

Effectiveness of the Use and Management of Municipal Real Property in Bulgaria

Statty Stattev¹, Stela Raleva², Tatyana Daskalova³

Abstract: The paper provides an assessment of the effectiveness of the use and management of municipal real property (MRP), using data gathered through 173 questionnaires, addressed to representatives of 39 municipalities in Bulgaria. The paper is structured as follows: The first section gives information about the municipalities and is based on the following criteria: evaluation of the conditions in the cities; appraisal of the financial situation of the municipalities, the main sources of funding, and the sources that should be used in order to improve their finances; existence of the relevant planning instruments, etc. The second section focuses on MRP and refers to criteria such as: rating of different aspects of MRP; existence of MRP inventory, municipal strategy and municipal unit dealing exclusively with MRP; evaluation of the selling values and the level of actual MRP rents in comparison to market rents; outsourcing of MRP management functions; assessment of the interdependence between different units of the municipalities; analysis of the focus of the attention of the elected decision makers. The paper ends with some conclusions concerning the identified problems in the process of MRP management in Bulgaria.

Keywords: municipal real property; effectiveness; management

JEL Classification: H82; R50; C10

1. Introduction

The municipal real property (MRP) is an important component of the local public wealth, which provides material facilities for the development of the local government. It is one of the major factors for ensuring the effective economic independence of the municipality that must be treated by the local government as an instrument for sustainable urban planning and must be managed in the interest of the territorial community. MRP can perform these functions if it is used and

¹ Professor, DSc. University of National and World Economy, Department of Economics, 1700, Sofia, Bulgaria, e-mail: sstattev@unwe.bg.

² PhD, University of National and World Economy, Department of Economics, 1700, Sofia, Bulgaria; Corresponding author: stela.raleva@gmail.com.

³ Associate Professor, PhD, University of National and World Economy, Department of Economics, 1700, Sofia, Bulgaria, e-mail: tansu2@abv.bg.

managed effectively by the development of an integrated inventory and accounting systems, and by the use of corporate management approaches.

The paper presents the analysis of the effectiveness of the use and management of municipal real property in Bulgaria, based on the 173 surveys conducted among representatives of 39 municipalities. The selection of the municipalities was based on the principle whereby the biggest towns in the country had to be included, so that the experience of even the smallest settlements could be taken into account and the majority of regional centers and planning regions could be represented. The exact number of respondents from each municipality was determined on the basis of its size and the number of staff engaged in solving the problems of municipal real property.

The methodology adopted as well as the content of the questions laid down in the surveys was developed by a research team from the University of Thessaly - Volos, Greece, as a part of the activities under the project "PROMISE: Municipal PROperty Management In South-Eastern Cities", funded by South East Europe Program of EC.¹ The questionnaires were filled in online or through face-to-face interviews, and the results were processed by a standard statistical analysis. The types of quantitative grades were determined taking into consideration the scale applied to each of the presented questions. Scales which contained both positive and negative grades involved percentage ratios (shares), whereas scales containing only positive values involved the estimation of average grades.

2. Analysis of the Municipalities

2.1. Evaluation of the Conditions in the Cities

In the grades given to the *dynamics of the population* in the respective towns, 50% of the respondents describe this dynamics as positive (see Table 1). According to 46.5% of the respondents, the population is declining whereas 3.5% think that the population has remained unchanged. The positive grades are most typical of the biggest towns, mostly of Sofia and Varna, whereas the negative grades are typical of the smallest settlements. The most frequent specific grade along a scale ranging from -5 to +5 was -1, which was given by 18.2% of the respondents. Next in the ranking are the -3 and +3 grades, which have an equal share of 12.9% of the overall grades. Third comes the highest +5 grade with a relative share of 11.8%. The relative share of the two lowest grades of -5 and -4 are symbolic standing at 2.4% and 2.9%, respectively, which holds true for the 0 grade which also has a share of 3.5%. The last two grades show that despite the negative dynamics in the

¹ See <http://www.promise-project.net/>

population in a number of municipalities, the cases of dramatically declining trends are exceptions rather than the rule.

