

DEVELOPMENT OF PROPERTIES IN LOCAL GOVERNMENT: EMPIRICAL ANALYSIS

Anna Maria Pascale
University of Sannio, Italy
apascale@unisannio.it

Abstract:

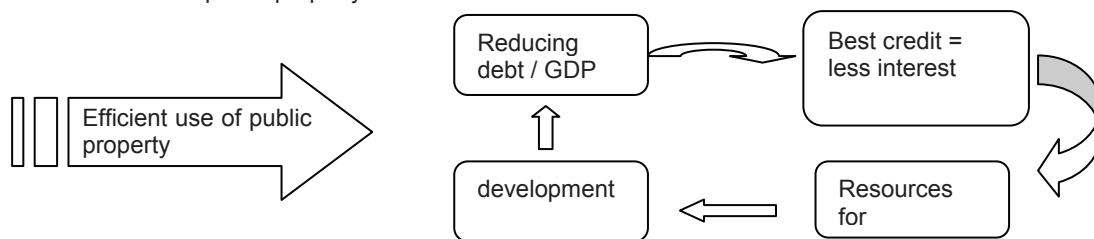
This paper aims primarily to highlight how the criticality of a financial nature that characterized local governments in recent years necessitated the adoption of innovative policies and strategies of development of properties: disposal, management and development of real estate assets and secondly check whether the local authorities, especially the provincial capitals, define real property asset management strategies and adopt the instruments or if the real estate is used only for hedging purposes of the budget or the respect of constraints of the Internal Stability Pact or to increase popular support. This work, of empirical nature, it is proposed to find the answer to two important research questions: 1) What are the forecasts of alienation of real estate assets in the financial statements (estimate) of local authorities, compared to actual data (ex post)? 2) There is correspondence between what is stated in the financial statements and the concrete adoption of the tools?

Keywords: development, value property, local authority, profitability, strategy

1. INTRODUCTION

The criticality of a financial nature that characterized local governments in recent years, along with the stiffness resulting from an institutional framework still tied to a centralized model (Internal Stability Pact) make it necessary to adopt innovative policies and strategies of development of properties: the capital plans of local authorities so as to pass -oriented activities only heritage conservation, the identification of the most dynamic forms of management, in order to transform the buildings into sources of income. It is apparent, therefore, the growing importance and strategic value attributed to the policies of the real estate value, interpreted as a dynamic complex of goods that determines the processes of development and investment. Faced with a very high public debt and its high interest cost, government has a financial assets, intangible and material, large, almost corresponding to the state debt (Reviglio, 2011) that, properly managed and enhanced, can contribute to sustainable economic development.

Figure 1: Efficient use of public property



Source: State Property of the Treasury - Ministry of Economy and Finances

The Heritage material is essentially made up of property used primarily for institutional activities. The management of this entry is characterized by extreme opacity in processes and yields often unknown or at least equal to fractions of return that individuals get from those same goods. In order to act effectively on these inefficiencies is necessary:

- To improve and optimize the use of the property in order to increase the efficiency or reduce the burden of maintenance ;
- Yield assets that do not require public ownership to bring down the debt and offset the cost by improving the balance of the asset management (Tronconi , 2006);
- Enhancement of the public by creating wealth for the community, by improving and simplifying the regulatory aspect and pursuing a full cooperation between the different levels of government .

The public administration is, in fact, to redefine its mission in a perspective of economic and social development of the territory. The management and development of properties become an element of great critical in the overall management of government: the capital plans abandon forms of management -oriented single heritage to locate more dynamic forms, in order to transform the property into income sources. Emerges the growing importance and strategic value attributed to the policies of the real estate value, interpreted as a dynamic complex of assets and other onerous conditions that contribute to and determine the processes of development and investment. Public goods have become full-fledged tool of fiscal policy, an element of deep novelty because the assets, in the management of government, has always played a secondary role, considered more as a management tool that not as an element of consent production of income. This attitude is also demonstrated by the difficulties encountered by the public in the same quantification of real estate: it is not uncommon that many governments do not have an updated inventory of properties owned, hence the impossibility of being able to exploit the potential income.

