

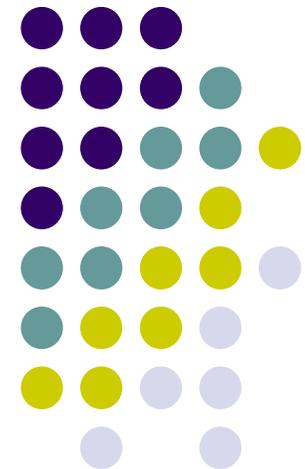
# INFORMAL DEVELOPMENT DUE TO MARKET PRESSURE- A CASE STUDY ON CYPRUS AND THE ROLE OF LAND ADMINISTRATION

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# Objectives of the study



- The recent occurrence of high national and international market interest in popular areas results in an increase in land values and housing costs and leads to informal development
- This paper presents the results of a 2 year research. It is shown that informal constructions appear in several attractive European areas due to increased market pressure
- In the 1<sup>st</sup> part a research on informal development in Spain, Albania Greece is presented and an identification of the causes is made.
- In part two, a case study on Cyprus is presented, to identify if any informal settlements exist in the area.
  - Description of the tools and procedures regulating land development
  - Identification of the weaknesses of the system
  - Proposals for the systems improvement
  - Statistics are derived through a research in cadastral and planning data

# Informal Development in Europe (I)



Informal development is not new in Europe.

The recent years this phenomenon in Central and Eastern Europe is increased due to:

- the economic and social change
- the rapid urbanization and migration
- the crisis of displaced people and refugees
- the lack of affordable housing and
- the emerging social inequality
- the lack of serviced urban land and the inefficient land administration.

Main Types of Informal Settlements:

- squatter settlements on public or private land
- settlements of refugees and other vulnerable people
- upgraded squatter/informal settlements
- illegal land subdivisions on private land and illegal change of land-use regulations on the urban fringe
- housing without adequate facilities in dilapidated city centers

## Informal Development in Europe (II)



To the causes of informal development a relatively new factor of significant importance should be added: the illegal or semi-legal investment on informal real estates due to the increased market interest and the recent occurrence of high national and international market pressure for secondary houses, recreation, or better living conditions.

A research on market data shows that *market demand* has increased land values in several attractive areas dramatically. During the last six years the mean annual increase of values of secondary houses in Bulgaria has reached 16%, in Croatia 31%, in Italy 16% and in Spain and Greece 11% according to 2007 data (a decreased is noticed in 2008!)

The economic revenue from such investments can become up to 70-80% of the country's GDP. The foreign investment in the coastal zone of the Black Sea was 1 billion USD in 2007 (50% of the total foreign investment in Bulgaria after its entrance in the EU)

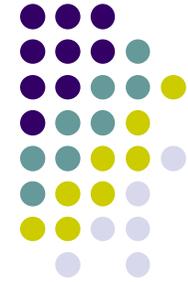
# Impact of secondary housing sector



The economic value of secondary housing is significant for the local societies:

- It boosts the economy by strengthening the construction sector, the tourism infrastructure
- It preserves the existence of small provinces that are threatened by the rapid urbanization and emigration
- The environmental impact remains to be investigated. In specific cases the new owners rescue and restore old houses and respect the traditional architecture and the natural environment
- The phenomenon of massive foreign investment however encourages developers to proceed with massive informal, unplanned development and to construct informal tourist secondary houses. Increased demand converts areas of natural beauty, forest or rural land into residential use rapidly
- Most of the recent informal market activity for secondary houses in Europe is identified in Spain, Cyprus and Turkey

# Informal Development in Spain



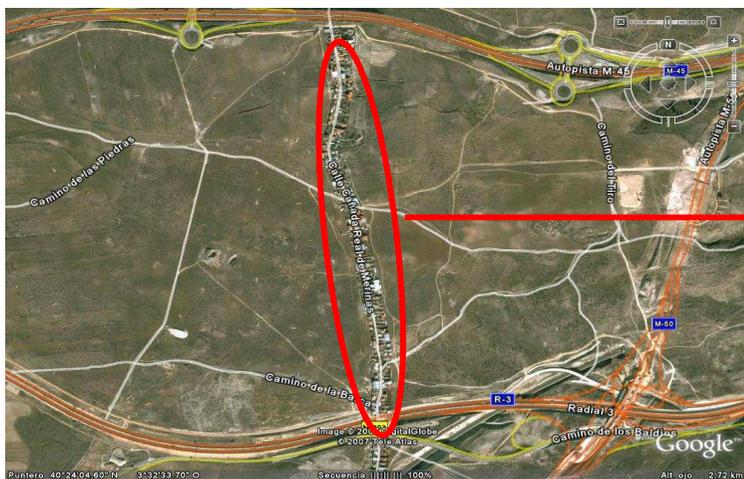
Informal settlements can be classified as following:

- Squatter settlements on public land – Slums, *linked to immigration*
- Unplanned or illegal subdivision of rural land in suburban areas and massive construction of good quality by low or middle income households, *linked to the strong demand for affordable housing and to the inadequacy of the planning system (e.g., in Barcelona)*
- Illegal land subdivision and construction of good quality in the countryside , usually secondary houses, *linked to recreational migration and increased market interest*
- Unplanned or illegal construction of good quality in coastal areas, massive construction *linked to recreational migration , secondary homes and inadequacy of the planning system*

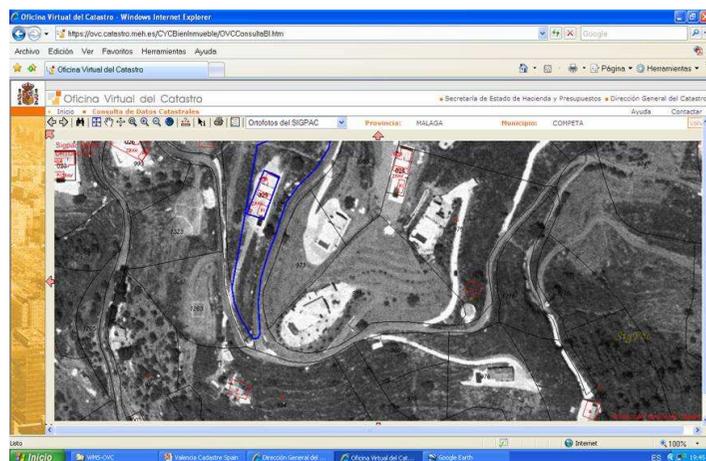
Spain has a long existing land registry, a flexible permitting procedure and a modern cadastral system.

