



*FIT FOR PURPOSE FORMALIZATION  
OF INFORMAL SETTLEMENTS  
&  
“A STUDY ON THE COST OF INFORMALITY IN  
REAL ESTATE ON A COUNTRY’S ECONOMY”*

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# What have we done so far

International research so far:

1. identify the problem (definition/size) in the various UNECE countries
2. its reasons /causes
3. the various types of informal development in the various countries (with many similarities)
4. the policies adopted from the various governments to address the problem (formalization or demolition)
  - require all improvements, conformity to regulations, plus penalties for formalization to be undertaken by the occupants prior to any formalization
  - provide planning amnesty and high penalties while ownership titles where missing may be ignored (politically more difficult),
  - may begin with the best of intentions but become bogged down due to administrative bottlenecks or change of government
  - in many formalization is a long lasting, bureaucratic and expensive procedure

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## Formalizing the Informal

Challenges and Opportunities of Informal Settlements in South-East Europe



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## INFORMAL URBAN DEVELOPMENT IN EUROPE

EXPERIENCES FROM ALBANIA AND GREECE

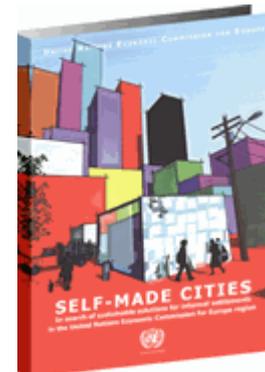


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# What should be done next?



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Provision of FFP Guidelines for formalization or demolition within the UNECE region:

1. spelling out the purpose of formalization, the needed legislation? The technical specifications
2. the extent of measures required to comply to acceptable building and planning standards in each case of informality
3. priorities and duration of the project in each case
4. the extent of fines and penalties to be assessed in order to complete the formalization
5. the scope and methods of demolition or removal of informal constructions that cannot be made legal or finally brought up to current standards
6. The reform in the planning and permitting system, as well as monitoring of sensitive areas
7. ...

How to persuade the various governments and the various professionals that may have different priorities? ***We need to talk with numbers***

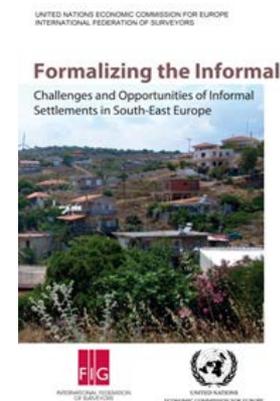
# Raise awareness & Research

## Quantify

- A. the **expected economic and social benefits of formalization** or the inverse: the annual economic loss for a time period of e.g., **10-25 years** (if no formalization),

*FIG/WB study by S. Nystrom, FIG Com9 chair & C. Potsiou, FIG President*

- A. quantify the environmental, economic and social losses of massive demolitions.



## **formalization of informal constructions** is the most important step towards **formalization of real property markets**

A methodology is developed based on the fact that policies contributing to, tolerating or allowing the creation or the prolonged existence of informal development restrict the efficient use of real property and the flow of human capital, with wide-ranging effects on the property markets, and a country's GDP and economic prosperity.

First stage for analyzing the property markets:

- Gathering and analysis of socio-economic data
- Analysis of the scope and parameters of the labor and real property markets
- Analysis of the risk related to socio-political landscape of the real property market & national economy
- Collection of the necessary market-related data for each country.



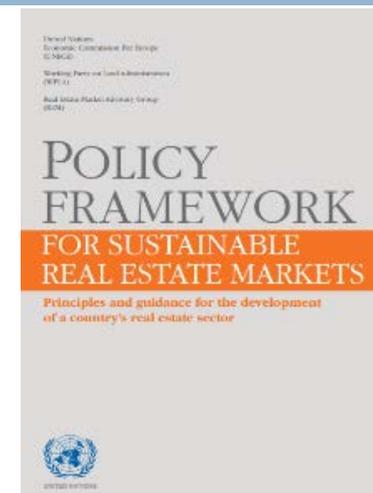
# Collection and analysis of data regarding real property markets



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1. Development of Real Property Status Report (national assets, real estate values, economic interactions, etc)
2. Analysis of the scale, location and types of informality
3. Analysis of the legal, social, economic and regulatory response to the informal market sector.
4. Estimation of the socio economic impact of the informal sector within the greater economy, as compared to an efficient market system that offers market-based, transparent and inclusive access to real estate, both as a wealth generator and a necessary commodity for residential and commercial uses
5. Conclusion - annual economic impact of the informal sector



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# Example: Greece

Estimated **annual loss in GDP** due to informality in the real estate market, over a period of 25 years:

years 1 - 5: \$1 billion/year

years 6 - 10: \$1.5 billion/year

years 11 - 25: \$2.3 billion/year

A “best case scenario” based on assumption of continued weak economy with a 10-year phased recovery and relatively efficient formalization process.

As the general economy improves over the prediction period the impact of formalization on the economy increases as well.

# Example: Greece

A lack of solving the root of the informality problems:

- terribly over complex zoning and planning;
  - slow moving, costly and large bureaucracy;
  - a lack of good cadastral data;
  - large poorly documented and contested forest land area
- can result in less than optimal outcomes.

**Not included in calculations:** Cost and time to implement formalization; inflationary impacts on property values.

This study was meant to analyze and quantify the effect of informality on property markets without the effects of external forces or events. Therefore, cost estimates are in current dollar values factoring in neither appreciation nor depreciation in the national economy.

Using this methodology, governments may compare the estimated economic benefits to the various costs and time frames in order to make better decision-making.