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REAL ESTATE MARKET TRANSPARENCY AS AN IMPORTANT FACTOR IN INVESTMENT AND DECISION MAKING

Real estate market transparency entails the incorporation of the objectives of smart sustainable development and growth into industry and government operational practices and plays a crucial role in a city's success. It enables governments and public bodies to function effectively, providing long-run benefits to local communities and the environment and helps create a more competitive and flexible environment for investments and businesses, as well as contributing to improvements in quality of life for citizens. Without high levels of transparency, real estate markets cannot work efficiently.

The objective of the paper is to propose approaches to measuring the real estate sector transparency. The Global Real Estate Transparency Index and methods used for transparency assessment are described. This is done by presenting an overview of the transparency indicators and the methods of improvement of the situation in the real estate sector.

Real estate markets in most European countries are transparent [1]. This means that transactions are fast and secured, government behaviour in tax and legal spheres is predictable and regulators fully disclose financial information. European part of the rating is headed by Britain, France, the Netherlands, Germany, Ireland, Sweden and Finland. At the same time, Jones Lang LaSalle (JLL) experts found problems that affected Central and Eastern European markets [2]. The saddest situation in Europe is in Russia (38), Slovenia (46), Serbia (47), Bulgaria (49), Ukraine (69) and Belarus (88). In the newly released biannual Global Real Estate Transparency Index (GRETI) 2018 by JLL, Belarus is ranked 88th, an improvement from the 2016 edition of the Index where the country was ranked 100th from 108th countries. JLL has been tracking the transparency of the global real estate market for 20 years and today. Belarusian real estate market is considered as an opaque all these years – the only European country and the only from CIS countries in 2018. Kazakhstan and Mongolia accompanied Belarus in 2014 ranking as an opaque market. But in 2018 and 2016 Kazakhstan are considered as a Low Transparency market but not an opaque. Jamaica and Mongolia were withdrawn from JLL Global Real Estate Transparency Index update. The world's largest emerging economies are concentrated on the cusp of 'Transparent' status. Accounting for almost 50% of global population, these 'Big 8' markets (Brazil, China, India, Indonesia, Mexico, Russia, Thailand and Turkey) present enormous real estate opportunities that are currently restricted by a lack of transparency. While many of these countries continue to make improvements, further regulatory reforms – and, crucially, stronger enforcement – will be needed to push these markets into the 'Transparent' tier.

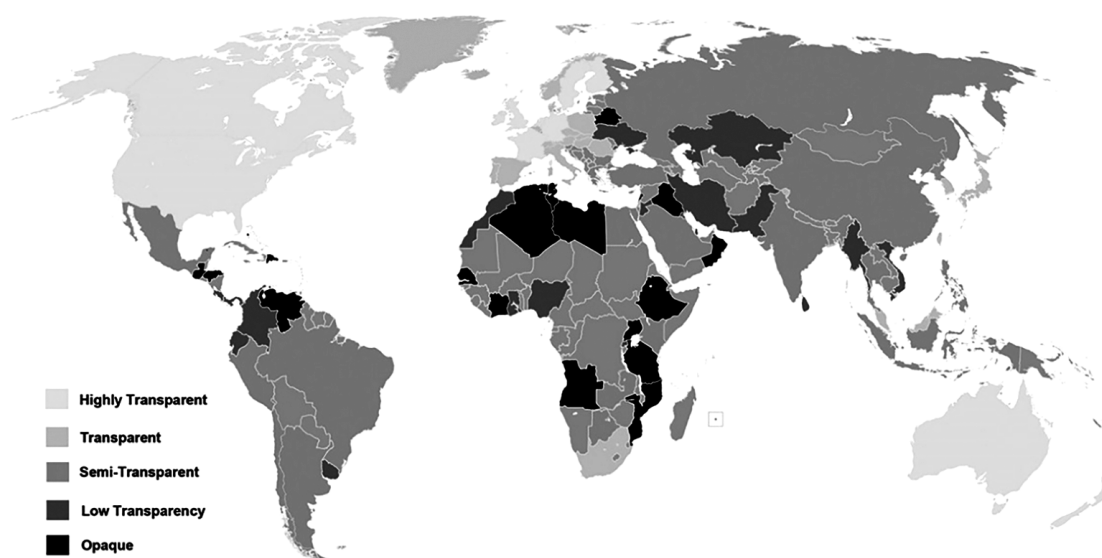
Now let's describe what the Global Real Estate Transparency Index is and what indicators form the final results. The Global Real Estate Transparency Index is based on a combination of quantitative market data and survey results across 100 countries and 158 city markets. 186 individual measures are divided into 14 topic areas, which are then grouped and weighted into six broad sub-indices – performance measurement 28.5 %, market fundamentals 16.5 %, and governance of listed vehicles 10 %, regulatory & legal frameworks 25 %, transaction process 15 % and environmental sustainability 5 %. In the first block are estimated efficiency and effectiveness indicators. These are the price indices for real estate, the share of institutional investors in the market, independence and quality of the evaluation activities of foreign companies and etc. The second block includes market performance: the presence and duration of time scales, reflecting different quantitative data (rent, yield, occupancy (load) in different types of properties and etc.). In the third section are reviewed the financial regulators – how often the market reports are published, how detailed