Table 1. Evaluation of the conditions in the city

(% of the responses)

SCALE	-5	-4	-3	-2	-1	0	1	2	3	4	5	
Shrinking UP	2.4	2.9	12.9	10	18.2	3.5	9.4	6.5	12.9	9.4	11.8	Growin g UP
Shrinking LE	5.4	10.2	15.6	21	13.2	12.6	9.6	2.4	6	1.2	3	Growin g LE
HM in downturn	5.9	14.2	23.1	23.1	12.4	6.5	7.1	1.8	3.6	0.6	1.8	HM in upturn
CPM in downturn	7.1	19.6	15.5	20.8	12.5	10.1	6	3.6	1.8	1.8	1.2	CPM in upturn
High unempl.	9.5	16.7	14.3	11.3	13.1	9.5	10.1	5.4	8.3	0.6	1.2	Low unempl.
Many LIH	18.3	18.9	22.6	11.6	9.8	7.9	5.5	3.7	1.2	0	0.6	Few LIH
Low QUL	3	11.2	15.4	11.8	9.5	15.4	8.9	11.2	9.5	3	1.2	High QUL
Low QMS	1.8	2.4	3.6	3	5.9	10.7	8.3	16	24.3	20.1	4.1	High QMS
PT is in the beginning	1.2	3	3	4.8	10.8	28.1	13.2	8.4	9.0	12.6	6	PT has comple ted

Note: UP – urban population, LE – local economy, HM – housing market, CPM – commercial property market, LIH – low income households, QUL – quality of urban life, QMS – quality of municipal services, PT – property transfer.

The assessment of the municipality's *economic health* is definitely more negative (see Table 1). The negative grades of this indicator have been given by 65.3% of the respondents compared to a mere 22.2% who have given positive ones. Some 12.4% considered the economic situation as unchanged, which exceeds by several times the grades under the previous criterion. The maximal share of 21% of the respondents has given the -2 grade, followed by -3 and -1 grades with shares of 15.6% and 13.2% respectively. At the same time the share of all positive grades is measured by single-digit numbers, and the highest grades of +4 and +5 were given by only 1.2% and 3% of the respondents who answered this question.

The negative grades prevail in *the real estate market*, which account for 78.7% of the overall number of responses. The most frequent values are -2 and -3, each of which was given by 23.1% of the respondents, followed by -1 grade with a share of 14.2%. The positive grades are less frequent compared to the previous indicators for the state of the municipal economy. The +2 and +5 grades were given by only 1.8% of the respondents, whereas 4 grade was given by only one respondent. Respondents show a similar attitude to the *commercial property market*, in which

the share of all negative grades is 75.6% compared to 14.3% of positive ones. The most frequent negative grade is -2 given by 20.8%, followed by the -4 и -3 grades which have a share of 19.6% and 15.5% respectively.

Unemployment is described as high by 64.9% of the respondents, while according to 25.6% it could be described as low rather (see Table 1). This indicator reveals a well expressed differentiation by municipality, and is not seen as too serious a problem in the capital city of Sofia and the bigger towns, though it is seen as a serious one in the smaller settlements. Even the bigger settlements, however, assess unemployment as very low, which is shown by the small share of +4 and +5 grades. As for the *number of low income households*' indicator, it is seen as serious by 65.3% of the respondents, as 18.3% believe that this problem concerns a wide circle of households. With regard to the *quality of life in cities*, negative grades given by 50.8%, while positive ones – by 37.7% of the respondents. This shows that despite all of its disadvantages, urban life also enjoys a number of advantages, which cannot be ignored. *The quality of the offered municipal services* is described as high by 72.8% of the respondents, as the highest shares are those of the +3 and +4 grades – 24.3% and 20.1% respectively. At the same time the share of the minimal grades is again negligible, which shows that the municipal officials see sufficient room for improving the quality of municipal services. The largest number of the respondents (28.1%) has given an average grade of the progress of *the transfer of ownership process*, which comes to show that this is a process that began long time ago and that some of its negative stages have already been completed, but nevertheless the overall process still cannot be regarded as fully completed. This last conclusion is connected not only with the technological conditions of the ownership transfer, but also with its perception as an asset which could generate revenues and be used and managed effectively.

