

**Administrative Barriers to Investment in the Tomsk Region:
Recommendations for Expanding Investment in Land and Real Estate**

EXECUTIVE SUMMARY

A Report to the International Finance Corporation

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March 15, 2003

Objectives:

The main objectives of the regional administration with regard to real estate, as expressed in various discussions during the IFC mission, include the following:

- Maximize direct and indirect returns on real assets.
- Improve the management of the regional and municipal properties.
- Attract investment.
- Develop the construction industry as a contributor to the regional economy.

Main Tasks:

To achieve these objectives the consultants have recommended that the Regional Administration pursue several main tasks, as follows:

- Encourage further divestiture of land and creation of a private land market in the region.
- Take steps to increase the supply of land and real estate facilities in the region available for formation of new businesses and expansion of existing businesses.
- Take steps to increase demand for land and real estate facilities.
- Demonstrate at the level of the Regional Administration a comprehensive asset management plan for state-owned real estate assets.
- Implement a system of performance indicators and performance monitoring to periodically assess progress towards achieving the objectives and implementing the main tasks.

Opportunities:

There are significant opportunities for achievement of the main tasks. These include:

- Land Code and other recent legislation.
- Supportive Federal Government.

- Supportive Regional legislature and administration.
- Economic growth in Tomsk Oblast.

Constraints:

Constraints on achieving the main tasks which came to the attention of the consultants included:

1. Lack of accessible property inventory.
2. Division of ownership of land plots among state, regional and municipal governments.
3. Large number of federal facilities in the Tomsk region.
4. Some regional and city officials remain concerned about the potential necessity to buy-out the privatized land for public use in future at market prices.
5. Long delays in obtaining land and construction rights.
6. Competitive procedures (auctions or tenders) for allocation of land and property have not been implemented.
7. Outdated city planning.
8. Infrastructure deficiencies and difficulty obtaining technical conditions.
9. Difficulties for the Regional Administration to affect municipal policy.

Recommendations:

There is no single action that will address the current constraints on development of land markets in the Tomsk Region. Progress will require a comprehensive program of legislative and administrative steps, both short and long term. Moreover, as is well known, many of the most significant constraints on development of land markets arise under Federal legislation, which the region may affect only by documentation of the defects in the legislation and providing leadership towards implementing the necessary modifications.

The proposals made in this report therefore focus primarily on those steps which the regional and municipal administrations may take. For convenience proposals are organized under five headings - supply, demand, time and costs, asset management and performance monitoring:

- Proposals grouped under the heading of supply are aimed at increasing the amount of land and other real property that can be made available for investment. Eliminating restraints on supply should have beneficial effects on prices and availability of property.
- Proposals grouped under the heading of demand are aimed at increasing the attractiveness of property ownership to investors and entrepreneurs and facilitating access to real property.
- Time and costs may be considered a subset of actions aimed at increasing demand.
- Asset management provides a detailed proposal for improving the approach to management of public real estate assets, and
- Performance monitoring provides suggestions for assuring that policy initiatives are meeting their objectives.

Analysis and recommendations in each of these areas are presented in greater detail in the main text of the report.

Supply

1. Complete and make widely available an inventory of state and municipal real property.
2. Create a "single window" agency with responsibility for maintaining an inventory of state and municipal property available for development, redevelopment or use, and providing advice and assistance regarding real estate matters to potential investors.
3. Implement a joint municipal/regional task force to address the acceleration of applications for privatization of land parcels under article 36 of the RF Land Code.
4. The Regional Administration should open discussions with the Federal government to:
 - (a) Delegate federal property management authority to the regional administration; and
 - (b) Delegate processing of federal privatization applications to the regional administration.
5. Accelerate privatization, consolidation, and liquidation of regional enterprises.
6. Implement a pilot program for preparation of serviced land sites.
7. Audit of all outstanding preliminary state acts for allocation of land rights and terminate those that have exceeded the time limits; prohibit multiple consecutive renewals of preliminary allocations of land sites.

8. Bring land and premises rents to market levels and eliminate land rent concessions for enterprises.

Demand

1. Eliminate land rent concessions for enterprises.
2. Improve terms of purchase for land privatization and other land sales by offering an extended payment option.
3. Implement competitive proceedings for allocation of land rights.
4. Implement transparent procedures for non-competitive allocation of land rights.
5. Reduce Time and Costs for Obtaining Property Rights and Development Permits.

Time and Costs

The levels of demand for and investment in real property are affected by costs and prices, which are directly affected by the time spent in acquiring property and development permits. Reduction in the time and costs of acquiring real estate and development permits is therefore a main strategy in increasing demand and investment. Some important steps that can be taken to reduce time and costs of allocation of property rights and issuance of development permits include:

1. Encourage expansion of the private sector surveying industry.
 - (a) Make surveying a focus of programs for small and medium size enterprises.
 - (b) Eliminate privileges of regional technical inventory agency.
 - (c) Encourage spin off and privatization of district offices of the regional technical inventory agency.
 - (d) Eliminate barriers to entry of firms from the surrounding regions.
2. Eliminate the state monopoly on preparation of technical passports.
3. Accelerate implementation of land zoning as required under the RF Land Code.
4. Audit the land allocation procedures to identify bottlenecks and establish performance base lines.

Improving Real Estate Markets in the Tomsk Region

5. Eliminate architectural authorities from land privatization process under article 36.
6. Establish reduced construction permit requirements for small projects.
7. Implement a true "single window" for land allocation and construction permits.
8. Implement permit tracking software systems which highlight roadblocks and bottlenecks.
 - (a) Implement performance standards for issuance of permits.
 - (b) Hold officials accountable for performance standards.
9. Deal with issuance of technical conditions and terms of connection to utility services under the region's authority to regulate the provision of public services.
 - (a) Require transparent publication of information concerning service lines and connection points and general technical conditions for municipal districts.
 - (b) Establish time limitations for issuance of technical conditions.
 - (c) Establish standards and formulas for connection fees and charges.

Asset Management

By asset management we mean the management of real property assets in state and municipal ownership in such a way as to maximize their value. Value in this case does not mean merely the balance sheet value or revenue potential to the state or municipality, but the broader concept of value to society considering all of the direct and indirect costs and benefits of retaining the real estate assets in public ownership. Accordingly, the value of real estate assets presently in state or municipal ownership may be increased by divestiture to the private sector, rather than carrying the asset on the public balance sheet. Good asset management includes sale of assets, as well as maintenance and improvement.

For example, continuing state ownership of a real estate asset may result in lower returns to the asset if the state lacks the resources to develop the asset to highest and best use and market it appropriately. The present value of divesting the asset, including sales proceeds, construction activity, taxes and ongoing commercial activity may far exceed any return the state can hope to see by holding on to an under performing asset for an indefinite period.

In this report several prior recommendations are directly related to good public asset management. These include the following:

Improving Real Estate Markets in the Tomsk Region

1. Complete and make widely available an inventory of state and municipal real property.
2. The Regional Administration should open discussions with the Federal government to:
 - (a) Delegate federal property management authority to the regional administration.
3. Accelerate privatization, consolidation, and liquidation of regional enterprises.
4. Audit of all outstanding preliminary state acts for allocation of land rights and terminate those that have exceeded the time limits; prohibit multiple consecutive renewals of preliminary allocations of land sites.
5. Bring land and premises rents to market levels and eliminate land rent concessions for enterprises.

Additional recommendations include:

6. Develop a regional policy on state ownership of real estate assets.
7. Prepare the strategic inventory and plan for regional real estate assets.
8. Create a regional working group or steering committee on state real estate.

Performance Monitoring

It is highly recommended that the regional and municipal administrations identify quantitative indicators of the performance of both real property markets generally and government service providers, and implement a monitoring system to periodically assess progress. The key indicators would draw on information available from government agencies and registries to assess levels of supply and demand in the market as well as progress toward achieving the objectives identified in this report. Indicators can help to assess the management performance of certain government agencies responsible for carrying out policy reform in the real estate sector. Accordingly, attached as an Appendix to this report is a set of tables which suggest the types of indicators that would be *minimally necessary* for assessing progress in real estate market development, elimination of administrative barriers to investment in real estate, and, generally, improving the investment climate in this sphere. Much of this information is presently available from various federal, regional and municipal agencies.

It needs to be stressed that the development of the land and real estate market and the associated investment activities in this sector are far ahead of the development of the informational support of these processes. Without quantitative records of changes, neither timely regulation by the regional and local authorities, nor adequate response of the private sector of the economy is possible. Therefore, any attempt to bridge this gap,

including the proposed project of organizing regional/municipal monitoring of land and real estate, merits priority attention and the full support of those concerned with the economic development of the Tomsk Oblast.

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It is acknowledged now at all levels of the Russian political establishment that creation of an attractive investment climate is to a significant extent obstructed by an inadequate and unclear legislative and regulatory framework for allocation of land into private ownership; uncertain land rights; non-transparent procedures for issuance of land use and construction permits; and inadequate mechanisms for settling disputes and balancing public and private interests in the field of land use and town-planning. To assess the extent of these problems in the Tomsk Region the consultants conducted a mission to Tomsk for the International Finance Corporation from January 25-February 1, 2003. During the mission the consultants met and held discussions with more than 40 regional and municipal officials, as well as representatives of private sector businesses and organizations. The purpose of the mission was to identify with the regional administration policy initiatives that may be taken by the regional administration, with the cooperation of the Tomsk City administration, to improve the use of real property as a regional asset and a resource for attracting investment. This report is the product of that mission.

Objectives:

The main objectives of the regional administration, as expressed in various discussions during the IFC mission, include the following:

- ❖ *Maximize direct and indirect returns on real assets.* Real property can be an important resource for increasing government budget revenues in the region. Revenues can be substantially raised through one-time receipts and regular flows; directly increased by sale and lease of state and municipal property, as well as by taxes and rent on improved real property. Revenues can also increase indirectly by encouraging investment in new businesses and improvement of real estate, creating jobs and additional tax revenues. The objective is therefore to manage publicly held real estate assets in such a way as to maximize direct and indirect returns to public budgets.