It should also emphasize how often is connected to the management of assets a component of response to the needs of the community or part of it: the real property were leased to privileged conditions and no market, to socially vulnerable groups, or were intended activities deemed socially useful (for example, locations of associations and non-profit institutions, non-governmental organizations, social groups).

It can be said, too, that has often created confusion between "management" of the properties for the purpose of maximizing the proceeds to the institution and "use" of the assets as a means to meet the needs that had to be answered. This phenomenon has resulted in low levels of economy in the management of local authorities, in part attributable to lower income from the limited return on equity and partly due to costs not accounted for services provided in the forms of use, free of charge, of public assets.

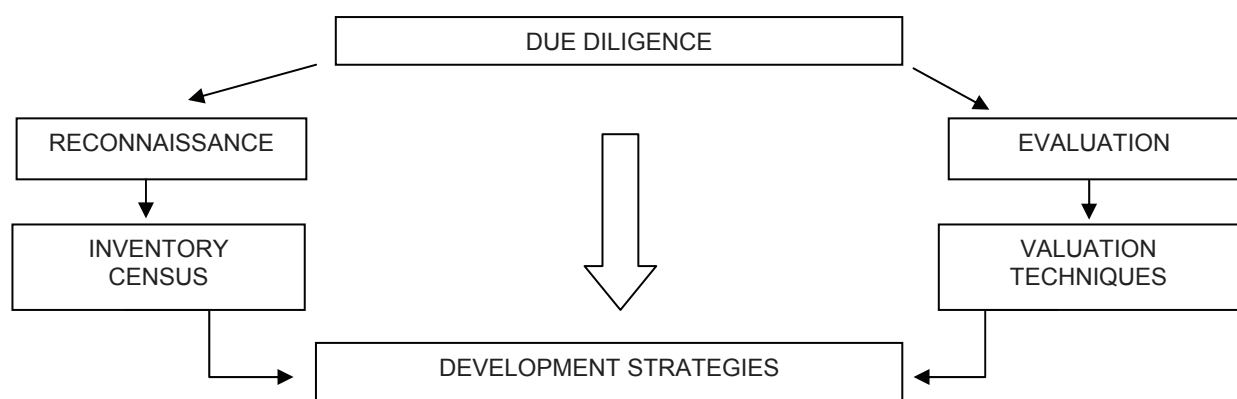
In fact, this situation has had several consequences both on a management and operational:

- Lack of a unified vision of the real estate management;
- Lack of awareness of the economic and social heritage management ;
- Lack of cognitive models and operating reference on which to structure a unified vision ;
- Lack of attention to the assets in the financial disclosure, focused on the role of budget authorization and compliance with budgetary constraints;
- Lack of knowledge of the assets, based on categorizations often incomplete and unsystematic (not inventoried goods, electronic files not aligned with the paper);
- Income from the management of the assets very modest and in any case lower than the potential;
- Growing phenomenon of unauthorized, with homes occupied without title.

This type of management decisions led local authorities to deal exclusively with the storage of goods and not their exploitation, having to also bear the costs of the interventions of ordinary and extraordinary maintenance. In this perspective, the increasing complexity of their processes of production and consumption require recovery of a concept of heritage more consistent with the principles of good corporate management and requires the adoption of innovative policies and strategies of development of properties (direct alienation or through financial transactions such as real estate funds and securitization), enhancement (direct management, through innovative forms such as global service or through the establishment of appropriate property companies) and development (through innovative financial instruments, such as project finance, the urban development companies, real estate leasing).