2.2. Existence of the Relevant Planning Instruments

Nearly 73% of the respondents think that their municipalities have an effective *current urban plan* (see Table 2). What is more, we have reason to think that the given number is far smaller than the real one, as it has been based on the overall number of respondents, not on the number of those who have answered this question, because of the lack of alternative answers. Most municipalities have adopted relatively recently current urban plans, as almost 80% were adopted after the year 2000, while 42% were approved in 2011. The *average number of years needed for their elaboration* is 3.2, whereas *the average number of years, needed for their approval* is 1.6. Most respondents think that the average time needed for the elaboration and approval of this planning document is 2 and 3 years respectively. Almost the same percent of respondents confirm the existence of *current development plans* – 72.3% and 23% say that these plans were adopted in

2011 or in 2012, and in just one case the current development plan was adopted before the year 2000. The situation with the *municipal real property (MRP) development plan* is almost analogous to the previous two planning documents. However, it is a common feature that all municipalities adopted these plans in the last 5 years, and many of them adopt such plans every year. The fact is that 2/3 of the municipalities have a MRP development plan in place, which comes to reveal that this problem is seen as a priority.

Table 2. Planning instruments

	Existence (% from responses)	Average number of years needed for its elaboration	Average number of years needed for its approval
Current urban plan	72.8	3.2	1.6
Current development plan	72.3	n.a.	n.a.
MRP management plan	71.1	n.a.	n.a.

2.3. Financial Situation of the Municipalities

The majority of the respondents (43%) described *the financial situation of the municipalities* in 2011 as enjoying a balanced budget (see Table 3). According to 42.4% the negative grades prevail, while only 14.5% assess the performance as positive. Among the negative grades the moderately negative ones (ranging from -1 to -2) prevail, whereas among the positive grades the average ones (2 and 3) prevail. Compared to the period of 5 years ago the financial situation has deteriorated, which may be largely attributed to the global economic recession and the debt crisis in the EU.

Table 3. Financial situation
(% of responses)

SCALE	-5	-4	-3	-2	-1	0	1	2	3	4	5
	high deficit			balanced			high surplus				
Last year	9.1	2.4	3.6	10.9	16.4	43	1.2	4.2	4.8	3	1.2
5 years ago	3.8	3.2	2.6	7.1	12.8	31.4	14.5	11.5	5.8	3.8	3.2

2.4. Currently Used and Recommended Sources of Funding

According to the respondents, the major *actual funding source* of municipalities are the *taxes imposed*, whose average score is 6.5 given that the evaluation scale ranges from 1 to 10 (See Figure 1). The second place goes to the *national and*

regional funding with an average score of 5.3, whereas the next place is taken by the exploitation of the MRP with a score of 5.2. Exploitation of other assets is assessed relatively low compared to the real property use, while the share in the overall funding of issuing bonds is almost negligible. The aforementioned information shows that municipalities see exploitation of the MRP as one of the major funding sources, which suggests focusing more attention to the effectiveness of its management.

The findings of the questionnaires show that the ranking of the currently used funding sources is almost analogous to their ranking in terms of the need for their use in order to improve the municipalities' financial situation (see Figure 2). Priority is attached to taxes imposed with an average score of 7.7 along a ten-point scale, while the issuing bonds potential is again the lowest (4.4%), even though it has been assessed as twice higher than the real use of this funding source. Exploitation of MRP now ranks second with a score of 7.3, which is quite close to that of taxes. This finding comes to show that municipal officials think that this funding source must be more widely used compared to its current application. Furthermore, it is believed that national and regional funding must preserve their central role and that the potential of exploitation of other assets must be further improved.