Preliminary permits are obtained from the city council allowing the building to be classified as legal and it will be through a posteriori control that a solution can be found.

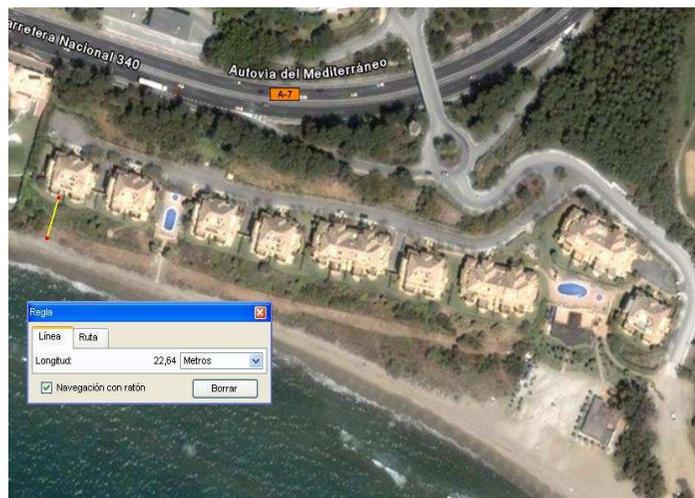
There is the possibility of legalization the informal settlements.



## Squatter settlements on public land – Slums



Unplanned and possibly illegal construction in Axarquía, Málaga



Defiance of regulations referring to the distance from the shoreline

**10M secondary houses have been sold to tourists, which equates to > 30M people**

# Informal Development in Greece

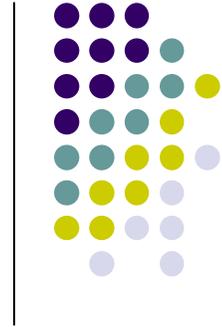


## Classification of informal settlements:

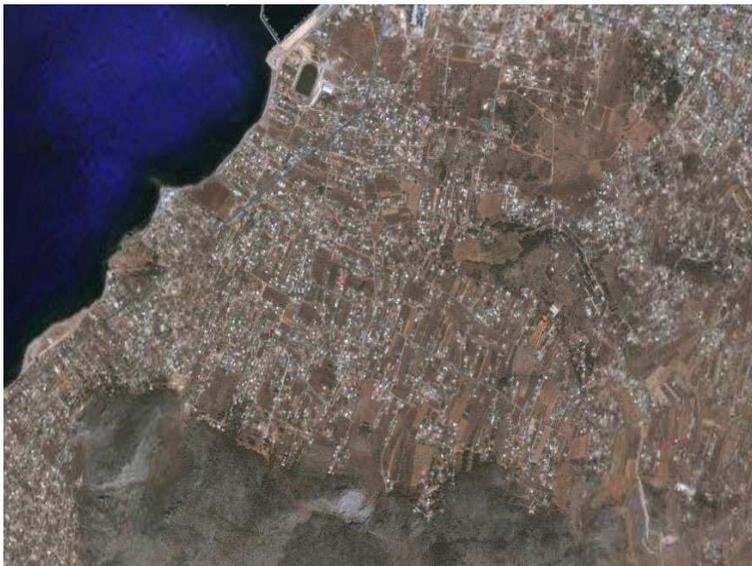
- Small slums within the city, along the main road network and close to landfills, *linked to current migration*
- Massive informal development of good quality in legally owned but illegally subdivided rural land in suburban areas, *linked to strong demand for affordable housing*
- Emerging construction of good quality on legally owned but illegally subdivided parcels, *linked to increased demand for secondary houses and to bureaucratic planning*

Greek land development system and land management procedures are not flexible and are not market oriented. There is a lengthy permitting system and practically no possibility for legalization. Only 50.000 tourists own vacation houses in Greece, concentrated on particular islands (e.g., 80% of real estate buyers on Crete are foreigners). Foreign investment is only 10%.

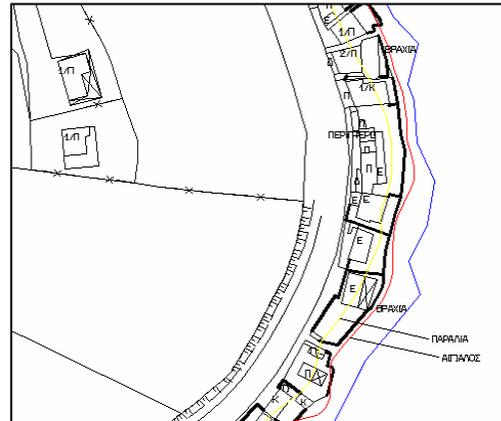
Secondary houses in Greece constitute only 12% of the construction activity, and about 90% of those are owned by local.



## Small slums in Greece



Low-income family informal settlements on Salamina island



Informal constructions in the seafront area. Construction is not permitted between the yellow (shoreline) and blue (low-wave) line

Due to Illegalities in construction, the Greek cadastre does not include buildings in the cadastral map that accompanies the title of the property!

# Informal Development in Albania



The situation in Albania is somehow different, because in Albania urban and rural land was privatized at the beginning of the 90's. Land administration system is very weak and first registrations are not updated, so there is a massive mistrust to the system.

Construction sector and market needs increased rapidly and public administration could not cope with this need. In addition, Albanian government has adopted a "pro-growth" policy, and is not applying detailed regulations trying to achieve economic growth by speeding up development procedures.

There is a massive squatting in all sub-urban areas and the coastal zone. Almost two thirds of constructions are informal. However, most settlements consist of good quality constructions but they are characterized by lack of access to fresh water and sewerage services, transportation, education and healthcare.

The phenomenon involves low and middle income households. It is linked to lack of control, migration, lack of affordable housing policy, inadequacy of land administration and planning, and strong market pressure.