Of course, the formulation of general strategies related to real estate assets can not be separated from its correct identification and classification, based on the characteristics and level of critical strategic for the institution (this process is through the due diligence real estate); Second, you must obtain a valuation of the assets, according to the approaches used in the literature; Finally, the next step is the selection of concrete political intervention, based on specific priorities and guidelines, formulated by political decision-makers.

Figure 2: The process of heritage



Source: F. Amatucci , tools for the identification of strategies heritage .

The concrete political intervention related to its real estate portfolio lead local authorities to identify three different valuation strategies:

1. *Disposal*: the disposal of the asset is not only linked to political alienation or disposal outright, but also leases or concession;

2. *Management*: the management is understood as activities aimed at maintaining full efficiency of buildings and facilities so that they contribute to the provision of services that meet the needs of users, at the lowest possible cost;
3. *Development*: the development is aimed at the creation of new works or urban regeneration projects .

The common element that characterizes the strategies outlined between them lies in the need for a unified and integrated management of the assets, according to policies aimed at increasing their value. It is essential that the local authority to implement a comprehensive strategy in which, alongside policies of increase of the quality of the assets aimed at improving services, provides for the redevelopment of urban areas, the development of new infrastructure and the use of proceeds from the disposal for debt reduction.

2. THE STRATEGIES OF DEVELOPMENT OF PROPERTIES

2.1. Disposal of investment strategies

The simplest strategy and immediate, as a priority in most operations of asset management, leading to policies to sell. Proceed, however, in transactions involving the sale of real estate assets requires studies and in-depth expertise, both in the field of Real Estate (real estate market monitoring, assessing opportunities related to extraordinary transactions, management of administrative activities related to real estate owned) and, especially in relation to the advantages and the critical elements of the different tools offered by the law and the evolution of financial markets. In addition to the classical forms of alienation, through public tenders or sale of leased or licensed, local authorities can identify alternative forms of exploitation: the contribution to real estate investment funds, if the assets is sufficiently significant to operations real estate securitization. Alternatively, local authorities may proceed to the award of the management of its property portfolio to specialized companies, specially established, with the participation of private experts in real estate. The regulatory process started in the early 90s and still in progress has made available to local authorities several options for real estate management:

1. direct sale through public tender;
2. alienation through the establishment of a real estate company (spin-off);
3. Free assignment;
4. exchange and exchange of assets;
5. securitization;
6. establishment of a real estate fund with public input;
7. operation of sale and lease back;
8. operation of concession or lease.

The discounting of the assets may have different motivations:

- Coverage of deficits, due to current spending levels higher than the wealth produced;
- Exchange of assets, namely its transformation in conditions deemed most useful for meeting needs;
- Reduction, with the proceeds of the sale of the assets , the level of public debt with the interruption (or at least the attenuation) of the vicious cycle of increased indebtedness as a result of financial charges on debt previously accumulated.

2.2. Strategies for asset management

The financial difficulties mentioned several times have a significant impact on the quality of the assets of the local administration, especially in regard to the activities of ordinary and extraordinary maintenance and enhancement of management. In the situation of lack of resources, in fact, the cost of maintenance and enhancement are affected immediately. This phenomenon leads not only to a progressive deterioration of the property but also has negative effects on the quality of the services that are provided: the state of maintenance of school buildings, sports facilities, nursing homes, community centers is a key component of quality services. It developed in this area, the facility management, understood as activities aimed at maintaining full efficiency of buildings and facilities so that they contribute to the provision of services qualitatively and quantitatively in line with the expectations of the community. The development of these activities has increased exponentially the

use of formulas of global service for the management of real estate assets, not only in local government but also in the central Government authorities and health authorities and hospitals.