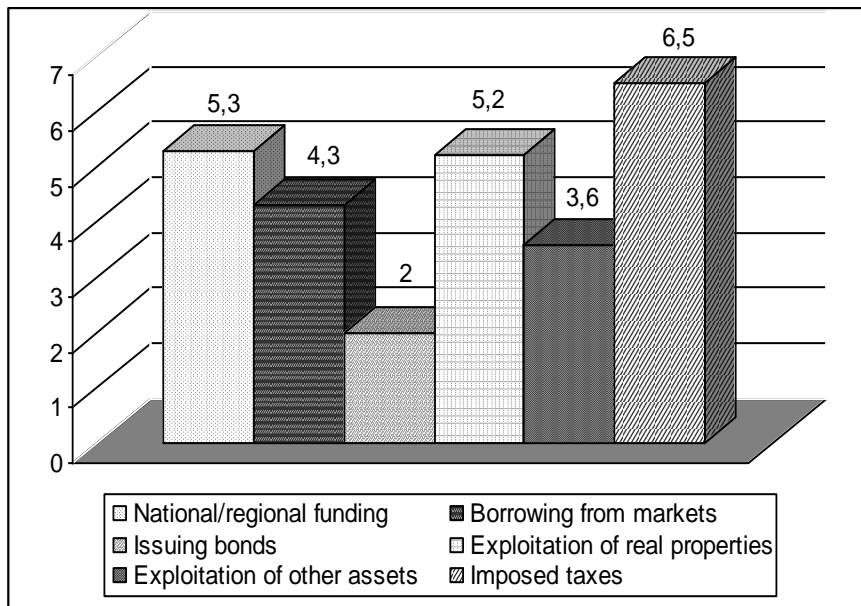


Figure 1. Actual financial sources (grades)

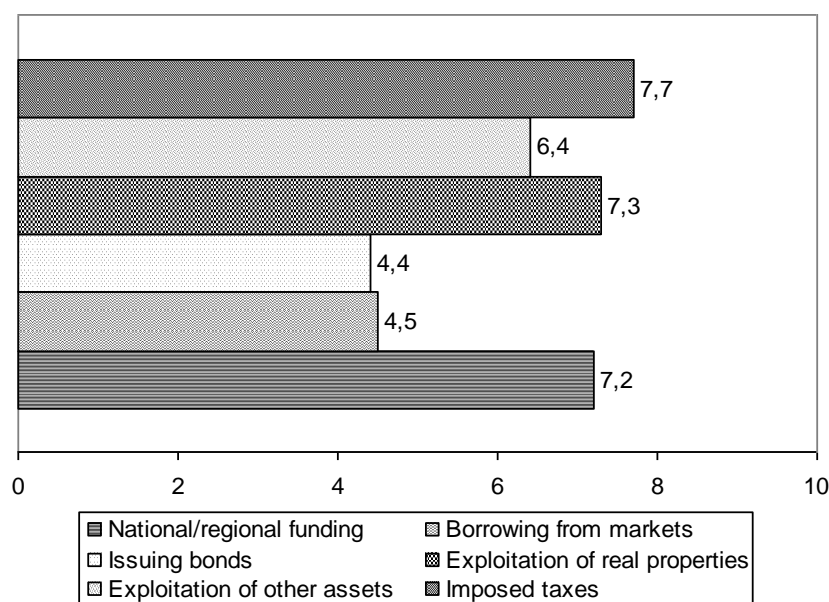


Figure 2. Recommended sources of funding (grades)