## Informal development in Albania:



(a) slums



(b) houses of good quality for housing needs



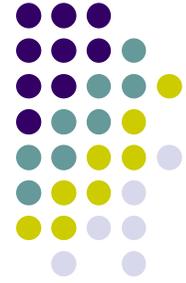
(c)



(d)

(c) & (d) due to increased market demand

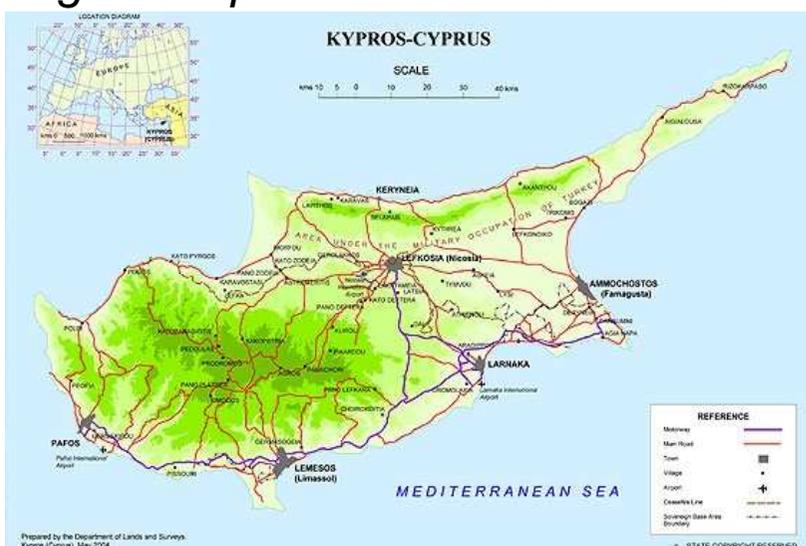
There is an on-going massive legalization process in place.





# Is there any informal development in Cyprus?

- Cosmopolitan destination both for residence and tourism
- Growing economy, with an annual GDP growth rate 4,4% (in 2007)
- Cyprus is the third largest Mediterranean island
- EU member since 2004
- Population:778.700 (in the free part)
- Number of residential units (in 2001) 293.985 , 68,2% private residences
- Cyprus has a good land administration system and flexible planning regulations
- *During the last two decades Cyprus has adopted simplified and flexible land management procedures in order to attract foreign investment*



# Land Development Procedures and relevant land administration infrastructure in Cyprus (I)



The responsibility for spatial planning and urban policy rests with the Ministry of Interior, who has delegated certain of his responsibilities to the larger Municipalities and the Planning Board, an independent body with advisory power over large areas of planning policy. Larger municipalities have been delegated as competent Planning Authorities, responsible for granting planning permissions, ensuring the sustainable distribution of land uses, prohibiting the implementation.

Under the responsibility of the Ministry of Interior are the:

- Department of Lands and Surveys (DLS) responsible for: maintaining the Cyprus title cadastral system, property and rights registration, cadastral plans and maps production, cadastral surveying, mortgages, conveyance, valuation, acquisition, management of state land, photogrammetry, cartography, GIS, etc, and

# Land Development Procedures and relevant land administration infrastructure (II)



- Department of Town Planning and Housing responsible for the implementation of the Town and Country Planning legislation and aspects of urban policy and spatial planning. The Department is comprised of the Sections of:
  - Housing, responsible for national housing policy, as well as the design and management of public housing, at present almost exclusively serving refugees displaced by the 1974 Turkish invasion
  - Development control, responsible for plan implementation and enforcement, as well as providing the administration for six of the nation's Planning Authorities
  - Spatial Planning, responsible for urban and spatial policy formulation, including issues of land use, preservation, transportation and territorial development.

# Hierarchy of development plans



The hierarchy of development plans includes the:

- Zoning and planning regulations on Cyprus
- “Island Plan”, which refers to the national territory and the regional distribution of resources and development opportunities. The plan remains unpublished due to the Turkish occupation of part of the island
- “Local Plans” for major urban areas or regions undergoing intensive development pressures. They include written regulations according to general and specific policies and a broad range of regulatory plans and maps for a variety of development types, infrastructure networks, etc, for large urban geographical areas.
- “Area Plans” which include policies and regulations, at a more detailed level and for smaller and geographical areas of special interest, than the Local Plans.
- The Policy Statement for the Countryside (PSC) for the Sustainable Development of Cyprus refers to all government-controlled territory, except areas where a Local Plan or Area Plan is in place. The PSC is a legally binding document in the form of an adapted regional plan for development control and environmental protection in villages and rural areas.