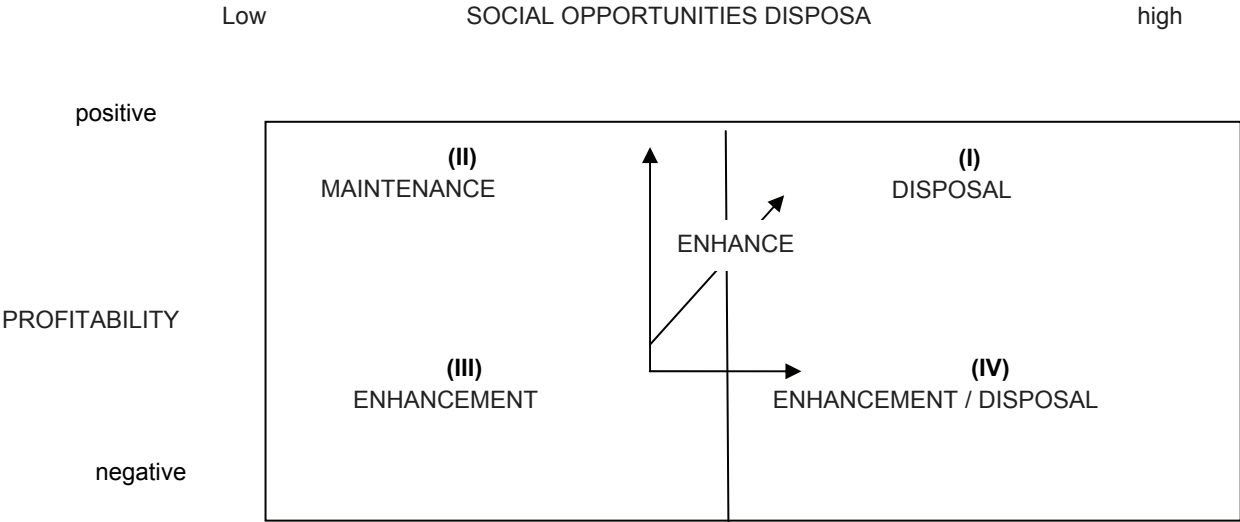
2.3. Development strategies heritage

The policies of development of properties can not be separated from development activities, understood both as a realization of urban regeneration projects, both as an investment for the construction of new works. Making development policy means using the assets as leverage for new infrastructure; a general reduction in public investment in infrastructure that has characterized the last years, requiring local governments to identify new sources for public investment: attraction of private capital, operations of public-private partnerships, use of assets for purposes of public interest. The tools for the enhancement of the public (public contribution funds for the disposal of real estate securitization, etc.). You must then integrate with a growing involvement of private capital, partly financed with the proceeds of public goods abandoned or exploited, in part with rates resulting from the management of services, able to allow development of the heritage.

Of course, the introduction of new tools for real estate management is possible where it is able to control some of the conditions required by any process of innovation and finance, in particular:

- The quality of systems and rules used for the management activity, especially in dealing with external economic entities;
- The organizational culture and skills of human resources working on farms and public systems;
- A more significant attention to the stages of feasibility study, research interlocutors appropriate, negotiation and conclusion of agreements can spread risk criteria efficient and equitable;
- The ability to have a clear strategic vision to guide investment decisions toward interventions of socio-economic development of the territorial administration;
- The ability to take the correct financial decisions based on appropriate criteria for evaluation and selection of alternative forms of financing, by examining the impact on the budget and long-term managerial autonomy.

Figure 3: Matrix of Real Estate



Source: F. Amatucci , tools for the identification of strategies heritage .

3. TOOLS AND INITIATIVES TO LEVERAGE THE ASSETS OF LOCAL AUTHORITIES

Over time, there are three basic stages in the evolution of enhancement tools made available by the legislature . A first phase is characterized by the first legislative action in the field of real estate assets, which date back to Article 3 of the dl 310/90, converted into Law 403/90; with this standard is authorized, under certain conditions, the local authorities to dispose of its assets or public property,

using the proceeds for the construction of public works, to cover the losses of transport, to finance debts off balance and to restore budget balances. Subsequently, the Finance Act for 1994 (Law 537/1993), mainly in view of an increase in the financial assets, required a census of the goods and the sale of those not strictly functional. After the other provisions of the second floor, a significant intervention occurs only with the Budget for 2001 (Law 388/2000), introducing financial instruments to facilitate the alienation; considered the great difficulty of selling the assets, financial instruments allow you to anticipate the needs of financial institutions, pending the subsequent sale: real estate funds, securitization, SPV become tools used both for the proper management of real estate assets, both to obtain financial resources, waiting for the next sale.

