Central and Eastern Europe: the Development of the Real Estate Market in the Transition Economies

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General
The real estate market is the market that encompasses all transactions which involve dealings in rights or interests in land and buildings. A dealing means the transfer of a right temporarily or permanently from one party to another in return for a consideration, usually money. The development of a functioning real estate market is an ingredient which is vital to the development of the economy of a country which is in transition from a command economy to a market economy. The importance of this fact is not sufficiently acknowledged by many governments in these economies. Real estate can be used in ways independently of any occupancy of it by the owner and, in particular, land can be used as collateral to support borrowings. In these ways, the real estate market and the financial sectors become interdependent and this can be both a strength and a weakness for the wider economy. The use of real estate as collateral enables entrepreneurs and others to realise part of their wealth in real estate to enhance investment. However, governments do not drive real estate markets in market economies but must set the scene and provide the infrastructure to service the needs of the private sector. There are a number of key constraints in the development of the real estate market and these can be identified as follows:

- The Cultural, Political & Socio-Economic Framework
- The Legal Framework
- Governmental & Administrative Framework
- Financial & Banking System
- Private Sector Support Services

Governments do not drive real estate markets in market economies but must set the scene and provide the infrastructure to service the needs of the private sector. Listed below are six functions that governments must undertake in order to facilitate markets and for which only the public sector can be responsible:

- Provide a sound legal basis for the ownership and occupation of property
- Provide an accessible means of contract enforcement and dispute resolution
- Establish and maintain institutions to facilitate and guarantee transfers of interests in property; i.e. land registries
- Control and regulate the development and usage of land and property for the public good i.e. physical planning and building regulations
- Manage the lands and property held in the public estate for public purposes
- Institute and operate a fair property tax system

The list of measures or functions governments must take or perform is short. There are many other measures the public sector can take if it sees the need and can afford to do so. They may influence real estate market but that is incidental to the market’s main purpose.
Real estate markets in the Soviet era and the transition to a true market

Communal ownership of land, one the three main factors of production, was at the heart of communist ideology. However, some private property and an informal property market existed in most of the transition countries to some extent, depending on the severity with which communist ideology was interpreted and applied. For example, in Poland much of the agricultural land remained in private hands and could be traded. By contrast, in Albania, there were no private rights in land whatever. Businesses tended to enjoy rights of occupancy over real estate rather than ownership rights or security of tenure. The state as the owner could reallocate land and buildings to other uses compensation tended to be limited to disturbance and to be payable by the incoming user. Rent payments could not be made as these were ideologically incorrect. Moving from a system where the state is the only land owner to one where private ownership predominates, not only requires a framework of economic, legislative and institutional reform but demands that people change fundamentally the way in which they think about land.

The role of managers has had to change from implementing instructions passed down to them to acting as entrepreneurs – finding markets, purchasing inputs, and making production decisions. The state has ceased to be the owner of many of the means of production and no longer is able to exercise direct control over them through plan directives. In real estate, the process of transition has meant that control, even if not ownership, of significant parts of the stock of land and buildings has passed from the state into private hands. The principal processes by which this has been accomplished are privatisation and restitution.

Private ownership of real estate

Private ownership is a right that has been gradually recognised by several of the former communist countries. As early as 1987 the Hungarian Government enacted the Acquisition of Land Act, which permitted ownership of land by inter alia private individuals and companies. Other Countries, such as Russia, are gradually moving towards recognising the ability of private individuals or companies to own land.

However, there are severe restrictions on the ability of foreign individuals and foreign companies to own land in these countries. Foreign ownership is an extremely sensitive issue for the various Central and Eastern European governments, who are obviously concerned about accusations of “selling off the family silver cheaply”. It is a concern which has applied generally to the privatisation process and, in fact, one of the first privatisations ever in Hungary (that of Hungar Hotels) was actually set aside by the Constitutional Court for being at an undervalue. There was also grave disquiet in Estonia over the sale of the Hotel Viru in 1994.