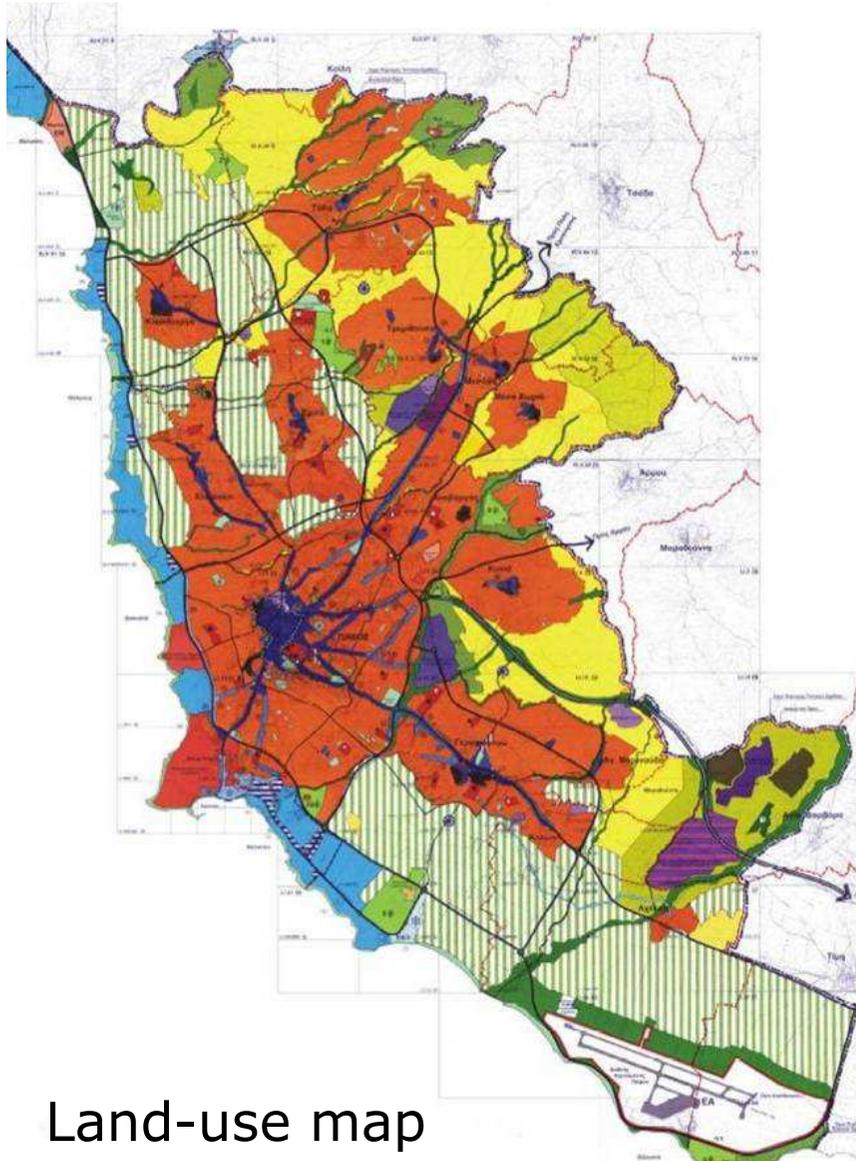
# Revision of Local Plans



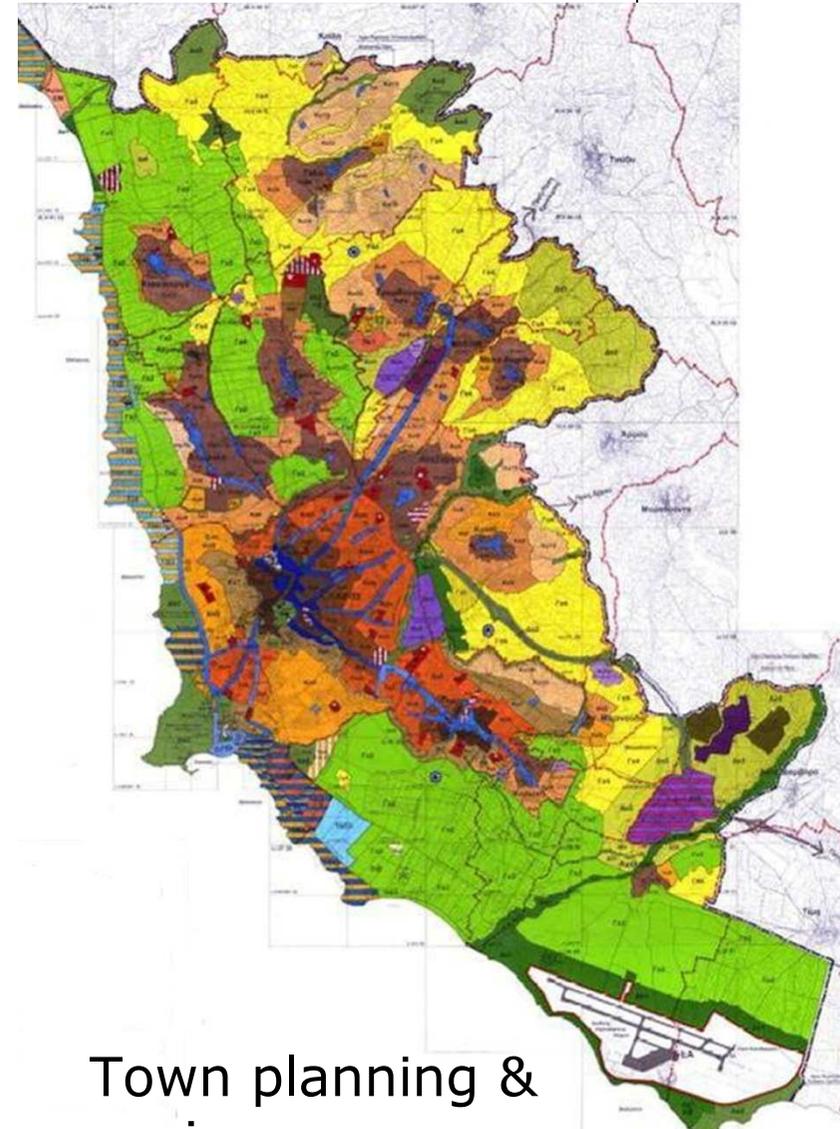
- According to Law 90/1972 for Town and Spatial Planning a revision of a local plan may be compiled every 5 years under the responsibility of the Ministerial Board.
- Other involved agencies are the Local authorities, the Department of Town Planning and Housing, the Ministry of Interior, the Ministry of Agriculture, the Environment Service, the Ministry of Communications and Works and the Cyprus Scientific and Technical Chamber.
- Once the new plan is revised, the Town Planning Council is responsible for its publication.
- Objection submission, examination and amendment phase
- Submission of the new version to the Ministerial Board for ratification.
- The whole objection procedure should be finalized within 18 months.