Along the same lines, Article 84 of Law 289/02 authorizes the regions and local authorities to set up, also through third parties, a limited liability company with registered capital of ten thousand euro, involving the creation of exclusive securitization transactions proceeds from the disposal of properties. However, the effectiveness of the financial instrument is subject to the sale of the property; otherwise, the result is highly detrimental, by adding, to the lack of sales, the cost of the financial product . The weakness seen in all regulatory actions that have occurred must be identified precisely in having neglected the obstacles related to the operation of alienation, namely:

- legal regime of property:
important part of the assets, both owned by the state, both in the regions and local authorities, is state property. The transformation of the property from state property available to shareholders, namely the "declassification" legal right, is through very complex and lengthy administrative procedures, such as to alter the expectations of the real estate market;
- destination of the goods:
in our administrative system assets have a specific destination; usually, the assets are placed in areas included within the planning instruments, binding them to certain purposes (barracks, school, market). The legislation provides that the change of destination is necessary to change the planning instrument, through a process complex and cumbersome. Only in the case of interventions in the context of public works may be used in the automatic variant, more flexible instruments, such as agreements of the program, which can respond to the need to allocate, within a reasonable time, a well to its new use. The second part, characterized by the Budget Law for 2008 (Law 244/07, Art. 1, paragraphs 313 et seq.) and the Law 133/2008 (art. 58), has the advantage of its action on critical elements retrieved. In particular, the law 244/07 provides for the identification, from the Ministry of Economy and Finance (in consultation with the Minister for Heritage and Culture, through the State Property Agency), zones or territories in which there are real property, in order to promote a unified program of enhancement.

The properties identified are placed in a "Plan for the enhancement of public goods", which draws the outline on the value of the property. The rule provides that the Plan, after approval by the Joint Conference, is entrusted to the regions and local authorities for an operational application of local dimensions. The Plan is also able to affect the planning instrument, as it is expected that its approval determine the urban variant, after ratification of the City Council . The innovative aspect is that the approval of the Plan and its ratification in the City Council immediately produce the variant without additional administrative processes.

The rule described has the merit of addressing, for the first time, the issue of the legal regime of assets. However, some critical elements make it even difficult to implement; in particular, the simplification of the instruments of variation is important but is affected by the ratification of the City Council, which could create obstacles, often only ideological, alienation of public property . The advantage of Article 58 of Decree Law 112/2008 should be identified to overcome these problems and is easier to use especially for local authorities.

First, with respect to the budget law, is expected to climb in the planning and programming of the goods to be valued , through a bottom-up process : it is up to the governing body of the local authority to prepare a "Plan of disposals and valuations of real estate" to be attached to the budget.

Second, the Plan is a planning instrument, which produces an extremely significant:

- approval of the Plan involves the automatic variant of the destination of the goods; by the time the real estate in the Plan, they lose their previous destination to take office as planned, both in case they are intended for simple alienation, that if they are destined for heritage conservation in the entity, for the purpose of a subsequent enhancement;

- the inclusion of real estate in the Plan determines the "declassification" of the property, whether state-owned, its inclusion in the heritage and, therefore, the immediate availability and transferability of good even in subjects indirect management (companies, foundations, both in form property, whether in use or concession);
- the Plan is subject to compliance with the higher-level plans (spatial plan of provincial coordination). Compliance is instead only required for variations in land classified as agricultural and which are intended for other purposes, as well as in cases of volumetric changes of more than 10 percent of the volumes defined therein current planning instrument;
- does not require ratification of the City Council.