3. Analysis of the Municipal Real Property

3.1. Evaluation of Different Aspects of the MRP

The costs of holding MRP have been assessed as 4.3, which is below the average score in the applied scale and is among the lowest values compared to the other analyzed criteria. (See Table 4). It exceeds only the average scores for the *degree of vacancy of the MRP* and *the quality of MRP that is rented*, which have 3.1 и 4 respectively. The presented scores show that the respondents think that the available municipal real property is deemed as insufficient both in quantitative and in qualitative terms. *The net gains of the MRP* (revenues minus costs), *the degree of user satisfaction* and *the flexibility that the institutional framework affords to MRP management* have received almost equal scores. At the same time *the efficiency of the institutional framework* has received a high score, which holds also for *attitude towards the more active involvement of the private sector* and *the effectiveness of the MRP management*. First in the ranking come the importance of MRP in comparison to other municipal assets (in terms of values) and the importance of MRP in comparison to other municipal assets (in terms of revenues earned) which have received average scores of 5.6 и 6. These scores reveal that municipal officials are well aware of the relevance of municipal property, but they

believe that its potential which could bring economic gains and user satisfaction has not been fully taken advantage of yet.

Table 4. Indicators for MRP evaluation

Indicators	Grades
The costs of holding MRP	4.3
The net gains of the MRP	4.6
The degree of vacancy of the MRP	3.1
The quality of MRP that is rented	4
The degree of user satisfaction	4.7
The effectiveness of the MRP management	5.2
The importance of MRP (in terms of revenues)	5.6
The importance of MRP (in terms of values)	6
The efficiency of the institutional framework	5
The flexibility of the institutional framework	4.7
The attitude towards the more active involvement of the private sector	5.1

3.2. Municipal Strategy with Regard to the MRP Actions

Some 76.2% of the respondents point out that their municipalities have adopted a consistent MRP strategy. Only 36 of the respondents who are representatives of the smaller municipalities have given a negative response to the question of whether there is such a strategy in place. The existent strategies are largely based on the goals for cost-minimization, value (profit)-maximization, efficiency of use/services and social considerations, and the scores of all these goals are higher than the average ones and are relatively close in values. As leading motives, however, have been suggested *social considerations* and *efficiency of use/services* which have received scores of 6.5 и 6.1 respectively along a scale 0 to 10, which have prevailed over the traditional aspirations of the private sector for *cost-minimization* (5.8) and *value (profit)-maximization* (5.9).

3.3. Existence of a Municipal Unit Dealing Exclusively and Solely with MRP

Some 94.5% of the respondents have pointed out that there are *units that deal exclusively and solely with MRP* in their municipalities, which yet again comes to show that the problem of property management is seen as a priority (see Table 5). *The average number of employees* in these units is 10, which show that municipalities could rely on considerable administrative resources to achieve their goals in this direction. However, upon the

interpretation of these values it must be taken into consideration that they have a conditional nature to some extent. This is due to the fact that a larger number of representatives of the bigger municipalities were included in the sample, where the respective departments were more numerous. Also, part of the respondents from the biggest cities work at the regional administrations, and in their responses some have envisaged those engaged with municipal property management, whereas others – the overall number of the employees.

Table 5. Units and employees dealing exclusively with MRP

Existence of such a unit	Yes		No
	94.5%		5.5%
Number of employees	10.5		
Are they enough?	Yes	No	
	58.1%	41.9%	
How many more (average)?		3.6	
Are they sufficiently educated?	Yes	No	
	81.8%	18.2%	
Responsibilities overlapping (average grade)			5.3
Need for such a unit			7.1

The majority of the respondents – 58.1%, define those currently employed in MRP related units as *insufficient*. According to those who share this opinion, the number in question is insufficient and the opinion is formed that 3.6 officials on average should be further attracted. Hence attitudes prevail that shortages are related to the number of the employees rather than to their qualification. This conclusion is reconfirmed by the fact that almost 82% of the respondents describe as sufficient *the educational level of those currently employed* in MRP management. Among the municipalities which do not have any special MRP-related units in place, there emerges the view that the absence of such units leads to a higher than average *degree of responsibilities' overlap between those dealing with MRP*. The very need to set up such units is quite logically assessed as *high*, gaining an average score of 7.1.