# Local Plans of Pafos district



Land-use map



Town planning & zoning map

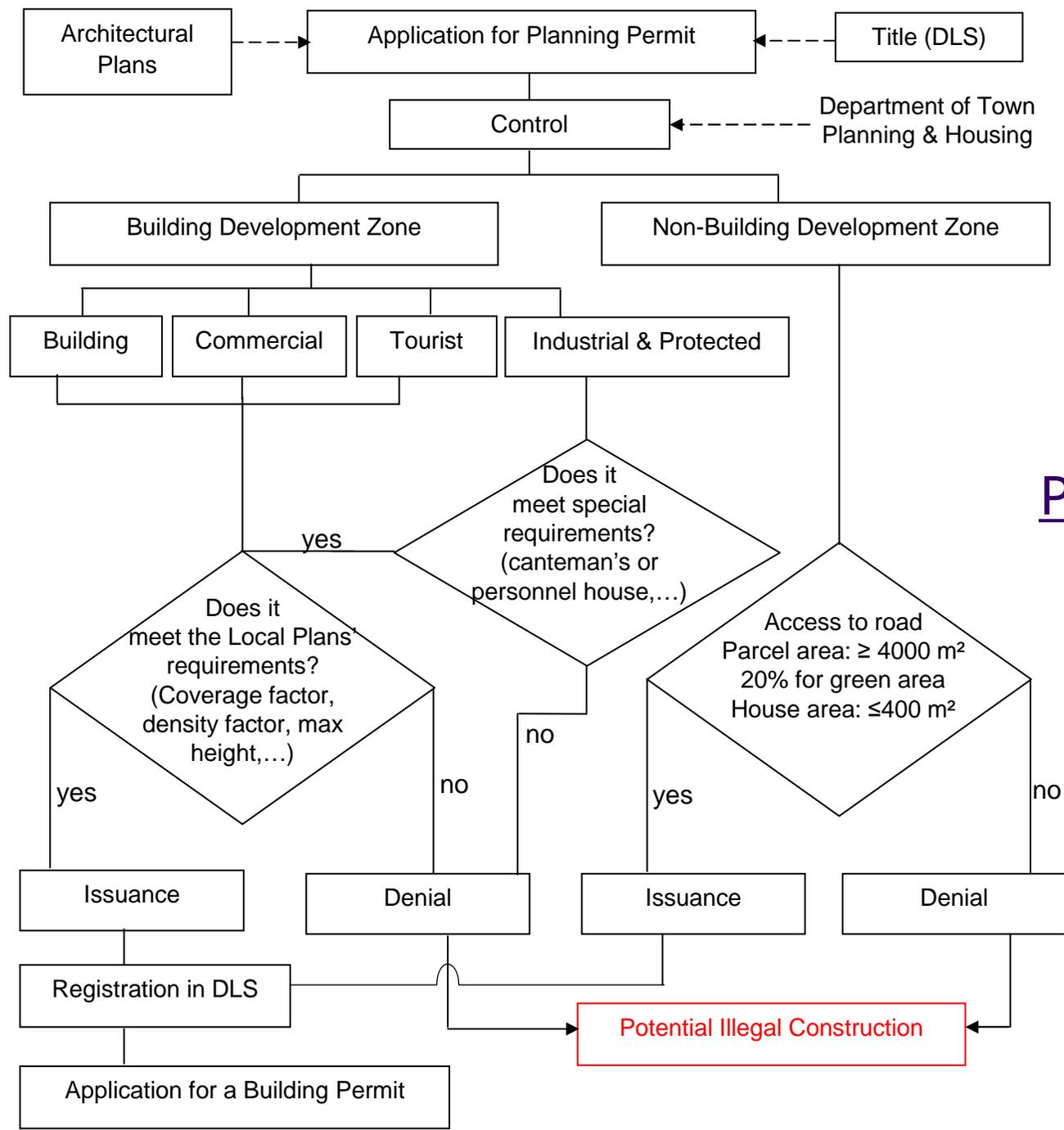
# Planning Permit

- According to Law 90/1972 for Town and Spatial Planning
- constitutes the first step of the development process
- It refers to the ratification of the architectural study of the construction in terms of volume, land coverage percentage and floor area ratio.

## Building Permit

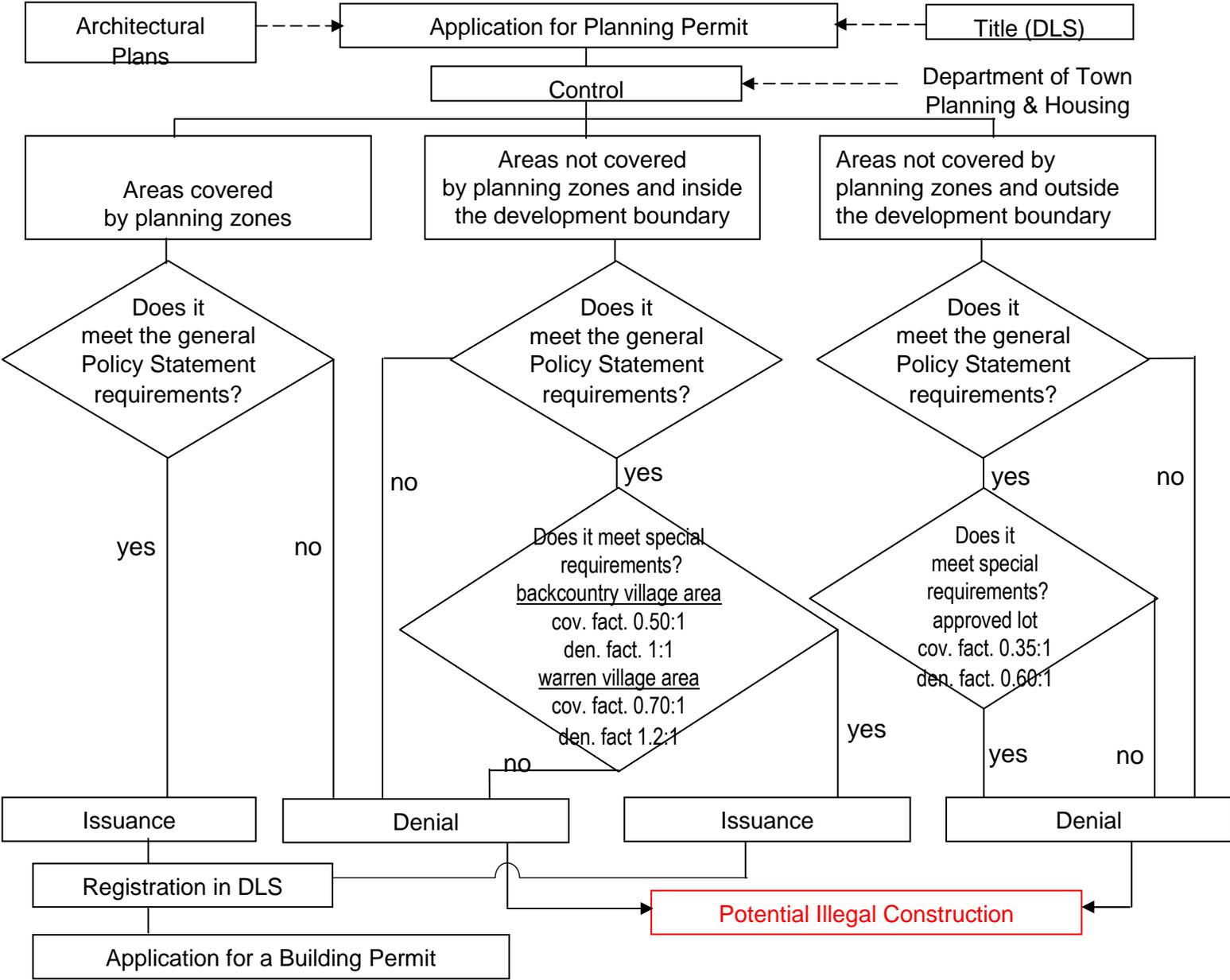
- Issuance of building permit follows the issuance of the planning permit
- it is mandatory for any construction
- Responsible agencies are either the Municipality or the District Administration Office
- mainly related to structural aspects