Restrictions over the interests that can be privately owned and foreign owned are impediments to development of the real estate market and thus to domestic and foreign investment in land-based assets. The inability to create reversionary interests limits the market to one in which use rights over real estate are traded, but there is no investment market. Up to now, the market has been a primary one, in which the state has disposed of limited interests to private bodies or developers who have then built for end users. A secondary market involves the transfer of rights to second or
subsequent owners. Immaturity in the market is characterised by principal to principal rather than agency trades and lack of clarity over real estate rights adds to investment risk. This depresses the value of real estate assets and increases the discount rates used to appraise them. There is risk that control over assets may be lost as a superior right is exercised or the superior rights have to be expensively purchased. There is also opportunity for fraud.

The way in which foreigners have generally been able to acquire land is by the creation of local companies which, even when such companies have been 100% foreign-owned, have been able to own land. Although it is hoped that the current rules will be liberalised as the various Central and Eastern European countries press their respective cases for membership of the European Union, there is no guarantee that there will be any such liberalisation and, in the short term, the laws may even become more restrictive. For example, the Hungarian government enacted a new Act of Parliament relating to agricultural land which, for the first time prohibited 100% foreign-owned Hungarian companies from acquiring agricultural land.

One of the most important factors which has to be borne in mind when examining the developing property market in the countries of Central and Eastern Europe, is the important role that it plays in the inward investment of funds into these countries, a fact which is often neglected by their governments. Banks and other financial institutions will not lend money unless there is adequate security for the money that they lend and, the better the security, the lower will be the interest that is charged on the loan. The main security for loans is real estate and it therefore follows that a prerequisite for inward investment is a functioning real-estate market and, a corollary of this is that their should be a functioning and well-regulated real-estate profession.

**Land Restitution**

An area that caused much concern in the early stages of the post-communist era was that regarding the rights of former owners whose land had been confiscated by the communist governments. To some extent this is still an area that can cause problems for inward investors.

A number of countries have now introduced statutory schemes dealing with the rights of former owners, but the approach taken by the various countries has differed considerably; examples of different methods of land restitution are of various types for example:

1. Former owners are entitled to non-monetary compensation in the form of vouchers which can be redeemed against the shares of companies being privatised as part of the country’s privatisation programme.

2. Legislation is enacted which allows former dispossessed owners to reclaim land which had been confiscated within certain periods. To date there have been a number of Acts of Parliament in some countries granting rights in favour of former owners allowing them to reclaim their land. There is obviously an advantage in returning land to former owners in that it accelerates the creation of a property market.

3. Pre-1940 owners either receive their properties back or vouchers in lieu. For example, every citizen in one country received one voucher for each year of residence, but senior communist officials, members of the KGB and the police received one voucher less for each year they were in post.
4. Everyone in Ukraine who was a user of land, i.e., gardens or agricultural land, may receive land up to a maximum of 50 Ha. If they sell this land in the first year they have to pay back 80% of the money received. This percentage reduces over six years when it is 5%.

5. Former owners of land in Estonia are entitled to restitution of their previous holding or compensation in lieu if it is not possible to restore their actual land. This also applies to non-residents of Estonia.

**Consequences of Restitution**

The first problem that is encountered is one of identification, both of the land and of the former owners. Fortunately most of the countries in question had a cadastre system, often based on the German system, which was in operation before the Communist take-over and, as all good communists are bureaucrats *par excellence* who never throw anything away, at least the new administration have the old records as a starting point.

One of the most obvious problems which arises over the restitution of land to its former owner is that the land may have, and probably has, been lawfully used by someone else for many years. Or the land may have on it one or more buildings which are in different ownership and the person who owns the building has acquired ownership of it quite lawfully. Quite understandably, such people are jealous of their own rights and do not see why they should lose the rights which they may have enjoyed for up to fifty years. There therefore needs to be a court or tribunal which can adjudicate in disputes of this nature and most of the former communist countries who have opted for restitution of land to former owners have appointed such courts who award compensation to a former owner if his land cannot be restored to him and also award compensation to users of the land who have been dispossessed. In the case of owners of buildings on the land, they will normally be given rights to own and use the building or compensation in lieu.