Improving Real Estate Markets in the Tomsk Region

- ❖ *Improve the management of the regional and municipal properties.* Increasing the return to real property assets may be achieved by improvements in asset management.
- ❖ *Attract investment.* An adequate supply of reasonably priced land, buildings and premises for long term use (ownership, long term lease) by business is a significant incentive to potential investors. Shortage of land and real estate facilities for locating new business leads to high prices and can make investment unattractive.
- ❖ *Develop the construction industry as a contributor to the regional economy.* Further development of the construction industry will require greater access to building sites for new entrants to the construction business, elimination of administrative barriers in the process of issuance of land use and construction permits, and greater certainty and transparency in construction and land use regulations.

Main Tasks:

To achieve these objectives the consultants have recommended that the Regional Administration pursue several main tasks, as follows:

- ❖ *Encourage further divestiture of land and creation of a private land market in the region.* Further land privatization offers secure land rights and encourages investment in improvements to the land. Secure land rights may also attract the type of investor that insists on land ownership, which may include many foreign investors¹. Over the longer term, private ownership of land and free transferability in a private market encourages conversion from less valuable to more valuable land uses, and densification of development. More secure land rights and increase in land ownership may also encourage more mortgage lending for investment in improvements.
- ❖ *Take steps to increase the supply of land and real estate facilities in the region available for formation of new businesses and expansion of existing businesses.* Increases in supply of land and real estate facilities will act as a market control on prices. Greater availability of a broad range of land and real estate options and lower costs can be an attraction to investment.
- ❖ *Take steps to increase demand for land and real estate facilities.* Increasing demand is in the first instance a function of maintaining adequate supply and therefore reasonable price levels, but also of creating a cheaper, quicker and more

¹ There is a very notable case in point. In mid 1990th, when there was no land privatization in Tomsk Oblast, a foreign pharmaceutical company was attracted as a strategic investor to Tomsk only after the local partner privatized the land plot on which the plant is located, which was a condition of the foreign investor.

- efficient system of providing access to land and real estate as well as land use and development permits.
- ❖ *Demonstrate at the level of the Regional Administration a comprehensive asset management plan for state-owned real estate assets.* The Regional administration should implement a comprehensive asset management plan for its real property, requiring line agencies of the administration as well as state enterprises to inventory and justify their use of real estate assets with a view toward achieving highest and best use. Regional real estate assets should be subjected to sound commercial business practices. A first step would be to develop a regional statement of policy on management of public real estate assets.
 - ❖ *Implement a system of performance indicators and performance monitoring to periodically assess progress towards achieving the objectives and implementing the main tasks.*

Opportunities:

There are significant opportunities for achievement of the main tasks. These include:

- ❖ *Land Code and other recent legislation.* There are several significant pieces of legislation which have been put into place in the past several years, including the *Russian Federation Land Code*, *The Law "On Delineation of State Property on Land"* and related normatives, Article 17 of the Civil Code dealing with civil transactions in land and real estate, the Law "*On Turnover of Agricultural Lands*," and The Resolution of the RF Government #808 "*On Organization and Management of Public and Municipal Land Sales and Leases* adopted in November 2002. Much of this legislation is flawed in some respects and will probably have to be modified over time, but for the moment provides the most comprehensive basis to date for formulation of a regional policy on land and real estate market development.
- ❖ *Supportive National Government.* The Government of the Russian Federation has issued several important policy statements and programs which clarify strategic intentions of the Government in implementing land and property reforms, support greater efforts to divest public real estate assets and to create private sector real estate markets, including the "*Action Plan of the Government of the RF in the Sphere of Social Policy and Economic Modernization for 2000-2001*," and "*Main Directions of Social and Economic Policy of the Government of the RF for the Long-Term Perspective (2003)*." Moreover, *The Concept of Management of State and Municipal Property*, and well as other significant documents, is expected to be approved soon at the federal level.
- ❖ *Supportive Regional legislature and administration.* The regional administration perceptibly intensified during the last few years reforms in the urban land and real estate sphere. Many regional laws are being reconsidered and new laws are

Improving Real Estate Markets in the Tomsk Region

drafted or already adopted within the process of adaptation of the regional legislation to the new federal legislative requirements. The most recent reflection of such support was the action of the regional legislature to decrease land privatization prices to 3 times the applicable land tax, or one-third of the legally required maximum. By so dramatically decreasing the privatization price of land, the region may now be considered in the forefront of Russia in terms of creation of the necessary conditions for creating “legally unified real property objects,” an objective of the new Land Code. Other encouraging recent actions include:

- The regional administration participated in establishing the Agency for Tomsk Oblast Development as a measure to create more efficient markets and state real property management. The leadership of the new Agency consider assistance to real estate reform as a priority activity.
- All services of the Tomsk City administration which have something to do with land and real estate are now functioning within one agency – the Department on Real Estate. This decision saves resources and have other positive effects, although coordination of the activities of this Department with the Office of the Chief Architect is not yet resolved.
- The recent decision of the Tomsk City administration to begin elaboration of the new Master Plan with the assistance of the private architectural and planning agency from St.-Petersburg and in parallel – the Zoning Ordinance with the assistance of the Institute for Urban Economics (Moscow).
- Next year Tomsk will celebrate its 400th anniversary, and currently there are considerable preparation efforts for the celebration which include improving roads, infrastructure, redevelopment and new construction of housing and other real estate objects.
- The Tomsk Regional Administration has expressed support for further development of the regional land and real estate market. The most recent reflection of this support was the action of the regional legislature to decrease land privatization prices to 3 times the applicable land tax, or one-third of the legally required maximum.

- ❖ *Economic growth.* Tomsk has recently experienced GDP growth rates of 10% per annum, far in excess of the national average. While a good portion of this growth is attributable to extractive industries, it is a good basis for attraction of more diversified industries. It should be noted here that Tomsk Oblast belongs to one of the less urbanized regions: 55% of the regions’ 317 thousand square kilometers are forest area, 28% are marshes and almost all the rest is agricultural land. There are only 6 cities, and 177 villages with local administrations and the status of municipalities. At the same time Tomsk is actually the center of higher education and research in Western Siberia, with a dozen universities of different profile.

Constraints:

Constraints on achieving the main tasks which came to the attention of the consultants included:

1. Lack of accessible property inventory.

At this time it appears that locating relevant information on the availability of land and other real estate facilities and their technical parameters is extremely difficult and solely the responsibility of the potential investor. This situation has led to allegations of lack of transparency in the allocation of public lands and real estate assets; extraordinary discretionary authority in the hands of a small number of municipal officials who exercise their discretion in a non-transparent manner; and a small and closed circle of land speculators and investors who have monopolized the best development sites in the region, with the cooperation of municipal officials.

2. Division of ownership of land plots among state, regional and municipal governments.

The division of land ownership among the various levels of government started only last year and is supposed to be completed by 2007.² The Tomsk Oblast administration has already produced the lists of land plots which should be attributed to regional ownership and delivered these lists to the Territorial Division of the Federal Ministry for Property Relations. The time limits for making the decision on the Regional Administration's proposed division passed long ago but without any reply from the Federal representatives. The main result of failure to complete the division is vague rules for current transactions with land which result in the federal and regional governments taking a large share of proceeds from municipal land sales, thereby lessening municipal support for land divestiture. Also, vague rules on the roles and authorities of various government agencies at the national and local level in the approval of land transactions also threaten bureaucratic delays and uncertainties regarding the validity of sales made under the prescribed processes.

3. Large number of federal facilities in the Tomsk region.

The Russian Federation owns a large portion of the existing facilities in the region³ which are eligible to privatize land plots or which may hold surplus land which could be freed up by consolidation or liquidation. Federal property agencies may lack the incentives or

² According to the Resolution of the RF Government #745 as of 10/25/2001 "On Adoption of the Federal Target Program "The Creation of the Automatic System of Conducting the State Land Cadastre and State Inventory of Real Estate Objects (2002-2007)"

³ Totally there are about 7000 real estate objects in Tomsk oblast which are in federal property, and about 3000 which are in the property of Tomsk Oblast. In Tomsk city, from a total area 10.5 thousand hectares about 4.5 thousand hectares would be transferred into federal property, according to the established criteria.

urgency of the local governments to encourage local economic development, either preventing or delaying reuse of real assets for private market development. The regional authorities are also not much interested in pushing for privatizing the land plots of enterprises which formerly belonged to the federal property since all revenues from privatization of such land plots would go to the federal budget. Also relevant here are the *large number of structures having the status of historical monuments of federal importance*. In addition to the many university facilities, Tomsk is famous for its' great number of wooden housing constructed in 19th and early 20th century and occupying large areas of the Tomsk center city. It is unlikely that permission for demolition and redevelopment of these areas will be forthcoming.

4. *Some regional and city officials remain concerned about the potential necessity to buy-out the privatized land for public use in future at market prices.*

This concern, which has been prevalent throughout Russia, is that many enterprises should not be permitted to privatize land which may be needed at a later time for public use. This argument is generally devoid of any real substance but often seems to be a rationale for keeping most strategic land resources under the control of municipal and regional officials. In the first place, the future public need for the land is mostly speculative at this time in the absence of either concrete, updated master plans or the local resources to develop the anticipated public improvements. By this reasoning, all land in a municipality conceivably could be considered necessary for future public needs. Secondly, there is no guaranteed financial benefit to delaying or disallowing privatization, as there is no indication yet that the authorities would have to pay any less compensation for taking a right of use than they would for a right of ownership - this is essentially wishful thinking. Finally, the argument is entirely open-ended, without time constraints, and implies that valuable land could be removed from the market indefinitely under the claim of some speculative public use, which could ultimately have a greater adverse affect on the local economy than allowing it to be developed at this time. Nevertheless, the upshot of this thinking is that privatization claims are not encouraged and may be delayed bureaucratically.