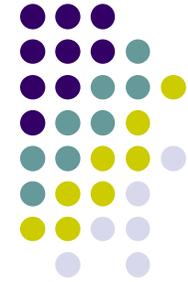


# Development Permitting Process in areas covered by Local Plans

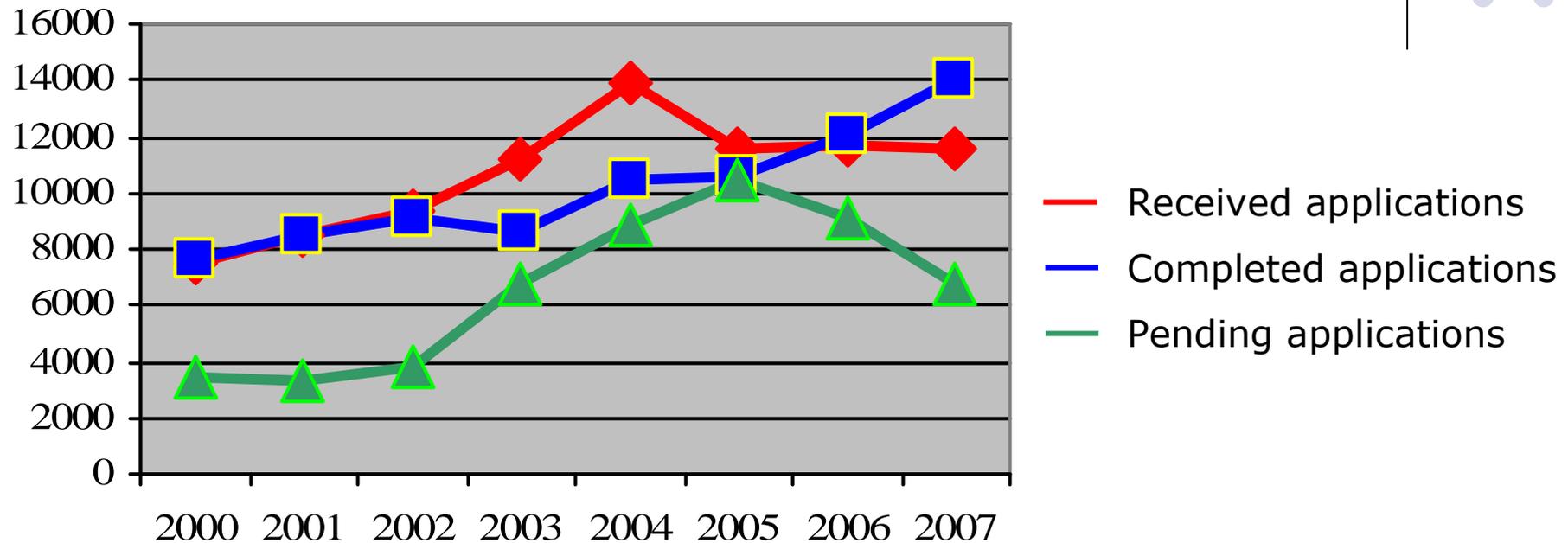
# Planning Permitting Process in areas covered by Policy Statement



# Statistics referring to the planning permitting data



## Applications for Planning Permit



Since 2000, there has been an increase in applications for planning permits

This increase was even more rapid during the period 2002-2004, with a peak in 2004, just before the entrance of Cyprus in the EU

# Statistics referring to the cadastral data



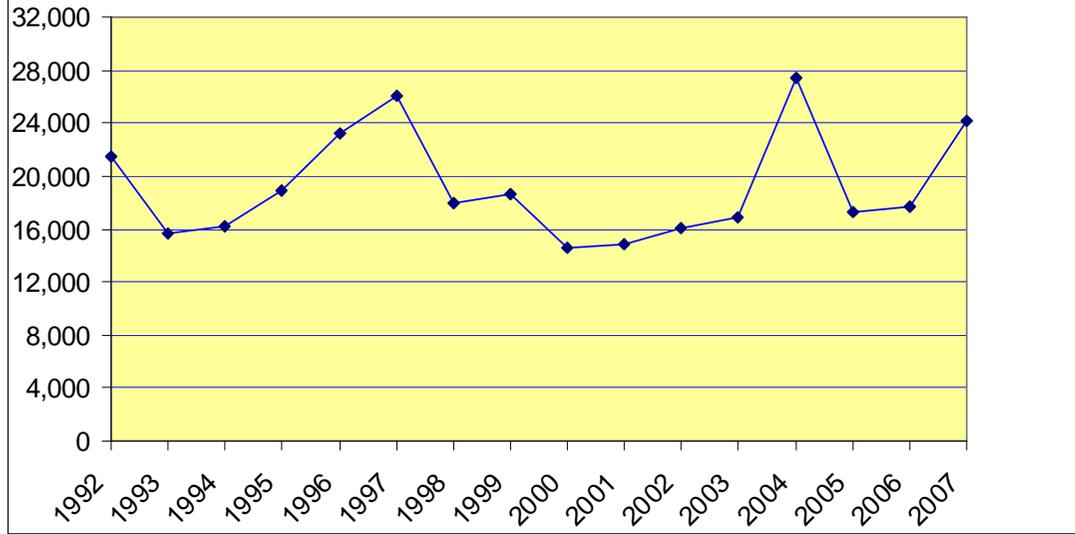
## Conveyances & Mortgages

Conveyances & Mortgages	2002	2003	2004	2005	2006	2007
Property Grants/Exchanges	16.076	16.852	27.441	17.347	17.717	24.065
Property Sales	16.696 <i>944 M€</i>	19.737 <i>1,304 M€</i>	17.344 <i>1,732 M€</i>	16.359 <i>1,773 M€</i>	20.259 <i>2,890 M€</i>	23.723 <i>4,538 M€</i>
Mortgages	31.410 <i>1,85 M€</i>	35.297 <i>3,07 M€</i>	36.895 <i>3,87 M€</i>	40.812 <i>5,04 M€</i>	48.847 <i>6,98 M€</i>	56.355 <i>11,58 M€</i>