But such solutions themselves give rise to problems; In a country where there has not been a market in land in operation, how do you assess the value of the land for compensation? And, having decided on the amount of compensation, where do you find the money from to pay the claimant? The answer to the first is that you decide on an arbitrary scheme of compensation based perhaps on values per square metre derived from value maps. These prices per square metre are then applied to the area of land that is the subject of the claim. The answer to the second question is that you do as they have done in some countries and issue vouchers which can be used for the purchase of another plot of land. This then can give rise to another problem in a climate of hyper-inflation.

**Frameworks which are required for the efficient operation of a real estate market**

There are a number of factors which need to be in place, the most important of which are a legal framework, a governmental and administrative framework and a functioning financial and banking system.

*Legal framework*

A principal issue is whether the transition economies have developed an adequate legal framework within which real estate markets can function effectively.
Reforms need to include measures to:

- define and protect rights over real estate
- govern the relationships between landowners and tenants
- control development so that it can take place without having undesirable social or environmental consequences
- ensure that contracts are enforceable and fair
- provide mechanisms to resolve disputes and to allow actions in tort

Most transition countries have a tradition of code-based legal systems rather than having ones where precedent through court decisions are significant. Therefore, it is important that they develop appropriate legal codes. The codes that have a particular significance for real estate markets tend to be second or third order codes that derive from the constitution and primary codes that form the main building blocks of a legal system. The transition economies tend to have inherited relatively weak development of civil and commercial law due to their recent histories. This has required considerable work in creating an effective commercial legal system.

**Governmental and administrative framework**

Governments impact on real estate markets in a number of ways but must do so in a manner that does not distort their operations or inhibit their development.

Real estate is capable of providing tax revenues for government, particularly for local government, where its immovable nature has the advantage of making such taxes difficult to avoid. Taxes on real estate need to be fair and not to distort economic behaviour.

This means developing ways of valuing real estate for tax purposes that fairly distribute the burden and establishing fair systems of tax administration.

From time to time, government needs to acquire real estate, for example, for infrastructure projects. This may be against the wishes of the owners so that the property has to be acquired compulsorily. There needs to be fair systems of compensation for those whose property is expropriated or whose property rights are curtailed. The transition economies inherited compulsory purchase systems from the Stalinist era, when expropriation of the means of production rather than fair compensation was the rule.

As the state has been the main owner of real estate, the transition economies have had to engage in processes by which the state divests itself of control over much of these assets. This has been achieved principally through privatisation and restitution. The way in which this is done can have significant effects for the development of viable and sustainable real estate markets.

Government itself needs to function efficiently in its dealing with real estate. At a basic level, this includes the avoidance of corruption and extortion. Real estate markets therefore require an environment of good governance in which to thrive. The development of an infrastructure for real estate markets involves governments bringing forward new policies and legislation to put in place institutions and procedures that were not required under a central planning system. The policies require openness and willingness to change, as well as co-operation between different areas of government.
Markets can all too easily be undermined by bureaucratic resistance and infighting between different branches of government.

**Financial and banking systems**

Real estate development projects require finance for them to be realised. Households and firms are likely to have significant proportions of their wealth or capital tied up in real estate and, from time to time, may need to mobilise it. For example, companies may need to use real estate as collateral in order to raise funds for investment in plant and machinery or working capital. An efficient housing market that supports labour mobility needs there to be means by which households can raise finance to buy housing and trade their existing housing.

The privatisation of housing in the transition economies has resulted in the shrinkage of the rented sector in most cases below the levels typically found in the European Union. The existence of an investment market gives firms the choice as to whether to use their limited capital to own the premises they need for their business or to rent them from an investor.

The development of viable and sustainable real estate markets requires the development of efficient financial markets, including the development of stable banking and financial services systems. These in turn require the development of commercial legal systems, particularly dealing with financial reporting, bankruptcy, the enforcement of debts and contracts, and mortgages. In view of the importance of real estate as collateral for loans to firms and households, the banking system needs viable real estate markets.