5. *Long delays in obtaining land and construction rights.*

Times for acquisition of land rights in Tomsk City range from 1 to 3 years. Various factors are cited, but among the most important appear to be inadequate private sector capacity for land surveying and preparation of technical passports, which are prerequisites to allocation of land rights; bureaucratic delays and lack of urgency in dealing with privatization applications. Regarding bureaucratic delays, the extraordinary position of the municipal Office of the Chief Architect is often singled out as a bottleneck.

Delays in obtaining land allocation is reflected in the block diagram of the procedure provided to the consultants by the regional and city administrations, shown in Figure 1. At each stage the applicant has to get permits and "services" from more than a dozen

agencies. Noteworthy is that the procedure is the same as for obtaining the land plot in ownership and also for leasing it.

6. Competitive procedures (auctions or tenders) for allocation of land and property have not been implemented.

Competitive procedures for sale of land have not yet been introduced in the Tomsk Region. Hearings in the Tomsk City Duma on the legal documents, regulating organization of land auctions in the city, have had no result. Land allocation remains a closed process which is carried out by direct discussions between land developers and a small group of municipal officials, leading to allegations of favoritism.

7. Outdated city planning.

Municipal officials argue that they are unable to implement competitive procedures for allocation of land rights because municipalities lack updated master plans,⁴ and therefore each case of land allocation must be considered as a unique case. Lack of updated planning and zoning regulations also prevent competitive land allocation procedures through auction, and feeds the argument that land privatization should be delayed until the future land needs of localities are determined in updated plans. It should be noted that these arguments have frequently been used throughout Russian to delay privatization, and essentially conflict with the present laws on privatization.

8. Infrastructure deficiencies and difficulty obtaining technical conditions.

As in many other regions of Russia, obtaining technical conditions and rights to connect to utility systems appears to entail long delays and high fees. There are complaints that there is lack of uniformity in the setting of infrastructure fees.

9. Difficulties for the Regional Administration to affect municipal policy.

A large share of real assets in the region are owned by municipal structures, which have to date demonstrated minimum interest in divestiture. Under current law municipalities have almost exclusive control over their real assets, subject to the constraints of Federal law. Vested bureaucratic interests in municipalities pose a barrier to reform of land use and allocation procedures. Given the high degree of independence granted to Russian municipalities under Federal law, it is difficult for regional administration to devise approaches to encouraging municipalities to take a more active approach to land privatization.

⁴ One of the arguments of the Tomsk City Chief Architect is that the effective Master Plan (1992) is supposed to be valid until 2010 and it contained the assumption of population number of 650 thousand people. At present the population of Tomsk is less than 500 thousand, requiring a comprehensive revision of the Master Plan.

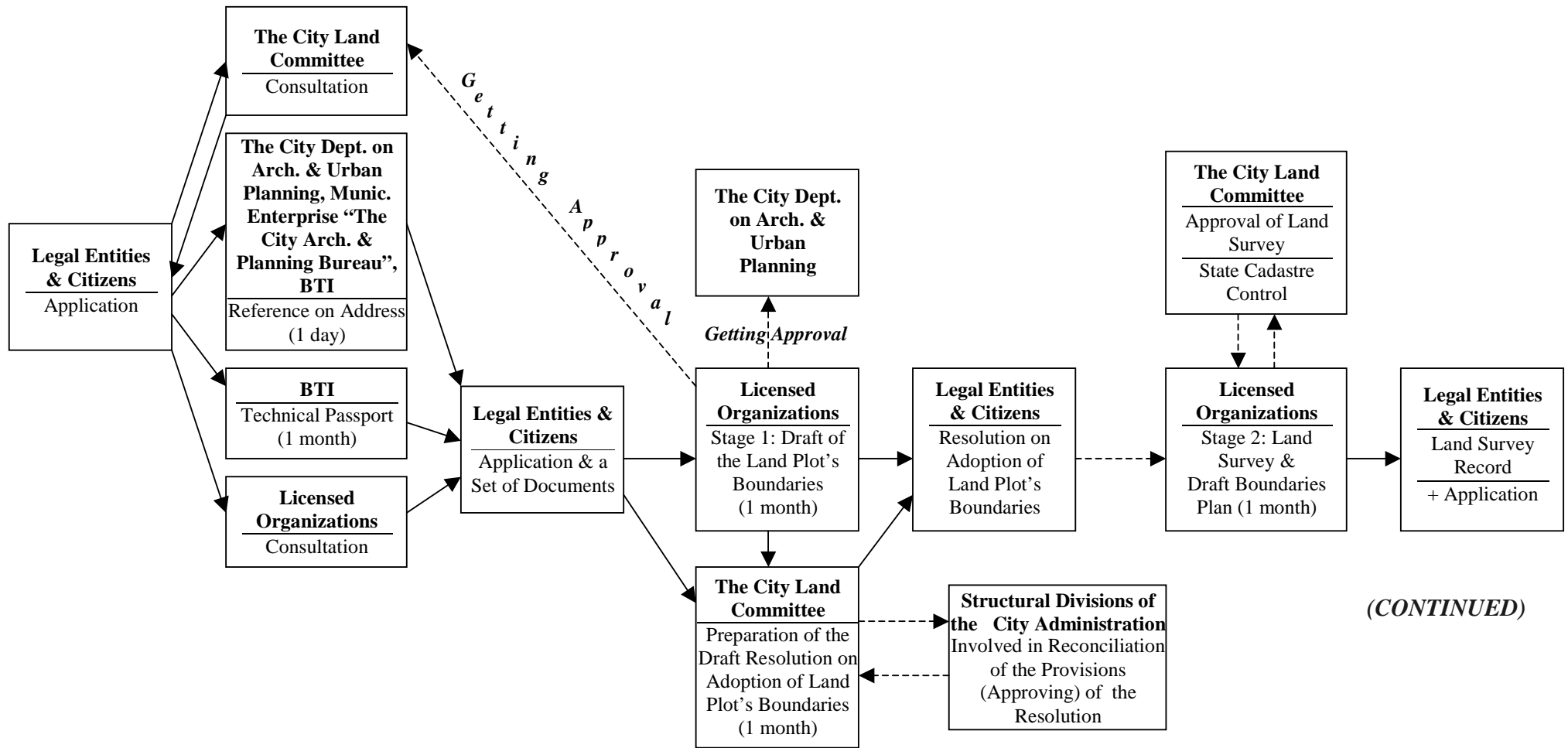
Recommendations:

There is no single action that will address the current constraints on development of land markets in the Tomsk Region. Progress will require a comprehensive program of legislative and administrative steps, both short and long term. Moreover, as is well known, many of the most significant constraints on development of land markets arise under Federal legislation, which the region may affect only by documentation of the defects in the legislation and providing leadership towards implementing the necessary modifications. Examples of defects in the current federal legislation which can not be overcome at the regional level include:

- Extremely conservative and non-transparent requirements for conveyance of land into ownership stipulated, for example, by the RF Urban Planning Code, the Law “On Environmental Protection”, the Law “On Environmental Review,”⁵ and various other norms and rules of various federal agencies. A wholesale revision and simplification of Federal rules and procedures pertaining to issuance of land use and construction permits is needed.
- A formula for distribution of revenues from privatization of urban land which gives a large share of sale proceeds to the Federal and regional governments and thereby discourages municipal interest in land privatization.
- The necessity to change the archaic Law “On Land Payments;” gaps in the land tax and general tax law which result in a negligible share of real estate taxes in the regional and local budgets.
- Lack of clarity in the provisions regarding withdrawal of land for state (federal) needs.

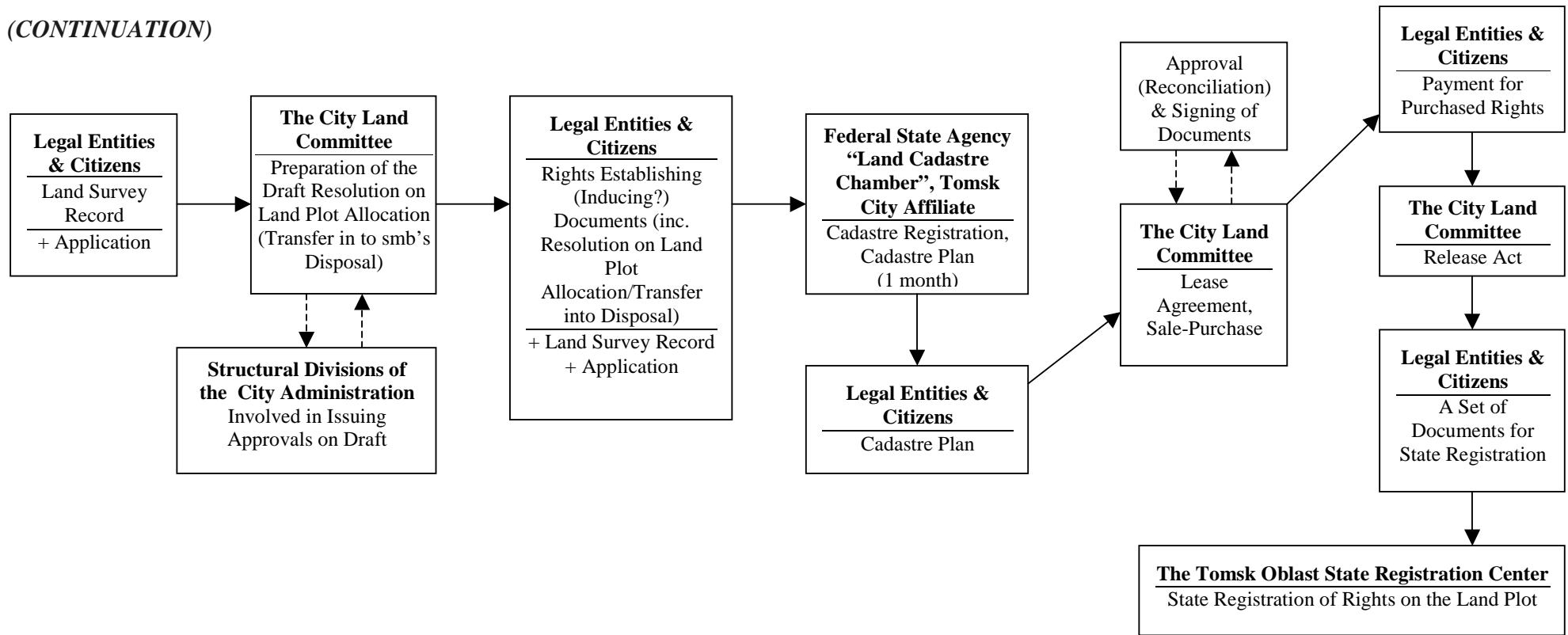
⁵ The Law “On Environmental Review” prescribes that practically all planning documents, project design documentation, and the construction process at all its’ main stages need to undergo environmental review. The recent amendments to the Law “On Environmental Protection” also included into this list the stage of land plot “selection and granting into temporary use” for the period of project design.

