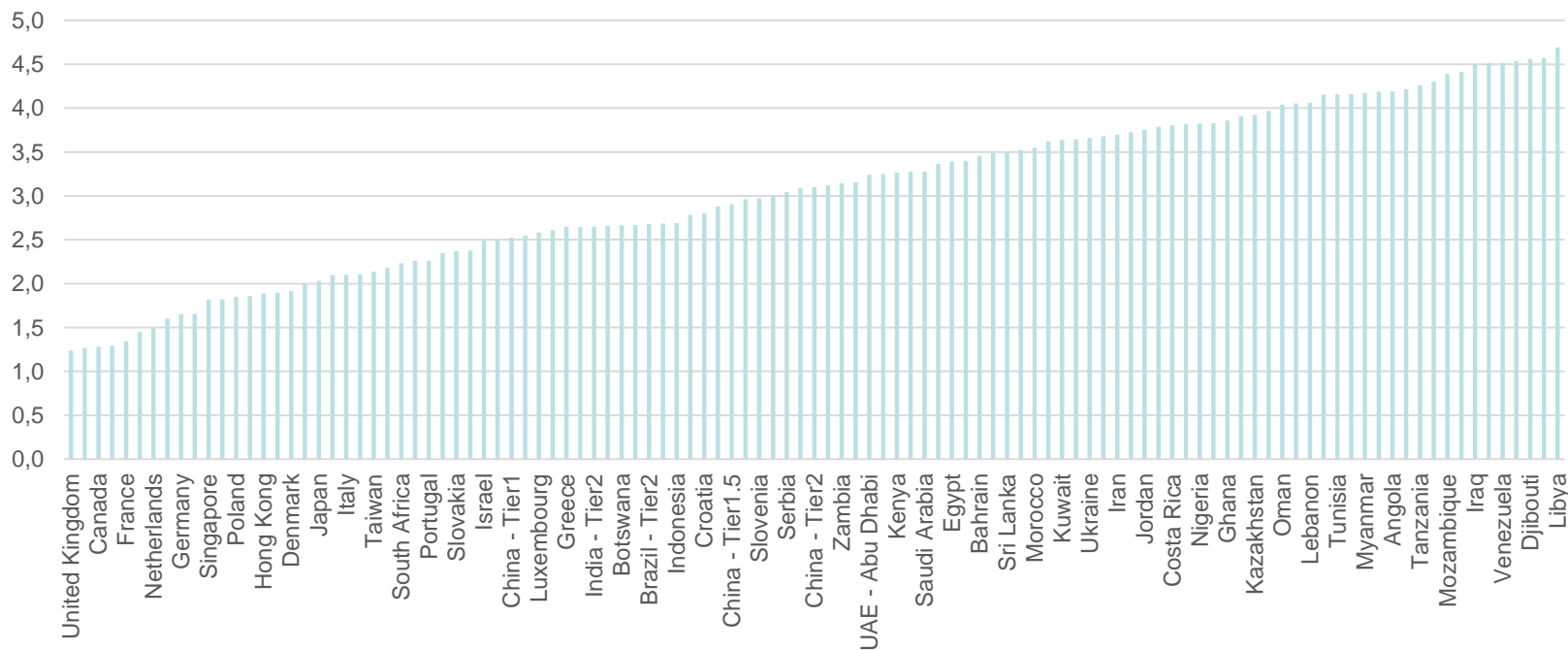


Mean	8.87
Coefficient of variation	39.3%
Distance between best and mean	1.76SD

Source: World Bank (2016) Doing Business

# Transparency of real estate markets, 2016

1 = transparent      5 = opaque

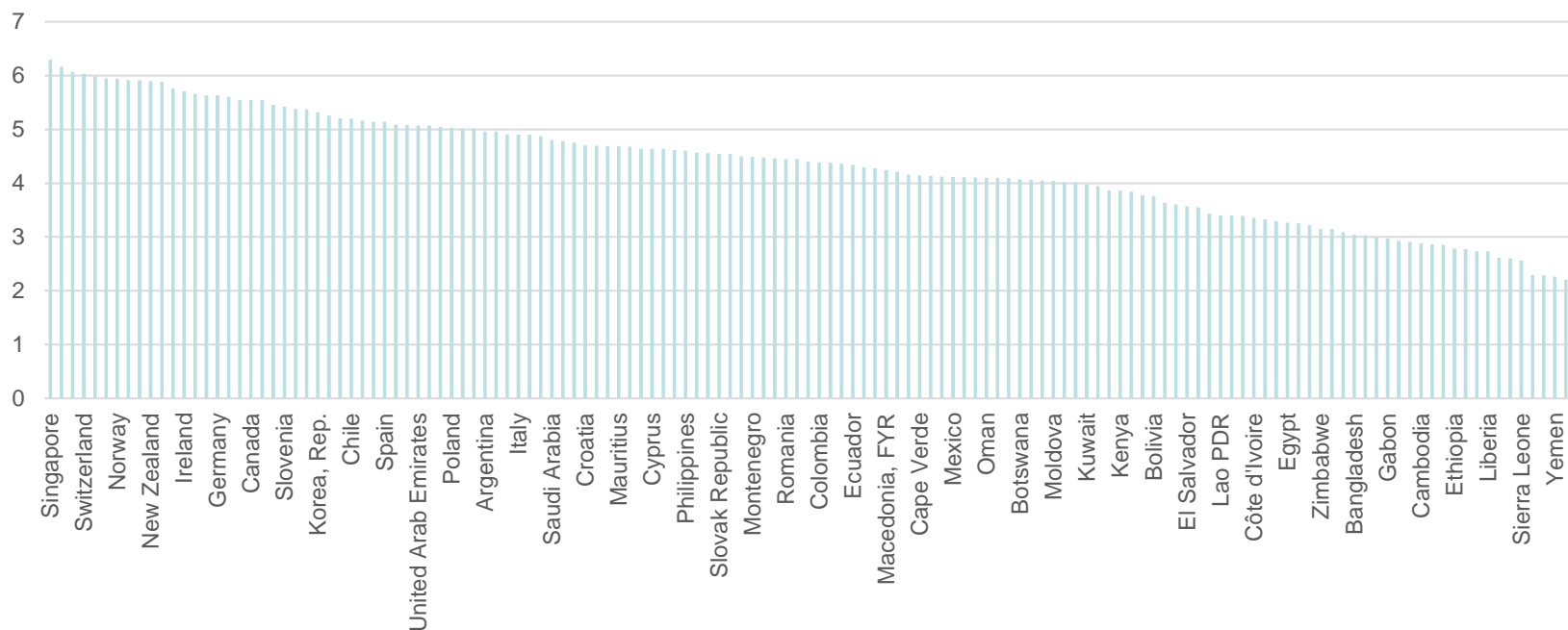


Mean	3.1
Coefficient of variation	30.5%
Mean as distance from best	1.95 SD

- Performance Measurement – 25%
- Market Fundamentals - 20%
- Governance of Listed Vehicles – 10%
- Regulatory and Legal - 30%
- Transaction Process – 15%

Source: JLL (2016) Global Real Estate Transparency Index

## Quality of higher education and training, 2016: a proxy for training and capacity building



Mean	4.31
Coefficient of variation	23.6%
Distances between best and mean	1.95SD

World Economic Forum (2016)

# Conclusions

- On all measures, the mean is significantly worse than the best – most countries have a long way to go before they approach the performance of the most efficient countries
- There is a high dispersion around the mean indicating that there are countries who are performing significantly worse than the mean as well as those that are performing better
- Work on improving the efficiency of property markets is not just about investment in land registries, cadastres, and land administration systems but also legal systems, information, education, and professional services.
- Some of these touch on fundamental human rights – rule of law, freedom of assembly, freedom to receive and disseminate information, protection of property rights – one cannot have a “normal” property market in an “abnormal” society