The third phase is instead determined by the judgment of the Constitutional Court, which weakens the art. 58 (declaring illegal the paragraph 2). Following the judgment of the Court, the inclusion in the plan and forecast the urban destination are not immediately variation to the general urban development , as originally envisaged by the second part of paragraph 2 , which was declared unconstitutional (" the decision of the city council 's approval of the plan of disposals and valuations is a variant of the general planning instrument. This variant, as related to individual properties, does not require verification of compliance for any acts of superordinate planning competence of the Provinces and Regions (...) ").

And need rather than the resolution that has the urban destination of the property included in the plan of disposal is subject to the procedures provided under the regional law relating to the territorial government and variants of the municipal planning instruments.

The implementation of the various instruments has highlighted the complexity of the processes of governance for the implementation of development operations. The element characterizing the process of enhancement, in addition to the financial dimension, is to promote coordination between the various public owners, in an organic design for the enhancement and the best use of the properties.

4. DEFINITION OF THE FIELD OF INVESTIGATION AND RESEARCH METHODOLOGY

RQ1 → to answer the first research question were reviewed all the Italian capital of the province, in the years 2012 and 2013.

Analyzed the budget in 2012 (in order to assess the economic values included in the real estate component of alienation), comparing it to the final of the same year, in order to assess the consistency of the values entered in the budget and especially adoption of effective means of disposal.

The same value was compared later with the budget in 2013, in order to check the linearity of the strategic policies of the institution. By processing the data made available by the Ministry of Interior - Department for Internal Affairs and Territorial - and comparing the revenue forecast and actual present to item 1[^] of " income from alienation, from capital transfers and collections of receivables" of the assets of the provincial capitals of the country have shown that, in the vast majority of cases, the estimated revenue from the certificate quote 2012 considerably exceed those of the final of the same year, only to recur again in the budget of the following year.

This discrepancy affects and at the same time raises questions about possible motives.

These could be no doubt linked to the provisions of article 1 co . 443 L. 228/12 which provides that the proceeds from the disposal of assets available may be intended exclusively to cover investment costs or, in the absence of these or for the excess, to reduce debt . Circumstanc, even more likely if you take into due consideration is the possibility (or not) to apply for loans by government is the level of the ceiling for the year 2014 (last column). As required by law 228 may then induce the government to overestimate the revenue from the sale of assets to secure greater freedom in the investments of a different nature or to contain excessively high levels of debt.

RQ2 → The survey was conducted on all the Italian capital of the province, in the years 2011, 2012, 2013, 2014. In particular, for each of these, it was decided to systematize the data taking into account:

the Region of belonging, the awarding Municipality, the number of races completed and the type of procedure adopted.

The survey took place is clear that the majority of the provincial capitals has opted for the sale of goods and properties that the procedure by far the most used is that of " Public Auction " (generally ,on first call , such auctions are deserted so we proceed to a new date , which provides for a 10% reduction of the price -based auction) . The procedure " Private Treaty " is usually used as a result of repeated " Public Auction " almost desert , after " Expression of Interest ". The larger municipalities tend to alienate property Non-residential , land and residential property not belonging to public housing.

5. CONCLUSIONS

The current economic climate, combined with a broad decision-making autonomy and financial, requires public authorities, in pursuit of its institutional goals, the need to pay more attention to the aspects of cost management and accountability to the community.

For the public administration becomes a priority to adopt new approaches in the development of properties, encouraging new forms of management and introducing important institutional and management of large-scale: all properties other than those intended for institutional purposes may, through a variety of instruments, be used as a strategic lever to trigger virtuous circles of local development and open new professional opportunities.

In the course of treatment were examined several tools for heritage and is clear convenience, for the public administration, to adopt development tools rather than disposal because they aim at increasing profitability present and future.

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