FIGURE 1: THE PROCEDURE OF PREPARATION OF DOCUMENTS AND ISSUING OF PERMITS ON OBTAINING LAND USE RIGHTS IN THE CITY OF TOMSK



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The proposals made in this report therefore focus primarily on those steps which the regional and municipal administrations may take. For convenience proposals are organized under five headings - supply, demand, time and costs, asset management and performance monitoring. Proposals grouped under the heading of supply are aimed at increasing the amount of land and other real property that can be made available for investment. Eliminating restraints on supply should have beneficial effects on prices and availability of property. Proposals grouped under the heading of demand are aimed at increasing the attractiveness of property ownership to investors and entrepreneurs and facilitating access to real property. Time and costs may be considered a subset of actions aimed at increasing demand. Asset management provides a detailed proposal for improving the approach to management of public real estate assets, and performance monitoring provides suggestions for assuring that policy initiatives are meeting their objectives.

Supply

1. Complete and make widely available an inventory of state and municipal real property.

An important first step is to complete an inventory of state and municipal property available for development, redevelopment or use. The inventory should include vacant land, buildings and premises, as well as real property in the use of state and municipal enterprises, including federal enterprises. The inventory should be comprehensive for the entire region and should include all property of cities, towns and districts available for investment, and should be transparent and made widely available to the public and potential investors. A medium term goal would be to put on the internet that portion of the property inventory which is immediately available for development, redevelopment or use. In this regard, it is recommended that the Regional Administration refer to the St. Petersburg Unified Geo-Information System (EIST) and made available on the web at <http://us.statedevelopment.spb.ru/tias200e/indexe.phtml>.

Increasing the transparency and availability of information regarding public real estate assets can increase competition and produce a better return on public assets, decrease abuse of bureaucratic discretion, and also increasing demand by potential investors that choose not to participate in a system that they consider to be non-transparent and uncertain.

In general, the necessity of making a comprehensive inventory of property in Tomsk Oblast is stipulated by the process of division of state land in the region into federal, regional and municipal lands. This comprehensive inventory is an expensive and time-consuming undertaking. Moreover, many municipalities in the Tomsk Oblast do not have enough specialists to make an inventory and as well the work concerned with division of state land. In this respect, it may be expedient to first identify the concrete land plots or at least types of land plots which may be most attractive for investments and

development. These land plots should be considered as priorities and should form the “first echelon” of land plots in the processes of inventory.

2. Create a "single window" agency with responsibility for maintaining an inventory of state and municipal property available for development, redevelopment or use, and providing advice and assistance regarding real estate matters to potential investors.

The regional administration should delegate to a single agency the responsibility to maintain a comprehensive inventory of investment property which can be marketed to potential investors. This agency could be a multi-purpose investment promotion agency. Services provided to potential investors could include identification of land and facilities and their technical parameters; advice on acquisition and development requirements and processes; unbiased references to local professional firms; introduction to, and interface with, local technical bureaucracies. The regional agency could carry out this function for the entire region, but to achieve economies of scale should definitely do so for the smaller towns and cities in the region. For example, in the Novgorod region the regional investment promotion agency gathers from the regional towns and districts comprehensive information on land sites and facilities which they have available for investment. To assure that the investment promotion effort is effective, it would be essential that Tomsk City and surrounding districts contribute information to the agency.

It is also important to the effective functioning of the “single window” to assure proper cooperation and coordination between all the agencies involved in the inventory of real property and registration of rights: land cadastre chamber, bureau of technical inventory, the real estate rights registry and so on.. The "single window" agency will need to have the necessary amount of authority, including power to enforce cooperation. Under current conditions these functions may perhaps be conducted by an official body within the regional administration: the Department for Tomsk Oblast Property management or the Tomsk Oblast Property Fund.

3. Implement a joint municipal/regional task force to address the acceleration of applications for privatization of land parcels under article 36 of the RF Land Code.

It is important to note as a preliminary matter that the processes of division of state land and the buy-out of land plots by enterprises or other owners of real estate objects are two independent processes and first process is not a prerequisite of the second. The enterprises or other owners of real estate objects have the undisputable right to buy-out the land plots notwithstanding whether or not the division of state land (on which the enterprise is located) is fulfilled.

The main source of land and facilities for new investment is likely to come from privatization by enterprises and entrepreneurs under article 36 of the Land Code. The mission team got a good indication of this dynamic in discussions with one local

company that was in the process of privatizing its land and facilities with the intention of converting them to a higher use from one which is presently economically marginal, including by new construction. Following introduction of the Land Code, there was a significant increase in applications for privatization of land parcels, including 134 applications for commercial property submitted by legal entities. This number may increase significantly in response to the recent decrease in privatization prices.

The mandate of the Land Code to assure that land is leased or sold by the close of 2004 is an important opportunity to develop the private land market, which should receive adequate resources from the state and municipal governments. The Tomsk City Land Committee faces now with the new responsibility to prepare the cartographic material according to art. 36 of the Land Code, whereas previously the applicants had to do this. The new Land Code also shortened dramatically the time period for consideration of applications. Tomsk City has advised that it presently has 28 total staff and it would like to hire 15 more additional staff members to deal with the influx of applications. Moreover, until late 2002 the Tomsk City Land Committee received the applications for land privatization from any enterprises located in the city, including those which formerly belonged to the federal or regional property. Now, these applications should be processed correspondingly by the Territorial (Regional) Agency of the Federal Ministry for State Property Relations, or the Department for Tomsk Oblast Property Management. These bodies also do not have the staff for consideration of the applications, and actually have not started with receiving and considering the application on land purchase.

So, while the real constraints on processing privatization applications appear to be survey and preparation of technical passports, some consideration could be given to creating a joint regional and municipal task force which would be responsible for processing applications for non-residential land privatization applications. This task force could be created by temporary assignment of staff, retention of temporary staff, as well as making use of contractual services by private sector firms, and it should include representatives of all government agencies that participate in the land privatization process. See also the recommendation concerning processing of applications of former federal state enterprises, below. In fact, the above-mentioned principle of the "single window" could be applied for the land privatization procedure: all the applications are received at one agency, then the preparation of the documents needed to register the ownership rights are prepared jointly or by one of the appropriate official body (federal, regional or municipal property management committees), and finally the final decision and the sale-purchase contract is received from the same agency which registered the application.

4. The Regional Administration should open discussions with the Federal government to:

- (a) Delegate federal property management authority to the regional administration; and***
- (b) Delegate processing of federal privatization applications to the regional administration.***

We have been advised that there is an extraordinary amount of federal state property in the Tomsk Region, which may comprise as much as 50% of the land and facilities in Tomsk City, for example. It is our experience that the federal property management bodies lack the incentives or capacity for maximizing use of federal state property located in the regions and cities. Accordingly, we recommend that the Regional Administration commence serious discussions with federal property bodies to discuss the role of federal state property in the economic development of the region. Such discussions should include identification of federal state properties which are potentially available for investment, inclusion of federal state property in the regional inventory of land and facilities potentially available for development, redevelopment or use, and active marketing and management of available federal state property by regional authorities in support of regional economic development goals.

Along these same lines, we have been advised that important applications for privatization of land under article 36 of the Land Code have been referred by regional and local officials to federal authorities because the applicant is a former federal state enterprise. It is our impression again that the federal authorities lack the incentives of capacity to properly process such applications in a timely manner, and we recommend that the Regional Administration discuss with the federal property management authorities the possibility of delegating to the Tomsk Regional Administration the responsibility to review and process these applications to the point of decision.

At the same time, the consultants acknowledge that the regional and municipal authorities are not much interested now in the privatization of the land plots under privatized enterprises which initially were in federal property, because according to the Federal Law "On the Federal Budget in 2003" 100 percent of receipts from privatization of such land plots go to the federal budget. The only incentive to support the effort to complete the privatization of former federal property is, therefore, if the potential for regional economic development outweighs the costs to the region.

It is always possible for the Tomsk Oblast administration to take a leadership role in sponsoring a legislative initiative at the federal level on amending the federal tax legislation so more revenues from disposing of land plots in property or lease go to the local budgets until the division of state land is completed. That may create incentives for local self governments to stimulate the land buy-out process and will create the conditions for reimbursement of the expenses of the municipalities on preparation of the packages of documents needed of privatization deals, including the those land plots which are transferred into federal property.

Such a legislative initiative may also contain proposals on simplification of the procedure of division of state land. The procedure is extremely complex now and requires making lists of land plots by municipal, regional and federal authorities, which are proposed to transfer into corresponding property; "conciliation" of the proposed lists with making the lists of disputable land plots, consideration of this lists by "conciliation commissions, and, finally, adoption of all these lists by the Government. It is highly doubtful that this process will be completed even within the anticipated 5 year time frame. A simpler methodology which identifies large categories of land for which the ownership right is

indisputable, and reserving formal procedures for lands which may be subject to dispute, would have been a better approach.