3.4. Setting the selling values of MPR

According to 38.1% of the respondents, the value of a MPR for sale is set only by *external experts*. According to 20.2%, this price is determined *through auction*, whereas the *internal values* are decisive in only 15.5% of the cases (See Table 6).

The same percent of 15.5 of the respondents point out that the selling values of MPR are determined either by external experts or through auction. All other combinations for measuring selling values are applied relatively rarely and concern only less than 6% of the cases. If the aim is to see in what part of the questionnaires every method of evaluating the MRP is presented, then the sum of all percents exceeds 100%. With this second approach the external expert opinion is mentioned by 63.1% of the respondents, the auction – by 42.9%, while internal expert opinion – by 26.2%.

Table 6. Modes for setting the values of a MPR for sale

	% of the responses
Internally	15.5
By external experts	38.1
Through auction	20.2
Internally or by external experts	3.6
Internally or through auction	1.2
By external experts and through auction	15.5
Internally or by external experts, or through auction	6

3.5. Level of Actual MPR Rents in Comparison to Market Rents

Actual MPR rents set in the lease contracts are seen as lower than *market rents* by a total of 71.4% of the participants in the survey (see Table 7). The majority of the respondents have graded this indicator by -1 – 21.4%, which comes to show that the lagging behind of actual rents is not considered as significant. Next in terms of frequency of the responses comes the -3 grade, which has been given by 19.6% of the respondents, whereas 0 grade comes third, revealing an overlapping with rents, as suggested by 17.9% of the respondents. The real MPR rents are ahead of the market rents according to only 18 respondents, who comprise 10.7% of those who have answered the question about their ratio.

Table 7. Actual MPR rents set in the lease contracts

SCALE	-5	-4	-3	-2	-1	0	1	2	3	4	5
In % of responses	8.3	8.9	19.6	13.1	21.4	17.9	6.5	3.6	0	0	0,6

3.6. Outsourcing of MRP Management Functions

The issue of actual and potential outsourcing of MRP management functions turned out to be most complicated for the respondents, which becomes evident in the lower number of the received responses compared to the other questions – between 120 and 130. What is more, the received scores mark the lowest average levels of the studied indicators compared to the other components of the analysis (see Figure 3). An explanation of this finding could be partly sought in the fact not all respondents had a clear idea of the very process of outsourcing, nor how the quality of the services coming from outsourcing could be measured or what the specific meaning of efficiency of portfolio management, assets management and facilities management is.