**Private sector support services**

There needs to be adequate and well-developed legal, valuation, property management and property brokering skills and then this will result in dealers in real estate being able to get adequate independent advice. They will also have information about their powers to deal, or the potential value of their dealings and they, therefore, will not need to place undue reliance on advice and information provided by bureaucrats who may also be prejudiced in the advice they provide. If the professional bodies are well equipped to influence government policy, to set professional codes of conduct and are able to gain the confidence of the public, then this will result in a climate of regulation, professionalism and consistency in real estate advisory services.

**Transfers of Property**

Because there was no property market in communist times, most of the new democracies have had to introduce a property transfer system and, in many of the countries this has proved to be something of a problem. The old habits of a highly bureaucratic culture which is generally ingrained in the average Central and East European legislator and administrator die hard and, in consequence, the system of property transfer which has been introduced has, in may cases, proved to be slow, inflexible and cumbersome. It is often overlooked by western critics of the new systems that, in the west, systems have evolved and developed over a long period of time, adapting to changing circumstances and changes in law and practice whereas, in the new democracies, solutions have had to be found almost overnight and they have
to be found in a climate of complete change from a command to a market economy. Not only are the public officials steeped in the hierarchical habits of the communist system, but there are few experienced property professionals and the organised professional bodies representing the views and interests of what professionals there are, are in an early stage of development.

The consequences of all this has been that, in a number of countries, the progress of developing a property market has been slowed down considerably. The inflow of western investment funds and the growth of the property profession in the new democracies, both domestic and imported from the west, is already having some effect in speeding up the transfer process and this will increase as the market develops and the profession grows.

**Cadastres and Title Registers**

Most of the new democracies have adopted, or are adopting the system of having property records contained in a cadastre, which is the system operating universally on the continent of Europe, as well as elsewhere in the world. In a number of cases such a system was operating prior to the Soviet take-over and the old system has been used as the base for the new system. The system is run in parallel with a Title Register which, as its name suggests, is a register wherein is entered all the details relating to the ownership and other rights relating to a parcel of land as defined in the cadastre. Before changes are made to the Title Register any transaction has to be certified by the Notary. It is these three separate functions that can give rise to problems if they are not co-ordinated and this has occurred in a number of the new democracies leading to delays and frustrations in the operation of the market. Cost of registration, coupled with the establishment of a valid entry in the cadastre are often a burden which deters transfers

**Property Transfer Taxes**

A feature of every property transfer system, wherever found, is that there is some form of transfer tax payable to the government either by the purchaser or the seller and sometimes by both. The occasion of what is normally the biggest monetary transaction in anyone’s life, the sale or purchase of a property, is too good a chance of raising revenue for any government to pass by. The level of such a tax, however, has important implications on the efficiency of its collection. If the level of tax is high, as it usually is in the new democracies, then there will be a major incentive to under-declare the value at which the property changes hands in order to reduce the amount of property transfer tax payable. Apart from having the effect of reducing the amount of money that is collected in the way of transfer tax, it also has the effect of distorting the collection of statistics relating to value of property and, if this information is used as the source of information for a value-based property tax system, it will also distort the property tax base. There are a number of possible actions that can be taken to minimise the problem:

- simplest, and probably most effective, reduce the level of the rate of tax to a level where it is not worth falsifying the figures. This often does not significantly affect the amount of tax collected;
- have a series of spot checks by valuers of the values declared and impose penal fines for significant under-declaration;
• introduce legislation giving the government the right to purchase any property at the declared figure. This is done in several countries but it is only effective if the government has the necessary funds available and also, from time to time, exercises the right so that the sanctions are seen by the public at large to have teeth.

In a number of countries the tax is levied at around 1% and under-declaration is completely non-existent. The revenue from the tax can be channelled to central or local government or it can be shared.

**Development of the market**

A major problem for both owner-occupiers and firms in the transition economies is the poorly developed real estate finance market. This makes it difficult for firms or households to mobilise the capital tied up in real estate and denies firms the opportunity to use real estate as collateral for raising investment finance. Households find it difficult to raise mortgage finance for house purchase, with adverse consequences for labour mobility. The fundamental problem for real estate finance would appear to be the lack of development of the banking system; the banking systems in the transition economies are not very well developed compared with typical market economies with similar levels of per capita income. Privatisation of the banking systems and the establishment of private banks have taken place at varying rates in different transition economies and liquidity problems and bad debts have been problematic. The history of problems in the banking systems has often resulted in very conservative lending norms. Prudential risk classification systems by banking regulators can place secured lending in a higher risk class than would be expected, with consequential reductions in profitability due to the resulting capital adequacy requirements.