Finally, it is already evident that the process of changing rights from “permanent use” to property or lease rights for a great number of enterprises will not be finished by the end of 2003 as it is required by the Law. Moreover, the Law does not impose any liability for not doing this. So, the regional administration can also present draft amendments to the federal Law extending the final date for presenting applications by enterprises concerning switch to property or lease rights. The provisions concerning legal consequences of not moving from “permanent use” rights by enterprises in established terms need also to be included in the Law.

5. Accelerate privatization, consolidation, and liquidation of inefficient regional and municipal enterprises.

A considerable amount of land and facilities appropriate for development, redevelopment or use by investors may presently be held by state and municipal enterprises. This is one reason that such land and facilities must be included in inventory. Once inventoried, it is important to take an "asset management" approach to these real estate assets, including assessment of whether they are underutilized and redundant and may be put to higher use. Pressures should be brought to bear on state enterprises to prepare real property asset management plans which free up valuable real estate assets by consolidation of existing facilities and placing underutilized property back into the market. In addition, reentry of these assets into the market can be facilitated by accelerating privatization or liquidation of remaining regional state enterprises.

6. Implement a pilot program for preparation of serviced land sites.

The Regional Administration, in cooperation with Tomsk City or one of the surrounding districts, could consider investment in a regional industrial park. The purpose of the park would be to provide serviced land sites for sale or long term lease to investors for development of new facilities. The land would be serviced at the expense of the regional and local administrations. The prerequisites for consideration of this possibility would include a professional and comprehensive market study demonstrating the economic feasibility of the proposed project, which would consider, for example, actual demand, the availability of competing land sites in the market, and the need to recapture the public investment. Locating the site would be crucial, and this sort of project would be inadvisable unless complete cost recapture were determined to be likely.

7. Audit of all outstanding preliminary regional or municipal acts for allocation of land rights and terminate those that have exceeded the time limits; prohibit multiple consecutive renewals of preliminary allocations of land sites.

There is some indication that most usable land sites in Tomsk City have already been allocated on a preliminary basis under acts of the city architectural authorities which authorize preparation of design works. It also appears that this allocation has resulted in

long term removal of valuable land sites from the market as certain favored developers routinely fail to meet the time conditions on their permits and obtain multiple consecutive extensions. This is in effect speculating in public assets for virtually no cost. A good step toward putting this land back into the market would be to strictly enforce the time constraints on design permits and to prohibit multiple consecutive extensions without extremely compelling justification, such as force majeure. This issue may perhaps be addressed in a regional law on allocation of land rights.

8. Bring land and premises rents to market levels and eliminate land rent concessions for enterprises.

One cause of shortage and high prices can be rents for state and municipal land and premises that are set below market rates. The consultants were advised by several informed officials that rents for municipal facilities were below market rate, as evidenced by the widespread practice of profitable subletting of municipal space by tenants. There are also in place automatic land rent reductions for certain types of enterprises, in particular large land users. As with all subsidies, below market rents encourage occupancy of more land or space than is actually needed for operation of the occupants business. In effect, the occupant is speculating on real estate at the expense of the budget. Raising rents to market levels could force users to reconsider the amount of space occupied and free up excess space for reentry into the market for other uses.

Land rent concessions for enterprises encourages enterprises to rent rather than privatize land, keeping potentially valuable land out of the market. Below market rents therefore lessen demand for land privatization. As with all subsidies, it also encourages enterprises to occupy more land than they need. The enterprises are in effect using the public budget to speculate in the long term value of real estate. Elimination of land rent concessions should increase demand for land ownership, which in turn will create pressures for privatization, sale, reuse and intensification of development.

There are conflicting indications whether the amount of premises available for commercial office and trade use is sufficient to meet market demand. This question cannot be answered without a thorough market study, which the mission was not able to accomplish. An inadequate amount of space would result in discouraging new business because of lack of facilities or high rents and prices. If possible, it is recommended that a market study be performed to determine whether there is sufficient premises available to meet demand.

Even if the amount of space presently in the market is found to be adequate, below market rents are a hidden budget expenditure. They encourage occupants to engage in subletting, which apparently is widespread in the Tomsk Region, and in effect allocate public revenues to private individuals. These lost revenues could be better used to implement the market development strategies recommended in this report. One step that can be taken is to throw light on these hidden subsidies by requiring an audit of all present leases of state and municipal real estate to determine whether it is subleased and the differential between the official and sublease rent. This step, together with a

professional market study to determine the relationship of official rents to market rents should provide information on the extent of budget losses from hidden subsidies. An analysis of these losses should be made available to local legislators in the course of the budgetary process.

Demand

- 1. Eliminate land rent concessions for enterprises.* See "Supply," above.
- 2. Improve terms of purchase for land privatization and sales of long term lease rights by offering an extended payment schedule and other options.*

Demand for land privatization may be increased if better terms are offered to potential purchasers. It is our belief that the land presently occupied by privatized enterprises and businesses has little residual value to the region or municipalities, as the rights of occupancy are virtually perpetual and strongly protected. It is more in the interests of local economic development to simply divest the land into the private market. The recent decrease in the land privatization price to 3 times the tax rate was a very positive step, but prices may still be beyond the reach of many occupants. Accordingly, further demand may be induced if the time for payment of the land price were to be extended over a period of 3-5 years, with interest at the official rate. To facilitate mortgage and improvement of the property privatized on such terms it would be advisable to actually transfer the title upon execution of the purchase and sale contract, subject to a mortgage in favor of the seller for the unpaid purchase price.

Other steps to stimulate the purchase of land plots by privatized enterprises and owners of real estate objects may include:

- establishing the land tax and rent rates for each urban “economic zone” in such a way as to stimulate the purchase, rather than rental, of land, by assuring that the land rental rate includes both the land tax to support municipal services as well as the reasonable rental value for use of the land;
- permission to subdivide a large land plot and buy-out by portions;
- fixing in the sale-purchase contract (until the zoning ordinance is adopted) a list of various permitted uses of the land plot instead of the existing fixed “targeted” use of the land plot;

- 3. Implement competitive proceedings for allocation of land rights.*

There have been no competitive procedures for sale of land in the Tomsk region. It was suggested that in Tomsk City there have been competitive auctions for sale of buildings and premises in connection with enterprise and small scale privatization, but this has not been confirmed.

Competitive procedures can increase demand by attracting a certain type of investor that is concerned with the certainty and transparency of the transaction. Competitive procedures

- provide equal opportunities and stimulate the appearance of new private developers of different scale and capacity;
- identify the Tomsk region as one that is supportive of transparent land allocation procedures;
- help to reduce the monopoly of the city planning and architectural bureaucratic structures in development of the private real property; promote the market-orientated planning solutions;
- helps to reduce the costs for assignment of land rights, the value of construction and planning, as well as expenses for obtaining the necessary permits;
- most important – they help to create market mechanism of land pricing and to fix basic market prices for city lands.

Apparently, there are various ambiguities regarding the Federal Resolution #808, *On Organization and Management of Public and Municipal Land Sales and Leases*, which governs procedures for auctions of land. In the expectation that these problems will be resolved it is recommended that the regional administration adopt the necessary local legislation to enable land an real estate auctions and tenders.

The following steps to stimulate the development of competitive procedures of land allocation may be recommended:

- Elaboration and adoption of the regional law, adapting to the local conditions the provisions of the federal rules on conducting land tenders enacted by the Federal Resolution #808 and eliminating the shortcomings and contradictions of the federal document;
- The criteria of land plots which can be allocated into property or lease exceptionally through the competitive procedures should be established; the lists of land plots which are going to be put on auctions or tenders within a year should be published in local press;
- The law should establish the presumption that the land plot will be sold unless leasing is justified; the criteria for offering a lease rather than the property right should be specified;
- Elaboration of the specific procedures of holding tenders in regard of the land plots with such encumbrances, as objects of unfinished construction, dilapidated housing, etc.;
- The land auction/tender documentation should contain the full and exact information on the on-site engineering facilities, on technical conditions and the fees for connection to utility services; these fees preferably are included into the

starting price with giving the guarantees that no additional payments may be demanded by utility services;

- The starting price should reflect the relation between the supply and demand on the real estate market. The starting price may include the costs of preparation of design requirements (in case there are any imposed by the City and they are included in the invitation to bid) and the costs (part of the costs) of off-site engineering facilities, which the City provided for the land plot put on auction. The starting price may be reduced on the amount of costs, needed for demolition of constructions which do not comply with the permitted uses of the site, as well as the costs needed for cleaning the soil to the level of environmental standards set for the appropriate permitted uses.

4. Implement transparent procedures for non-competitive allocation of land rights.

Competitive procedures are not appropriate in all circumstances (and are not required by the Land Code for all cases, although there are still many unclear provisions in the Land Code in this respect, for example, in article 34 which is concerned with land allocation for non-construction uses and in which the issue of competitive procedures is omitted) and it is likely that targeted allocation of land and property will continue at some level. There is no reason why negotiated transactions cannot be made more transparent as well, and in fact there is a strong argument that the Land Code requires transparency for all dispositions of publicly owned real estate. Consideration should be given to appropriate regional legislation governing all allocation of real property which would include:

- a prohibition on sale of an asset the availability of which had not been advertised or otherwise included in a public inventory accessible to the public;
- a requirement for independent appraisal of sale prices and rents;
- a requirement for published notice of the terms of the sale prior to effectiveness of the transaction;
- a requirement that higher offers for the property be accepted.