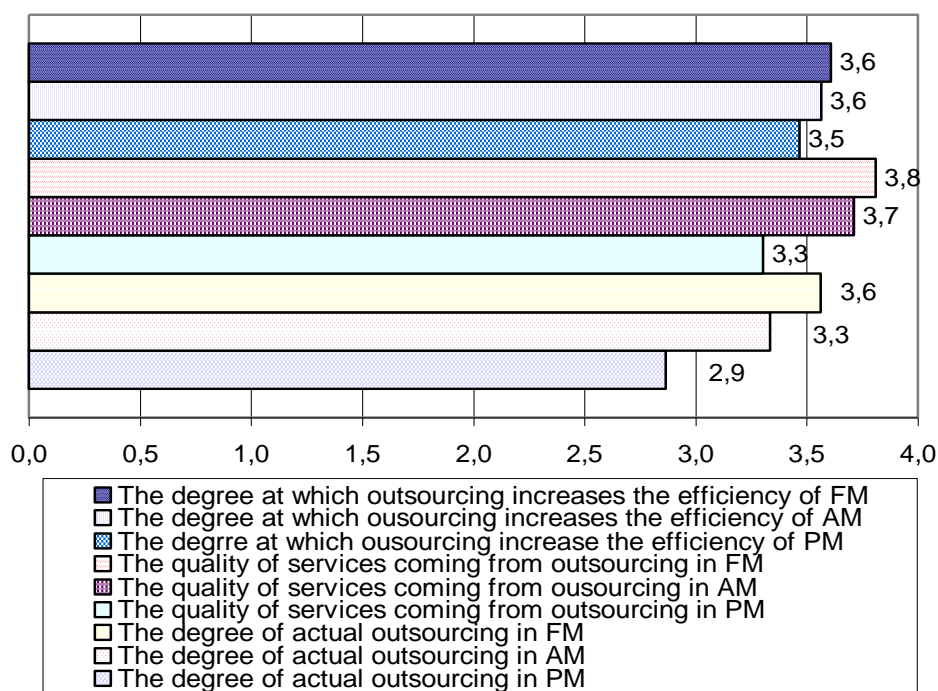


Figure 3. Outsourcing in PM, AM and FM

The degree of actual outsourcing in the portfolio management (PM), which concerns strategic decisions about the whole MRP portfolio, received the lowest grade of 2.9. As for the *quality of the services, coming from outsourcing in portfolio management and the degree at which outsourcing increases the efficiency*

of portfolio management; these indicators were given higher grades ranging between 3.3 and 3.5. As for the outsourcing in assets management (AM), which relates to the implementation of such decisions on each piece of property, in this case once again the actual outsourcing receives the lowest grade (3.3), while increasing the efficiency of AM receives a higher grade (3.6), and the quality of the services coming from outsourcing has received the highest grade (3.7). With regard to outsourcing in facilities management (FM), which concerns the daily management of MRP, actual outsourcing and its role for increasing the efficiency of FM have scored equal grades (of 3.6), whereas the quality of services gets 3.8 which is the maximal grade for the indicators related to outsourcing.

3.7. MRP Inventory

Over 95% of the participants in the survey point out that the municipalities they represent have MRP inventory (see Table 8). Most of them – 33.3%, are in the form of hard copies (HC), 22% of them are digital, and 9.3% are linked with GIS. Some 16% of the respondents have pointed out that their municipalities use both digital and hard copy versions of the inventories, while 11.3% use at once a hard copy form and a form which is linked with GIS. In 4.7% of the three major forms of inventory are being used simultaneously.

Table 8. MRP inventory

Existence of MRP inventory	Yes							No
	95.2%							4.8%
Form of inventory	D	HC	GIS	D и HC	D и GIS	HC и GIS	D, HC и GIS	
	22%	33.3%	9.3%	16%	3.3%	11.3%	4.7%	
Information registered	Ph	Fin	Func.	Ph, Fin	Ph, Func.	Fin, Func.	Ph, Fin, Func.	
	56.8%	9.7%	0%	20%	5.8%	1.9%	5.8%	
Frequency of updating	Regularly		Occasionally		Rarely		Never	
	78.7%		18.1%		1.9%		1.3%	
Is there important information missing?	Yes				No			
	13.9%				86.1%			
Are there important properties that are not registered	Yes				No			
	10.4%				89.6%			
Does it include all types of MPR?	Yes				No			
	85.3%				14.7%			

In 58.6% of the cases the information provided in the inventory concerns the physical features of MRP. In 20% of the cases where the respondents have provided answers to this question, part of the information concerns physical features, whereas another part concerns financial data. According to 9.7% MRP inventories are focused mainly on financial indicators, whereas according to 5.3% they include at once physical, financial and functional data. The frequency of the updating of the inventories is normally very high – according to 78.7% of the respondents, the information is regularly updated, while 18.1% of the respondents think that the information is updated occasionally. The share of those who have pointed out that the information is updated rarely or is not updated at all is negligible and stands at 3.2%. It is a commonly held view that the registers usually do not lack relevant information and that the share of real property which is not included in the register is insignificant.