**Residential property**

Although there is now a free market in residential property in many of the new democracies, the market is developing relatively slowly and this is to be expected. Before there can be a flourishing free market in housing a number of changes have to take place and most of these will happen gradually:

• the process of restitution and privatisation of property has to progress further than it has to date and the consequent problems of the process have to be resolved

• the general level of individual prosperity has to increase. Before a country can become a property-owning society it first of all has to become a prosperous society. It is significant that, in the new democracies, most of the activity in the residential property market is in the luxury class of property;

• banks and mutual societies for providing mortgage facilities have to grow and develop so that the finance is available for house-purchase;

• the real estate profession has to grow and develop so that the necessary professionalism is available to service the market and there have to be efficient professional bodies to set standards and govern the behaviour of the real-estate professionals.
Commercial property

The first thing that strikes a visitor from the west when going to one of the former communist countries is the presence of familiar names. In every capital city there are buildings occupied by such people as Benneton, Next and, of course, the ubiquitous Macdonalds and the main roads and motor-ways are served by filling stations selling Shell, BP etc. products and the filling stations themselves are built to the familiar company design found everywhere in the world. So western companies are obviously moving in to the recently freed property market and there is quite obviously an active market in commercial property in the big cities. But what of the situation in the smaller towns? In these locations the market has a greater similarity to the housing market and for a lot of the same reasons. The western-based multi-nationals are not currently interested in locating in these small towns because of their lack of prosperity and the market is, therefore almost entirely indigenous.

One of the major factors which is preventing the development of the retail property market in town centres in a number of countries is problems with land ownership. In Poland and Hungary, for example, the municipal authorities have a virtual stranglehold on land and this near-monopoly pushes costs up and deters developers from assembling sites. As a result, in Warsaw, for example, little new development occurred in the early stages. In general developers looked out of town where the advantages were that there was cheap land, construction costs were low and there were few ownership problems. The general consensus was that retail growth would occur principally in the non-food retail warehouse sector and some multi-nationals are already in the process of building up a regional presence throughout the country. Food retailers, however, are more hesitant.

In Hungary, most retail properties in towns are still owned by the municipality which issues transferable user rights to tenants but the transfer of these rights can be vetoed by the municipality. The government is in negotiation with municipalities on the possibility of their selling freeholds in the open market in return for a capital gain and, in addition, a draft law proposes that existing user rights be converted to the equivalent of leases, probably leases for a five-year term. As freeholds are scarce, development of Budapest City Centre has been held back and the main retail developments consist of out of centre shopping malls.

In the hotel business there has been significant progress in the market. Before the collapse of the Soviet Union, the involvement of western hotel operators was almost exclusively limited to franchises. These have since given way to management contracts as the operators have sought to sell their expertise, while minimising their capital commitments and exposure to risk.

After an early rush as Central and Eastern Europe opened up, many companies lost interest when they discovered the difficulties involved with property development in the region. Ironically, as their interest cooled, the ability of the governments to privatise some of their properties steadily increased. Progress was slow after that, as virtually all the land and existing hotels were held in public ownership, while obtaining vacant possession was problematical and building permits were difficult to procure. Potential developers needed time, resources and patience.
The initial wave of projects begun in 1989 has now reached fruition and this was largely driven by western construction companies, supported by their national agencies and mainly financed by Austrian and German banks. They naturally sought to maximise the size of the building contracts and, in order to comply with local government preferences, they concentrated on four and five-star luxury hotels in the lower-risk capital cities. The low operating costs and high initial room rates - due to a drastic shortage of western-standard hotels - triggered a short-term bonanza for the early arrivals, which catered for the influx of international business executives, but the demand for luxury hotels is now covered in some countries so that trading performances are now levelling off.