5. Reduce Time and Costs for Obtaining Property Rights and Development Permits. See "Time and Costs," below.

Time and Costs

The levels of demand for and investment in real property are affected by costs and prices, which are directly affected by the time spent in acquiring property and development permits. Reduction in the time and costs of acquiring real estate and development permits is therefore a main strategy in increasing demand and investment. Some important steps that can be taken to reduce time and costs of allocation of property rights and issuance of development permits include:

1. Encourage expansion of the private sector surveying industry.

- (a) Make surveying a focus of programs for small and medium size enterprises.*
- (b) Eliminate privileges of regional technical inventory agency.*
- (c) Encourage spin off and privatization of district offices of the regional technical inventory agency.*
- (d) Eliminate barriers to entry of firms from the surrounding regions.*

In Tomsk a key constraint in allocating land rights, including through privatization under article 36 of the Land Code, is the need for physical survey of the property. There appears to be a shortage of trained surveyors, particularly in the private sector. Most survey work continues to be done under monopolistic conditions by state and municipal entities, leading to lack of competition and poor performance. The objective should be to increase the number of private sector firms providing these services and to increase competition among firms.

To address this problem several steps should be considered. Creation of private sector surveying firms should be made a main focus of regional programs which support creation of small and medium enterprise. Steps should be taken to identify and eliminate any privileges or benefits provided to state agencies of technical inventory in survey work. For example, state and municipal agencies should be required to bid out all surveying work in compliance with Federal laws on procurement of goods and services by local governments. Private sector firms should be put on an equal footing with state and quasi-state agencies in the performance of public works as well as the performance of private work necessary for registration of real estate objects and rights. Consideration should be given to requiring the regional agency for technical inventory to divest its surveying operations into several truly private sector firms. And, barriers to firms from outside the Tomsk region performing survey work for registration of real estate objects and rights, if any, should be identified and eliminated.

2. Eliminate the state monopoly on preparation of technical passports.

The consultants were advised that preparation of technical passports for real estate facilities, which is required for privatization under article 36 of the Land Code as well as for registration of rights, remains a monopoly of state and municipal agencies. The Tomsk Regional Agency for Registration of Rights to Real Estate has proposed to eliminate this monopoly. This effort should be encouraged and supported by regional legislation if necessary. The outcome should be that any licensed architectural and engineering firm should be authorized to prepare any and all technical documents needed for registration of objects and rights.

3. Accelerate implementation of land zoning as required under the RF Land Code.

The lack of comprehensive, transparent urban zoning regulations governing land use has been a major impediment to development of urban real estate markets throughout Russia.

Without transparent zoning regulations each development proposal becomes a unique case, requiring greater time for processing. More importantly, lack of transparent zoning regulations vests municipal planning authorities with too much discretion, which has often been abused. Without comprehensive zoning regulations, local authorities may also decline to offer land through competitive procedures. Implementation of comprehensive and transparent municipal zoning regulations is obligatory under the RF Land Code. Regional legislation should establish firm deadlines for adoption of local zoning ordinances. In addition, the regional administration should exercise its authority under the Land Code to approve zoning regulations for the suburban districts of Tomsk City. Until that these procedures could be included into the effective Law of the Tomsk Oblast “On allocation and withdrawal of land plots in Tomsk Oblast”. Currently this law does not contain such provisions.

In our perception, one of the priority tasks is to amend The Urban Planning Code Of Tomsk Oblast adopted by the Decision of the State Duma of the Tomsk Oblast as of 10.23.98, #179. Although adopted after the Federal Urban Planning Code, the regional document in fact does not support the new approach to urban land use regulation and preserves the former system of multi-layered “matryoshka principle” which stipulates preparation of a long chain of urban planning, rights-of-use documents and requirements for each concrete land plot with issuing of the so called “architectural and planning assignment” (APZ). The permitted uses are defined only at the last stage and coexist with the “targeted use” of the land plot. This regional law undermines the intention of the legal zoning as described in the RF Urban Development and Land Codes.

There will be an argument that elaboration of a zoning system is not possible until revision of the master plans for the municipalities. However, the inadequacies in the current Master Plan should not prevent elaboration and adoption of the zoning ordinance, even if actual implementation of the technical parameters of the zones must await completion of master plan revisions. Moreover, we strongly recommend that where modifications of a current master plan are required, such modifications be made on a phased basis, with priority for the areas of greatest development potential, rather than awaiting the completion of comprehensive revisions (which are frequently out of date by the time they are completed!).

4. Audit the land allocation procedures to identify bottlenecks and establish performance base lines.

A problem at this time is that there have been no systematic assessments of the land allocation process which can help pinpoint where bottlenecks are consistently occurring. A professional audit of the current procedures for allocating land rights should be undertaken both to identify problem areas and to throw light on poorly performing government agencies. We have identified one such area, for example, which is the production of surveys and technical passports. In addition, such an audit should provide an assessment of the reasons for delays in the process, considering for example the amount and training of human resources, the demand for services, and the complexity of

the tasks. On the basis of this assessment reasonable performance baselines should be established.

It is not possible at this time to say whether any particular aspect of the procedure for land allocation (Figure 1) should be eliminated or modified, though the consultants strongly suspect that some of the current procedures and requirements are more complex and elaborate than is necessary to protect the state's interests. In particular, the lack of delegation of authority, with the resulting preparation, circulation and review of numerous drafts of documents and resolutions (including, for example the land plot survey and the resolution on granting the land plot) among many government agencies, including the most senior political leadership, seems to be excessive and alternative approaches might be considered. For example, an audit of the present procedure might reveal that modifications to drafts are made in so few cases that the entire requirement for preparation and review of drafts can be eliminated with overall benefits to the efficiency of the system. Based on interviews in the course of preparing this report, a major problem may lie in management as well as the procedures themselves. Complaints were heard that the procedures simply take too long, without justification, as there is in the bureaucracy a lack of concern for customer service as well as a lack of accountability.

5. Eliminate architectural authorities from land privatization process under article 36.

The consultants have been advised by informed officials that the Tomsk Office of the Chief Architect is a significant bottleneck for approval of land privatization applications. Privatization of land plots by existing users holding rights of privatization should not require land use approval. Privatization is a simple matter of survey and coordination of boundaries. Involvement of architectural authorities should only be required if there is a simultaneous request for change of use. A clear distinction must be established between privatization of land, which is an economic decision, and use of land, and the two procedures should be kept separate as far as possible.

6. Establish reduced construction permit requirements for small projects.

A special, accelerated procedure should be implemented for construction projects which entail only modifications to existing buildings and premises and do not entail new connections to utility services. Issuance of construction permits for such projects should be a matter of days and should rely on certifications of licensed professionals. Accelerated procedures may encourage owners to obtain permits rather than to construct illegally. Dealing with minor applications in a simple and accelerated way would also remove these applications from the desks and free up staff time for more complex applications, thereby improving the processing of those as well.

7. Implement a true "single window" for land allocation and construction permits.

Like other Russian regions and municipalities, Tomsk suffers from the same problems of divided responsibility among the various agencies that have a role in the allocation of real estate assets and issuance of land use and development permits. Divided responsibility together with inadequate monitoring of processes and outcomes has also led to a lack of accountability, as it has not been possible to cast light on agencies which are not performing up to the highest standards. Unfortunately, a significant number of those agencies may be Federal organs over which the region has limited control. This should not prevent an attempt to develop better coordination and accountability in these processes.

One approach that might be taken with respect to land allocation and issuance of land use and development permits is to create "single window" entities vested with the responsibility to actively represent the interests of citizens, the consumers of government services, in land and permit matters. The Novgorod "single window" real estate center was one of the first in the nation, and has been successful. It operates on the principle that bringing together all relevant agencies - in this case including land and premises allocation, land use and construction permits and registration - under one roof increases coordination, transparency, and the quality of customer service, and decreases the time of transactions. However, it is necessary that all agencies sincerely invest themselves in this approach in a spirit of cooperation. For example, the consultants are aware that Tomsk City has created a single window real estate office intended to improve the process of issuing real estate permits, but there are complaints that the facility does not operate as expected because of failure of the city's architectural authorities to fully cooperate.

If a single window approach to property allocation and permits is considered, consideration should be given also to increasing accountability by organizational changes which encourage professionalism, customer service and accountability. One approach would be to create in the single window facility the position of "case officer," who would be the citizen's primary contact within the facility and responsible for processing the case, including assistance and advice as necessary. The case officer would be responsible for liaison with other agencies and departments, and for maintaining appropriate records on the processing of the application.

8. Implement permit tracking software systems which highlight roadblocks and bottlenecks.

- (a) Implement performance standards for issuance of permits.***
- (b) Hold officials accountable for performance standards.***

In the opinion of members of the Tomsk business community with whom the consultants spoke, many problems with allocation of land and real estate and issuance of construction permits can be attributed to poor management performance, which in turn may be attributable to lack of accountability. To address this, there are a number of reasonably priced, easily installed and user friendly software programs that can be used to track permit applications from date of application to issuance of permit. Such programs can be

used as a management tool to identify persistent bottlenecks in the process and produce management reports.

Together with implementation of management tools, time standards should be established for each step of the permit process as benchmarks with which to evaluate management performance. These standards should be established on the basis of the audit of processes recommended above. Performance reviews of personnel should be related to the established standards.

9. Deal with issuance of technical conditions and terms of connection to utility services under the region's authority to regulate the provision of public services.

(a) Require transparent publication of information concerning service lines and connection points and general technical conditions for municipal districts.

(b) Establish time limitations for issuance of technical conditions.

(c) Establish standards and formulas for connection fees and charges.

Addressing issues of technical conditions is a matter of property regulating the provision of public utility services, which to a significant extent is within the authority of regional governments. This is essentially an issue of consumer protection. What is lacking are transparent "standards of service" and rate structures governing access to technical information, connection to existing networks and spreading of costs over beneficiaries of utility upgrades.

Asset Management

By asset management we mean the management of real property assets in state and municipal ownership in such a way as to maximize their value. Value in this case does not mean merely the balance sheet value or revenue potential to the state or municipality, but the broader concept of value to society considering all of the direct and indirect costs and benefits of retaining the real estate assets in public ownership. Accordingly, the value of real estate assets presently in state or municipal ownership may be increased by divestiture to the private sector, rather than carrying the asset on the public balance sheet. Good asset management includes sale of assets, as well as maintenance and improvement.