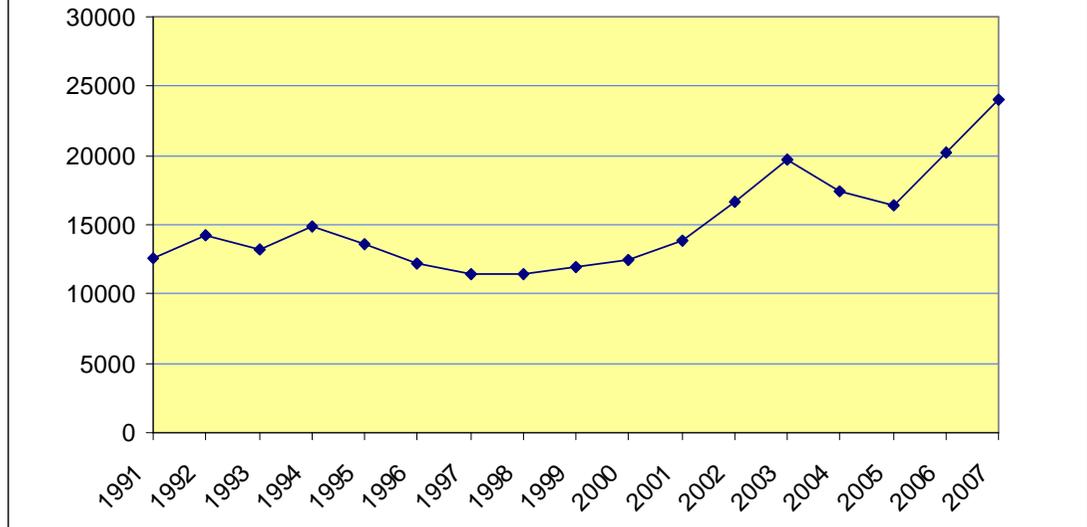
Conveyances and mortgages have had a rapid increase in real estate market activity. Especially property sales and mortgages have almost doubled during the period 2000-2008



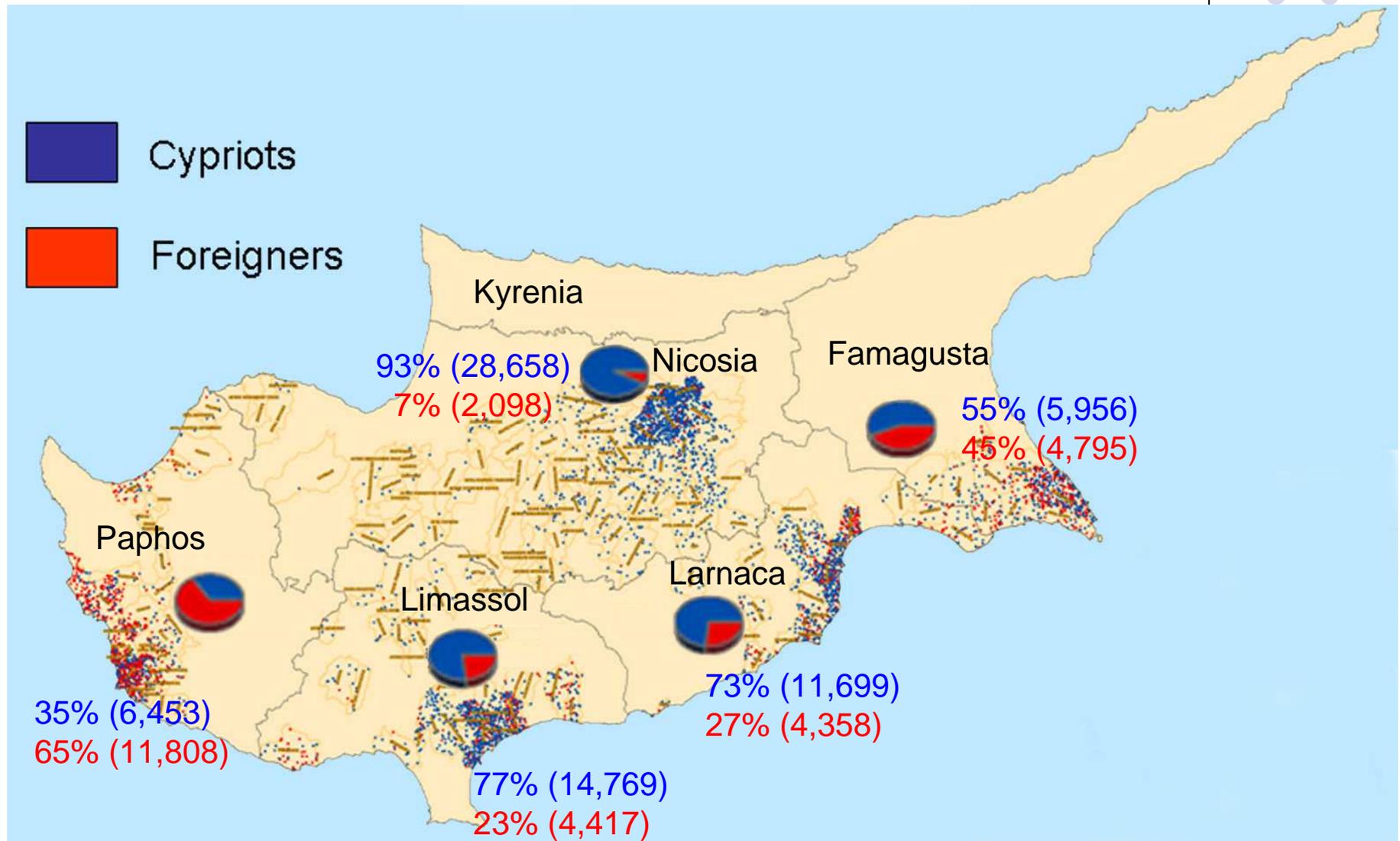
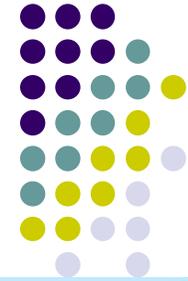
### PROPERTY GRANTS/EXCHANGES



### PROPERTY SALES



# Number of residences per district and distribution of ownership rights





Although demand for real estate in Nicosia, the capital, comes from the local people and only 7% from the foreigners, it is clear that in the tourist coastal areas (Limassol, Larnaca, Famafusta and Paphos) of Cyprus the situation is the opposite.