From the point of view of both investors and occupiers it is important that there should be an established legal system permitting the letting of premises and also an established letting market. Generally, the various central and eastern European countries recognise the right of an owner to grant a lease of land or buildings. Leases, however, are regarded not as interests in land but as contractual arrangements. Although some do have restrictions on the contents of leases, the provisions are normally a matter purely for negotiation between the parties. Quite often a lease more closely follows the type of precedent used in the country of origin of the landlord/developer rather than any established local form. Occupational leases are generally for relatively short term (often three to five years) with the rent index-linked to a western rate of inflation.

Although still relatively unsophisticated, the legal frameworks are sufficient to enable property developers and investors to become successfully involved in new schemes in the new democracies. Financing can be difficult in the short term but there is opportunity for substantial profit, providing the right site is picked in the right location and all proper investigations are carried out to avoid pitfalls

The role of Real Estate Companies from the West

Real Estate firms are already well-established in the new democracies and, for someone from the UK, specialist Property Newspapers have a familiar look about them as they are full of names of property firms which are well-known in the property profession in Britain. It is inevitable that this should happen, as it is a logical extension of what has been happening in western Europe over the past decade or so. The property profession in Britain is highly structured and has been in existence for a very long time and, over the past ten or twenty years there has been a great expansion of UK based firms in continental western Europe so that all of the major players in the UK property business have a network of branches or associated firms throughout the continent.

In a number of cases where British Firms have set up in the new democracies, they have recruited qualified people from the UK property world who are the sons and daughters of war-time, or post-communist-take-over, refugees from these countries who speak the language fluently, having learnt this, and the customs of the country, from their parents. The property profession in these countries shows, therefore, a lot of similarities with that in the UK, although, it has to be said, that the USA has also not been without influence in this respect, largely because of the large amount of aid which has its origins in the US which has been poured into these countries.
Most of the firms from the West have had to face an initial period during which the new offices have had to be run at a loss, and, during the boom days of the eighties in the western property market, most firms have been prepared to bear these losses. However, following the property recession of the early nineties, some companies, who have been experiencing severe cutbacks in their home-based businesses have not been able to stand the large amount of losses which have built up over the time since the offices in the East have been open and they have cut their losses and closed their East Europe operations in whole or in part.

The development of Professional Societies for the Real Estate Profession

In most of the Countries of Central and Eastern Europe, the emergence of the open market in property has meant the emergence of real estate operators and this in turn has led to the emergence of professional societies representing those who operate in the new market. The development of these professional societies has followed the way that professional societies have developed in the past in the western countries. The societies start off almost as clubs of mutual self-interest and, at that stage, they tend to be anxious to recruit new members and are not too fussy about the professional knowledge and expertise of potential members. Once sufficient members have been recruited to make the establishment of a professional society viable, then they start to become a great deal more choosy over who they recruit and they also start to investigate the professional knowledge and experience of potential members. At this stage they still tend only to require proof of experience in real estate work and there is normally no requirement that candidates for membership should have undertaken a vocational education course or obtained a professional qualification. This stage comes later and is now being reached in some of the new democracies.

This pattern is precisely the same as has occurred in the development of the professional societies in all disciplines in western democracies in the past. A good example is the case of the oldest real estate professional society in the UK (and also the oldest established in the world) the Royal Institution of Chartered Surveyors who developed precisely in this manner over a fairly long period beginning in the early nineteenth century.

There are now a number of professional societies in the countries of central and eastern Europe and these are, increasingly taking their place in the various European and International groups of professional real estate societies such as the European Group of Valuers Associations (TEGoVA) and the International Federation of Surveyors (FIG).

The development of codes of professional practice

The development of codes of professional practice is the third stage in the development of a professional society which follows the first, which is when there is active recruitment of members from everyone in the property business, and the second which is when membership is restricted to develop the exclusivity of the society. In the early part of this stage the codes of professional behaviour are often as much, if not more, concerned with protecting the members of the society from one another, as they are with protecting the public. The sort of thing that is often dealt with at this
stage is to protect individual member firms from what is seen as unfair competition and is often concerned with touting for business and “poaching” another firm’s clients. It is also quite common at this stage for the society to set scales of charges (normally minimum charges) which members have to adhere to. This is usually said by the societies to be in the client’s interest as they can know in advance precisely what the fees will be in any particular situation. In truth, scale fees are more in the members’ interests as they prevent under-cutting.