For example, continuing state ownership of a real estate asset may result in lower returns to the asset if the state lacks the resources to develop the asset to highest and best use and market it appropriately. The present value of divesting the asset, including sales proceeds, construction activity, taxes and ongoing commercial activity may far exceed any return the state can hope to see by holding on to an under performing asset for an indefinite period.

In this report several prior recommendations are directly related to good public asset management. These include the following:

Complete and make widely available an inventory of state and municipal real property.

See "Supply," above, recommendation 1.

The Regional Administration should open discussions with the Federal government to:

(a) Delegate federal property management authority to the regional administration.

See "Supply," above, recommendation 4.

Accelerate privatization, consolidation, and liquidation of regional enterprises.

See "Supply," above, recommendation 5.

Audit of all outstanding preliminary state acts for allocation of land rights and terminate those that have exceeded the time limits; prohibit multiple consecutive renewals of preliminary allocations of land sites.

See "Supply," above, recommendation 7.

Bring land and premises rents to market levels and eliminate land rent concessions for enterprises.

See "Supply," above, recommendation 8.

In addition to the above the following steps are recommended to improve management of state and municipal real estate assets.

1. Develop a regional policy on state ownership of real estate assets.

Whether asset management is successful or not must be measured against a set of principles and objectives. Few, if any, regions in Russian presently have a clear and consistent set of principles applicable to public real estate assets, and were Tomsk to prepare such a document it would be in the forefront of real estate reforms. A statement of principles would include both fundamental conclusions on the role of land and real estate assets in government as well as how those conclusions are to be implemented. As an example, included in the body of this report as Table 1 are the so-called "Property Principles" of the Commonwealth of Australia, which are illustrative. For example, a defining characteristic of these principles is that the financial analytical methods of private business must be applied to justify public ownership, improvement or sale of real estate assets, and that there is a presumption that public ownership should be limited. Real estate is viewed as one resource among several, including human resources and capital, which contribute to the output of government services, and should be retained only so long as the value of the output attributed to the real estate asset exceeds the direct and indirect costs of retaining the asset.

It is not possible to anticipate here the precise content of these principles, but the following are offered as broad examples for discussion:

1. The real estate assets of the Tomsk region include all land and facilities in the ownership or use of the Tomsk region, or any of its agencies or enterprises.
2. The regional government of Tomsk, including its agencies and enterprises, will own land and real estate assets only as necessary to support their essential function and delivery of the goods and services of government, or if ownership is otherwise in the public interest. The public interest in real estate ownership includes: []
3. It is the responsibility of each government agency and enterprise to maximize the value of real estate assets in its use, and to justify continued ownership of real estate assets in terms of the essential function of the agency or enterprise.
4. It is the responsibility of each government agency and enterprise to maintain complete and current inventories of real estate assets in its use, including the current use and condition of the asset.

Improving Real Estate Markets in the Tomsk Region

TABLE 1: PROPERTY PRINCIPLES OF THE AUSTRALIAN GOVERNMENT

<p>1. The Commonwealth should own property where the long-term yield rate exceeds the opportunity cost of capital, currently set at 11 per cent, or where it is otherwise in the public interest to do so.</p> <p>2. Public interest considerations which may influence the decision as to whether the Commonwealth should own property include circumstances where the property has:</p> <ul style="list-style-type: none"> • national symbolic significance; • national security requirements; • strategic significance to future government use; • highly specialized uses that would significantly inhibit commercial provision; • significant heritage and environmental requirements; • significant public usage; • characteristics such that the nature of the use or development of the property by the Commonwealth would give a potential lessor excessive future negotiation power (e.g. where the Commonwealth needs to make a large investment in specialized fit out); • special diplomatic requirements, where either no market exists or government-to-government reciprocity arrangements in the context of the Vienna conventions apply; or • there exists clear evidence of market failure. This could include properties such as small regional offices in isolated locations where there would be no other tenants should the property become vacant or where private investors would demand excessive rates of return to recover their investment over the life of a lease; and those in markets where there is a predominance of Commonwealth ownership. <p>3. The onus should rest with the proposing agency to clearly demonstrate the characteristics of the property that warrants Commonwealth ownership.</p> <p>4. Where market failure is claimed, the market circumstances for the property should be adequately tested, including consideration of offering lease terms or conditions that might allow private investors or developers to convert a government guarantee of rental income into the capital necessary to provide the accommodation and earn a market return; and</p> <p>5. Where market failure is established, the relevant Minister should take the proposal to Cabinet in the Budget context.</p>	<p>6. To encourage efficient, effective and transparent decision-making and accountability:</p> <ul style="list-style-type: none"> • the costs of property use (whether owned or leased, domestic or overseas) should be fully reported by the using agency or program; • property costs should be measured (and wherever practical, charged) on the basis of competitive neutrality - i.e. costs to the Commonwealth should be measured on the same basis as the private sector; and • property costs should recognize the costs of holding unused land in reserve for possible future use, except for certain land with national significance and where disposal is not an option. <p>7. When seeking the provision of accommodation to meet Commonwealth needs, a proactive approach should be taken to inform the market well in advance of the project so that the market has time to develop solutions to meet the Commonwealth's needs.</p> <p>8. Where Commonwealth ownership is decided upon, the property should be managed so as to retain the maximum long-term economic advantage to the taxpayer. Financial and/or organizational arrangements should be made to ensure the effective maintenance and refurbishment of the facility are to agreed standards. Failure to do so risks Commonwealth exposure to high property vacancy rates, additional costs and failure to meet its legal obligations under Occupational Health and Safety legislation.</p> <p>9. For Commonwealth agencies occupying property owned by another part of the Commonwealth, occupancy agreements should be formalized between the Commonwealth property owner and the occupying agency.</p> <p>10. Conditions and rentals should be market based. All agreements between arms of the Commonwealth should be binding, and transferable on sale of properties. Where such properties are identified for sale, the occupancy agreements should be placed in a form that facilitates completion of the sale.</p> <p>11. Property management services provided within Commonwealth bodies should be fully market tested, including the option of in-house bids consistent with the principles established in the Commonwealth's Competitive Neutrality Policy.</p> <p>12. Where property is being provided on an internal market basis, there should be a clear separation of responsibility between the area responsible for maximizing the performance of Commonwealth owned property and any area responsible for tenant advocacy.</p>
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5. It is the responsibility of each government agency and enterprise to periodically review its real estate holdings in terms of whether they contribute to carrying out the essential functions of the agency or enterprise. There is a presumption that all real estate assets held by government agencies and enterprises are disposable unless retention or improvement can be justified in terms of the essential functions of the agency or enterprise.

6. In deciding whether to own, acquire, improve, or dispose of real estate assets, commercial financial principles must be applied. In the absence of compelling reasons of public interest as defined in these principles, continued public ownership or improvement of real estate facilities cannot be justified if the present value of ownership is lower than the present value of disposition. In considering the present values of ownership or disposition all costs and benefits must be considered, including for example the future costs of improvement and maintenance, availability of equivalent facilities in the private market at reasonable price, and the sum of indirect benefits from disposition.

7. There is a presumption that public ownership or improvement of real estate assets is not desirable if equivalent facilities can be obtained in the private market at lower cost.

8. There is a presumption that the area of office facilities in the use of any government agency or enterprise should not exceed [] square meters per employee, and that after establishment of reasonable reserves for growth excess office space should be divested or leased on the private market.

9. Accounting for real estate assets is a necessary component of the budgetary process for state agencies and enterprises. In budgetary reporting state agencies and enterprises are required to provide a strategic analysis of real estate assets including justification of continued ownership of under utilized assets, proposed improvements and dispositions. Accounting statements of Tomsk government agencies and enterprises must include the full costs of continued ownership and operation of real estate assets. Accounting rules for real estate assets of regional agencies and enterprises shall be determined by the Regional Finance Committee.

These examples were hastily prepared, but give some sense of the type of policy statement that might be formulated to guide future treatment of public real estate assets.

2. Prepare the strategic inventory and plan for regional real estate assets.

The Regional administration could commence preparation of a strategic inventory and plan for real estate assets. In this activity government agencies and enterprises would be required to provide a current and complete inventory of real estate assets, their current use and condition, and provide an assessment of how the asset is contributing to performing the essential function of the agency or enterprise. Agencies and enterprises

would be required to project over a longer term the improvements and upgrades that would be necessary to maintain the functionality of the asset, and whether the costs of such improvements and upgrades would be justified by the expected contribution to the output of goods and services. Agencies and enterprises would be required to identify surplus real estate assets that should be considered for disposition.

3. Create a regional working group or steering committee on state real estate.

Development of a policy statement on real estate assets should be the work of a task force which includes representatives of the relevant government agencies, including municipal and Federal agencies, and the private sector. This group would consist of senior executives from the relevant government agencies and would oversee the development of asset management policy.

Performance Monitoring

It is highly recommended that the regional and municipal administrations identify quantitative indicators of the performance of both real property markets generally and government service providers, and implement a monitoring system to periodically assess progress. The key indicators would draw on information available from government agencies and registries to assess levels of supply and demand in the market as well as progress toward achieving the objectives identified in this report. Indicators can help to assess the management performance of certain government agencies responsible for carrying out policy reform in the real estate sector. Accordingly, attached as an Appendix to this report is a set of tables which suggest the types of indicators that would be *minimally necessary* for assessing progress in real estate market development, elimination of administrative barriers to investment in real estate, and, generally, improving the investment climate in this sphere.⁶ Much of this information is presently available from various federal, regional and municipal agencies. Examples of relevant data already gathered within the state statistical survey include:

- Form №22-1 *Data on Availability and Distribution of Lands by Ownership Categories and Forms* (approved by the RF Statistics Committee Decree #97 as of 16/10/2000);
- Form №22-5 *Data on Distribution of Urban Lands by Ownership Types* (approved by the RF Statistics Committee Decree #97 as of 10/16/2000);

⁶ The regional and municipal administrations could set a more ambitious task than proposed here to elaborate and implement a very comprehensive system of interrelated quantitative and qualitative indicators reflecting all main processes in the real estate sphere, including its' role in the economic structure of the region or municipality, as well as all types of revenues to the regional and local budgets generated by the segments of private, federal, regional and municipal real estate located within the territory of Tomsk Oblast. Elaboration of such comprehensive managerial instrument for the real estate sector does not exist in Russia and goes beyond the objectives of the present report

Improving Real Estate Markets in the Tomsk Region

- Form №3-zem *Data on Land Transactions*, Section 2 (approved by the RF Statistics Committee Decree #97 as of 10/16/2000);
- Form 1, *Housing Stock*, (approved by RF Statistics Committee Decree #71 as of 09/21/2001);
- Form №3-privatization *Data on Privatization of an Enterprise (Organization)*, Form №3-privatization *Data on the Results of Privatization* (approved by the RF Statistics Committee Decree #114 as of 12/31/99).