It is estimated that over 65% of real estate in Paphos district has been transferred, between 2004 and 2007, to foreigners, mainly British.

There is a rapidly increasing international market interest in coastal and peri-urban areas of Cyprus. As a result of the above activity an increase in the market property values is identified.





## Market Property Values on Cyprus

1	Residential plots in urban, suburban or coastal areas (approx. 520 m <sup>2</sup> )	280,000	-	3,000,000 €
2	Residential plots in rural areas (approx. 520 m <sup>2</sup> )	160,000	-	300,000 €
3	Two bedroom apartments (approx. 95 m <sup>2</sup> )	150,000	-	250,000 €
4	Three bedroom apartments (approx. 120 m <sup>2</sup> )	180,000	-	350,000 €
5	Detached or semi detached houses in urban, suburban or coastal areas (3-4 bedroom)	300,000	-	4,000,000 €
6	Detached or semi detached houses in rural areas (3-4 bedroom)	250,000	-	500,000 €

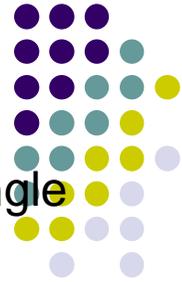


## Results of the research

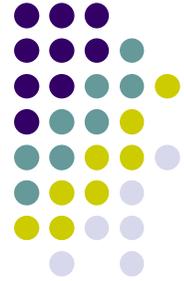
- There is no squatting on private or public land.
- Cyprus has a well established system for the management of land including legislation, mapping and public administration to secure ownership and other legal rights, cadastral maps, planning regulations and housing policy.
- Permitting and regulating procedures on Cyprus are not bureaucratic or unrealistic, however due to the market pressure some delays are identified.
- In order to speed up the development process and meet market and environmental needs the Ministry of Interior is preparing a new Law to introduce "pro active" urban land consolidation procedures in peri-urban or tourist areas.
- There is a good housing policy in place, which supports the refugees who came from the northern part of the island, whose houses are illegally occupied
- In terms of building registration, cadastral data are not well maintained, partially due to illegalities in constructions

## Building registration

- Residences on Cyprus may be classified as either condominiums or single family houses.
- Condominiums maybe registered in the cadastre before the completion of construction because many developers wish to sell before completion.
- Registration of contracts is considered to be a “preliminary” registration to secure transactions.
- While 80% of the existing condominiums are preliminary registered in the cadastral records before completion, a significant number of them do not get any titles after completion due to construction beyond the limitations of building permits. So no certification of compliance is issued.
- The rest 20% is not registered at all.
- 60% of existing single family houses are not registered. It is estimated that 40% of the non registered single family houses have small illegalities while 15% of them have significant illegalities. The rest 45% of the non registered remain as such due to no interest of the owners to make any transactions
- In Paphos, 40% of the total number of constructions have not received a certificate of compliance.



## Classification of the Informal development

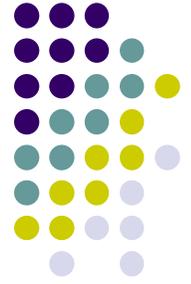


- Constructions without a building permit
- Constructions in excess of building permit limitations
- Constructions without planning approval.

They may lie

- within the area of the Local Plans
- outside the Local Plans within the greater urban or in rural area in which houses are build illegally where only storage rooms for agricultural products are permitted
- and few houses built within non developable areas.

Most common phenomenon are constructions built on legally owned developable land either in excess of building permit limitations or with changes in the issued permits, or without any permits at all although there may have been a possibility for acquiring a permit. Illegalities refer to planning and building regulations.

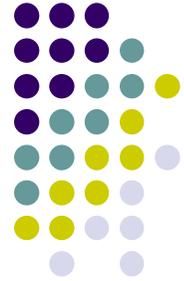




The main motive for informal development on Cyprus *the economic profit*, due to the:

- Increased demand in the local market for larger, more comfortable condominiums/houses.
- Increased international market demand for secondary houses.
- Increased demand, due to increased land values, for land use change from rural to urban.





- Property taxes are paid at the time of sales and are estimated according to the *value* of the real estate.
- On site inspections are made by the DLS sporadically and only when the authority suspects some illegality. The DLS authority may suspect illegality if a planning permit has been issued for the particular property and it is registered in the DLS records.
- In the case of a totally extra-legal construction without any planning permit, the DLS will never be informed about the intention to build, so no on site inspection is made.
- In the case of an on site inspection valuation is made for the *total value (land and construction)* so all taxes are paid; in the case of no inspection the estimated value refers *only to the land* and does not include the value of the building.



## Conclusions



The research aims to emphasize that in popular areas there is an extra risk for informal development due to *increased local or international market pressure*.

Its impact may be dual:

- It *overwhelms regulatory systems and permitting procedures*. When the systems and procedures cannot provide the necessary serviced urban land and land-use changes, informal construction appears to cover the market needs. This happens where the flexibility of the system allows an easy a posteriori partial legalization e.g., in Spain, Albania, Cyprus, but in a smaller scale even in places where legalization procedures are lengthy and bureaucratic, e.g., in Greece . Pro-active planning and on site inspection is needed.
- It causes a general rapid increase in land values and construction costs and thus *low or middle income families cannot afford to purchase legal houses*; informal constructions of good quality are built through massive illegal subdivision of rural land in Spain and Greece and through massive squatting in Albania in the peri-urban areas



- Expected economic benefits from increased real estate market activity are important for the local societies. Less developed economies may be more vulnerable
- Flexible planning and legalization policies are adopted to boost the economies
- Important environmental regulations are not followed while the costs for regeneration projects are high
- Advanced property registration and Cadastre, legislation for inspecting procedures and market oriented planning policies are tools of significant importance
- Additional necessary legislation which regulates the coordination and correlation among cadastral, planning and construction permitting information is necessary to be adopted and enforced otherwise the infrastructure may be ignored
- It is worthy to further continue this research during the current global economic crisis in order to investigate its impact on real estate markets and how this will affect informal development