they are, whether the English versions are available. The fourth block deals with the laws there is published all information about real estate registration and taxes. The fifth section is devoted to the transaction process: whether the complete presale information is available, how transparent are the auctions and how honest are realtors. Transparency index is calculated every two years.

The Index scores markets on a scale of 1 to 5 (with 1.00 being the highest possible score). Depending on their overall performance, markets are assigned to one of five transparency tiers. The criteria are qualitative or subjective and these are calculated on the basis of the experts' responses on a scale from 1 (highly transparent) to 5 (opaque).

In 2018 the demand for higher transparency was stronger than ever, as investors continued to increase their allocations to the sector, public debates around property ownership continued and the industry grapples with significant structural changes. Over the past two decades, the Index has become established as the leading industry benchmark for assessing market transparency. Now in its tenth iteration, it continues to guide the sector towards higher standards.

The survey also reveals that the landscape of transparency is shifting, with new issues emerging on the horizon as the real estate Sector undergoes unprecedented structural change (see: figure).



The World of Real Estate Transparency. Source: JLL, LaSalle Investment Management

Four key issues, with significant implications for transparency, stand out:

- The emergence of the ‘proptech’ sector, as new technologies are adopted by the industry;
- The rise of the flexible office space, as major disruptors change real estate market dynamics
- The spotlight on beneficial ownership and anti-money laundering, as public debates around corruption, tax evasion and ownership continue to make headlines;
- The maturing of the ‘alternatives’ sector, as it goes mainstream and investors demand higher transparency.

The first item is one of the most important. In this new age, digital technology has already become the defining transformational force. They have rapidly become the central new drivers of productivity growth, innovation and the diffusion of knowledge on a global scale. Those who embrace digital technologies as the central transformational force of this new age will prosper. While digital transformation has disrupted almost every type of business, the real estate industry has been traditionally slow to move with the times.

In areas ranging from computer-aided design to development of new construction materials and technologies, to the use of augmented-reality marketing solutions, a long list of innovative new technologies is starting to gain traction, with potentially profound consequences for the real estate and construction industry. It will help to increase the input of the real estate sector in GDP and provide sector’s growth and transparency.

The another Real Estate Environmental Sustainability (REES) Transparency Index is based on a survey completed by JLL Energy and Sustainability Services experts in every 100 countries. Canada has joined France, Australia, Japan and the UK in the ‘Highly Transparent’ group in 2018, while Belarus has still sheared the ‘Opaque’ group with Kazakhstan, Uruguay, Kuwait, Panama, Ukraine and others. Low REES Transparency has Slovenia, Turkey, Bulgaria, Serbia, Hungary, Saudi Arabia, Egypt, Iran, Lebanon and some other countries.

Conclusions

Real Estate Transparency and Environmental Sustainability market transparency entails the incorporation of the objectives of smart sustainable development and growth, digital and investment performance, into government and industries operational practices. Sectors and companies that compete globally are increasingly required to be evaluated on an international level with recognized indicators. Such an assessment is a comprehensive process to achieve the best performance and determine the weak points of the studied sector’s transparency.

The data and information obtained in the Global Real Estate Transparency Index may be helpful for both foreign investors and government. High-quality real estate market data sends developers and investors a clear signal about when and what types of space to build, while benchmarks on the energy efficiency of commercial buildings enable businesses to make informed choices and help cities on a more sustainable path. For individuals, transparency means they can enjoy the security of property ownership, safe housing and workplaces, and reliable and professional services.

While making internal decisions related to real estate sector development, a government and industries should consider these types of valuations. Further regulatory reforms, and crucially enforcement, will be essential for these markets to move Belarus into the ‘Transparent’ tier. The management from real estate sector should look at the parameters such as performance measurement, market fundamentals, and governance of listed vehicles, regulatory and legal frameworks, transaction process and environmental sustainability.

We believe that the data obtained in the research may be helpful for companies, foreign investors and government in terms of making a proper choice of a real estate sector development in Belarus and creating investor-friendly conditions in the country. In a future, it gives a chance to the county to get a better position in Global Real Estate Transparency Index ranking.

References

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