

# Transparency is need of the hour

The goal of government policy must be to reduce the opacity and make real estate markets more transparent

Real Estate, to use, an economists technical term, is not a perfect market. Whereas a barrel of oil is identical to the next barrel of oil, a piece of real estate is usually different from another piece of real estate, even in the same location. This imperfection means that there are mispriced real estate assets and experienced and smart real estate investors pounce on these. This also means that real estate markets are opaque. Home buyers, who usually are not real estate experts, often overpay and mortgage lenders carry far more risk than they should be, due to mispricing of real estate assets. The goal of government policy must be to reduce the opacity and make real estate markets more transparent.

Governments in advanced countries have achieved this to a large extent by putting out as much information as possible in the public domain (usually through the internet). This information usually pertains to sizes and prices at which each piece of real estate has been transacted in the past. Valuation experts, in these countries, have access to transaction prices in a given location and so can use the comparables method, which is the only reliable method for most single unit real estate, after adjusting for differences between each piece of real estate. Therefore, home buyers can confidently buy without worrying about over paying and mortgage lenders can lend without carrying undue risks. The data put out by the Governments in developed countries is reliable and uncorrupted.

In developing countries, markets are very opaque and one cannot buy with a degree of confidence although the internet is enabling more access to data even in these countries. However, this data is not very reliable, as it is not actual transaction prices. In addition, transaction costs are high in developing countries, and this leads market players to understate transaction prices and thus the data is corrupted. In the absence of information, undue reliance is placed on valuation experts in developing countries, who themselves are working in the dark as the only information they have available is through informal channels.

Oman will be better served if the Government publishes, on the internet, all transactions. Oman also will be better served if it reduces or eliminates transaction fees so that prices are not understated. Alternately, if the Government fears loss of revenue, it could shift the fees to fixed amount per sq meter, instead of ad valorem rates. These rates could depend on zoning and location and could be periodically revised depending on the movement of prices in the real estate market. India has done this and thus eliminated chances of loss of revenue by way of lower real estate transaction fees.

The Government needs to work with real estate professionals and investors in making the market more transparent, thus benefiting society at large, since, for most citizens, the home they live in is probably the biggest asset they own. **OER**