In case the collection of data would exceed the current requirements of the RF Statistics Committee the regional and municipal agencies should be instructed regarding the types of data that will be required for the monitoring effort, the methodological aspects of its' collection, and be required to adjust their data gathering activities accordingly. To be viable it is crucial that this new data collection procedure should acquire an official status, that is to say, it should be approved by resolution of head of regional administration that identifies responsible officials, reporting dates, and the exact division of the administration which coordinates all the activity and receives the final data.

Further suggestions with regard to monitoring of performance indicators include:

- Establish an interagency task force responsible for monitoring and evaluation of progress in real estate markets, including representatives of the land, property, architectural, and finance committees as well as the cadastre and registry.
- Establish relationships with key private sector development, brokerage and financial firms that would be willing to periodically contribute data; include private sector representatives on the monitoring task force.
- Consider establishing a formal annual report of the regional administration on development of the land and real estate market, which would present and analyze the performance indicators to all interested participants of the real estate market and the community.

In conclusion it needs to be stressed that the development of the land and real estate market and the associated investment activities in this sector are far ahead of the development of the informational support of these processes. Without quantitative records of changes, neither timely regulation by the regional and local authorities, nor adequate response of the private sector of the economy is possible. Therefore, any attempt to bridge this gap, including the proposed project of organizing regional/municipal monitoring of land and real estate, merits priority attention and the full support of those concerned with the economic development of the Tomsk Oblast.

APPENDIX
MONITORING AND PERFORMANCE INDICATORS

TABLE 1
REGISTRATION OF RIGHTS TO REAL PROPERTY IN THE TOMSK REGION

Indicators	Units	1997-2001	2002	2003	2004	2005
Average duration of registration services:	Days					
Registration of ownership rights and other rights						
Registration of transactions of real property, encumbrances	“					
Abstracts	“					
Average costs of registration services:	Rub					
Registration of ownership rights and other rights						
Registration of transactions of real property, encumbrances, including	“					
Purchase and Sale	“					
Mortgage	“					
Etc.	“					
Abstracts	“					
Registration fees collected:	Rub					
Total	“					

**TABLE 1
REGISTRATION OF RIGHTS TO REAL PROPERTY IN THE TOMSK REGION**

Indicators	Units	1997-2001	2002	2003	2004	2005
From citizens	“					
From legal entities	“					
Number of Transactions Registered:	Number					
Total	“					
Sale of Residence, including	“					
Single-family	“					
Apartment	“					
Sale of Land Plot	“					
Sale of non-residential building/premises	“					
Lease of Land Plot	“					

TABLE 2								
LAND OWNERSHIP IN THE TOMSK REGION, SQUARE METERS BY TYPE OF OWNER								
Year	Total area	Owned by individuals	Owned by legal entities	Owned by state and municipal governments				
				Total	Including those transferred to			
					Individuals		Legal entities	
					For use	For rent	For use	For rent
1992-2001								
2002								
2003								
2004								
2005								

TABLE 3								
OWNERSHIP OF NON-RESIDENTIAL BUILDINGS AND PREMISES IN THE TOMSK REGION, BY TYPE OF OWNER								
Year	Total area (sq. m.)	Owned by individuals	Owned by legal entities	Owned by state and municipal governments				
				Total	Including those transferred to			
					Individuals		Legal entities	
					For use	For rent	For use	For rent
1992- 2001								
2002								
2003								
2004								
2005								

TABLE 4
SALE OF STATE AND MUNICIPAL LAND AND REAL ESTATE, BY PROCESS OF SALE

Type of Property	1992-2001	2002	2003	2004	2005	2006	2007	Total
Buildings, constructions, structures								
Direct Sale (not including privatization):								
Number								
Area (000 m ²)								
Revenues								
Auction/Tender:								
Number								
Area (000 m ²)								
Revenues								
Privatization:								
Number								
Area (000 m ²)								
Revenues								
Other:								
Number								
Area (000 m ²)								
Revenues								
Non-residential premises								
Direct Sale (not including privatization):								
Number								
Area (000 m ²)								
Revenues								
Auction/Tender:								
Number								
Area (000 m ²)								
Revenues								
Privatization:								
Number								
Area (000 m ²)								

TABLE 4
SALE OF STATE AND MUNICIPAL LAND AND REAL ESTATE, BY PROCESS OF SALE

Type of Property	1992-2001	2002	2003	2004	2005	2006	2007	Total
Revenues								
Other:								
Number								
Area (000 m ²)								
Revenues								
Land Plots								
Direct Sale (not including privatization):								
Number								
Area (000 m ²)								
Revenues								
Auction/Tender:								
Number								
Area (000 m ²)								
Revenues								
Privatization:								
Number								
Area (000 m ²)								
Revenues								
Other:								
Number								
Area (000 m ²)								
Revenues								

**TABLE 5
CONSTRUCTION ACTIVITY IN THE TOMSK REGION**

Indicator	1996-2001	2002	2003	2004	2005	2006	Total
Building Permits, New Construction							
Number							
Square Meters							
Average Cost of Construction (rub/m ²)							
Building Permits, Renovation							
Number							
Square Meters							
Average Cost of Construction (rub/m ²)							
Permits Issued For:							
Multifamily residential							
Single family residential							
Office							
Trade and Service							
Industrial and Storage							
Hospitality							
Certificates of Completion Issued							
Number							
Square Meters							

TABLE 6
LEASE OF STATE (MUNICIPAL) LAND AND REAL ESTATE IN THE TOMSK REGION

Indicator	1992-2001	2002	2003	2004	2005	Total
Lease of Land Plots						
Number						
Square Meters						
Average Lease Term (Years)						
Median Lease Term (Years)						
Average Rent (rub/m ²)						
Assignments of Rights Under Land Plot Leases						
Number						
Square Meters						
Approved Subleases of Land Plots						
Number						
Square Meters						
Leases of Buildings and Premises						
Number						
Square Meters						
Average Lease Term (Years)						
Median Lease Term (Years)						
Average Rent (rub/m ²)						
Assignments of Rights Under Buildings/Premises Leases						
Number						
Square Meters						
Approved Subleases of Buildings/Premises						
Number						
Square Meters						

**TABLE 7
AVERAGE LAND AND REAL ESTATE PRICES IN THE TOMSK REGION, RUBLES PER METER SQUARED**

Type of Property	2002	2003	2004	2005	2006	2007
Land Plots						
City						
Residential						
Commercial						
Industrial and Warehouse						
Suburban (agricultural use?)						
Residential						
Commercial						
Industrial and Warehouse						
Buildings and Premises						
City						
Residential						
Commercial						
Industrial and Warehouse						
Suburban						
Residential						
Commercial						
Industrial and Warehouse						

TABLE 8						
AVERAGE TIME AND COSTS RELATED TO ACQUISITION AND DEVELOPMENT OF REAL PROPERTY IN THE TOMSK REGION						
Indicator	Unit	2002	2003	2004	2005	2006
Land Boundary Survey						
Time to Approval	Days					
Cost	Rubles					
Technical Passport						
Time to Completion	Days					
Cost	Rubles					
Technical Conditions						
Time to Issuance	Days					
Electric	"					
Gas	"					
Water	"					
Heating	"					
Telephone	"					
Cost	Rubles					
Electric	"					
Gas	"					
Water	"					
Heating	"					
Telephone	"					
Infrastructure Connection Fee	Rubles					
Electric	"					
Gas	"					
Water	"					
Heating	"					
Telephone	"					

TABLE 8
AVERAGE TIME AND COSTS RELATED TO ACQUISITION AND DEVELOPMENT OF REAL PROPERTY IN
THE TOMSK REGION

Indicator	Unit	2002	2003	2004	2005	2006
Land Allocation - Application to Execution of Sale/lease Agreement						
Time from Application to Issuance (?)	Days					
Construction Permit						
Time from Application to Issuance	Days					
New Construction	Days					
Renovation	Days					

TABLE 9
RESIDENTIAL CONSTRUCTION IN THE TOMSK OBLAST

Year	Completed construction projects, total		Types of residential construction																			
			Multifamily buildings																Individual houses			
	State and Municipal								Private Sector								Private residences		Summer houses			
	1-room apartments		2-room apartments		3 room apartments		Other		1-room apartments		2-room apartments		3 room apartments		Other							
	A		Б		В		Г		Д		Е		Ж		З		И		К		Л	
units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	units	m ²	
1992																						
2005																						

TABLE 10: GROWTH OF REAL ESTATE MORTGAGE LENDING IN THE TOMSK REGION						
Indicator	2000	2002	2003	2004	2005	2006
No. of Mortgages:						
Acquisition of Existing Property:						
Land (only)						
Non-residential buildings and premises						
Residential						
Single-family						
Apartment						
New Construction:						
Non-residential buildings and premises						
Residential						
Single-family						
Apartment						
Amount of Mortgages:						
Acquisition of Existing Property:						
Land (only)						
Non-residential buildings and premises						
Residential						
Single-family						
Apartment						
New Construction:						
Non-residential buildings and premises						
Residential						
Single-family						
Apartment						