Once this stage has been reached and passed, i.e., once the professional society has become “respectable”, then the codes of professional practice start to become much more in the clients interest and usually concern requirements that money which is held by members on behalf of clients is kept separately from the members own funds and also that the firm should have adequate professional indemnity insurance so that, if a client successfully sues the individual member for professional negligence, there are adequate funds to meet any award of damages.

Societies normally have a specialist committee that is charged with monitoring professional behaviour, investigating complaints, and dealing with members who transgress the code of conduct. Penalties can go as far as expulsion from the professional society and this can, in countries where the property profession is highly structured and has a long history, mean that the member loses his means of making a living. In the UK this is a fairly common occurrence.

**The development of standards for valuation**

A natural follow-on from having a code of professional behaviour is to produce a set of standards for valuation, particularly in respect of commercial and industrial property. The objective of having valuation standards is so that there is a standard method of dealing with the various matters that have to be considered when carrying out a valuation. The reason for this is so that users of the services of professional valuers can know precisely what it is they are getting when they commission a valuation. If, for example, a client asks the valuer to advise him what the open market value of a particular property is he, the client, needs to know what assumptions the valuer has made in arriving at his valuation and a set of valuation standards will define this precisely. Similarly, an investor in a public company who examines a company’s annual accounts needs to know precisely on what basis the property assets shown in the accounts have been valued. The valuation standards will also do this.

The first country to produce formalised valuation standards was the UK in the form of the “Red Book”. Standards have now extended worldwide and there is now The International Valuation Standards Committee (IVSC) and The European Group of Valuers Associations (TEGoVA). The professional societies in the new democracies are joining these bodies, either as full members or as observers, depending on the rules of the various bodies. (TEGoVA) recently introduced a scheme of Certification of Valuers whereby they monitor and test the education requirements and code of practice of a professional organisation and, if satisfied, authorise that body to be a certification body under the TEGoVA scheme. This scheme is supported by the European Mortgage Federation, and as TEGoVA has adopted the policy of approving professional bodies, this should, in principle, strengthen professional valuers’ associations in the transition economies and aid mutual recognition of qualifications.
It should result in the nationality of the valuer or of the professional body to which the valuer belongs being immaterial as long as the professional body to which the valuer belongs is TEGoVA approved. Therefore, it should increase the acceptability of valuation certificates issued by valuers from the transition economies and reduce investment risk.

The TEGoVA policy also requires the development of valuer education. Approved bodies are required to set a relevant degree and three years supervised practice as entry standards. TEGoVA recently produced a book “European Valuation Standards 2000” which sets out valuation standards and is endorsed by the 38 member Associations of TEGoVA, together with the United Nations Economic commission for Europe, the European Mortgage Federation and many other bodies.

The need for education and training of Valuers in an internationalised real estate market

As the property profession in the Countries of Central and Eastern Europe develops, the profession will increasingly become part of the international scene and will start to face some of the problems that are common throughout the western World. The new societies will also be expected to conform to standards of training and education, which are becoming increasingly internationalised.

Questions concerning the role and responsibility of the valuer have become highly relevant as a result of developments in the real estate market in recent years. In turn, this leads to questions concerning the education and authorisation of valuers. These issues have gained even greater international significance due to the fact that the real estate market, and real estate consulting services, have become increasingly internationalised. There is a major need for co-ordination and a common approach to questions of valuation.

There is also much to be gained from the international exchange of experience. This provides a broader perspective of the critical viewpoints concerning real estate valuation and, thereby, a better basis for the further development of methods and application procedures that must be achieved in order to avoid the threat from other professional categories - who would be perfectly happy to take over the business.

Competence, integrity and neutrality are three strategic key words, in addition to relevance, reliability and capacity for verification.