3.8. Interdependence between Different Units of the Municipalities

As for the degree of interdependence between different MRP related units of the municipalities, it is described as average (see Figure 4). The indicator which measures to what an extent the MRP management department has direct access to the financial data stands at 5.5, which comes to show that the respective departments have established good channels communication. At the same time the degree to which other municipal departments have direct access to MRP related financial data is assessed as lower, which shows that the financial information is provided as a priority to the MRP department, which is more a user of the information provided by other departments, and in particular the finance departments, and less as a source of such information. The fact that the degree to which other municipal departments have access to other MRP data also stands at 5.5 indicates that the MRP department is not only a user, but also an important source of information related to real property. The highest value in figure 4 belongs to the indicator awareness of elected officials for the possibilities for better management of MRP, which, together with the rest, could be considered as a condition for the effective management of municipal property.

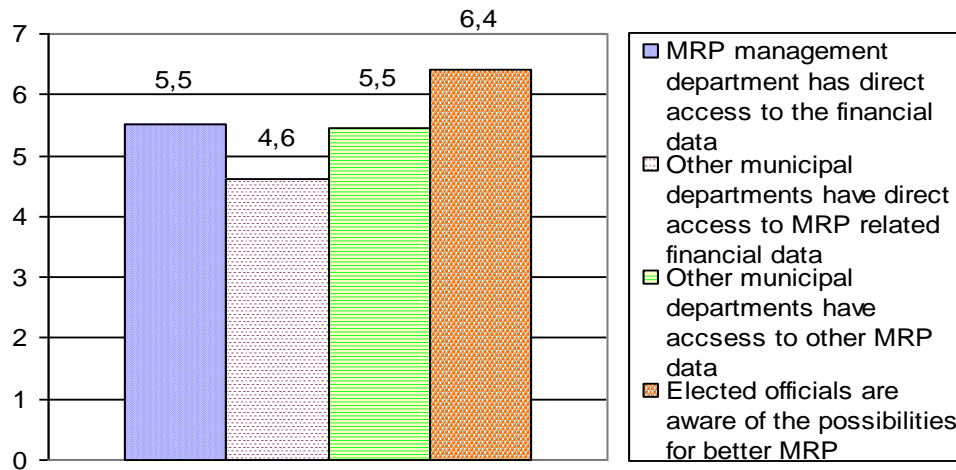


Figure 4. Interdependence between different MRP related units

3.9. Focus of the Attention of Elected Decision Makers

The data of the surveys show that the attention of the elected decision makers is addressed mostly to the portfolio of MRP (65.7% of the respondents) rather than to individual objects (34.3%). Even though in the online versions of the questionnaires the two questions were formulated as alternative variants and the two questions could not possibly get a positive answer at once, during the face to face interviews it became clear that a big part of the respondents thinks that the focus should be put both the portfolio and on the individual properties.

4. Conclusions

Based on the above analysis, the following specific issues concerning the efficiency of use and management of MRP emerge: a) negative trends in the economic conditions in the municipalities, and downturns of both housing market and commercial property market; b) exploitation of the MRP ranks barely third among different sources of funding, despite of the priority given to the adoption of MRP management plan and the municipal strategy with regard to the MRP actions; c) MRP is deemed as insufficient both in quantitative and in qualitative terms, and its potential is not fully used; d) insufficient number of employees in MRP related units and high responsibilities overlapping between different units in case of absence of a special one; e) actual MRP rent is usually lower than the market

rents; f) most of MRP inventories are focused mainly on physical features of the property and do not pay enough attention to financial data.

5. Bibliography

Brown, G. & Matysiak, G. (1999). Real Estate Investment: A Capital Market Approach. *Financial Times/Prentice Hall, Part 2*, pp. 13-28.

Bulita, H. (1994). *Fundamentals of Real Property Administration*. Maryland: BOMI Inc.

Farnham, D. & Horton, S. (1996). *Managing the Public Services*. 2 ed. Macmillan.

Jirsa, T. & Van Herwijnen, W. (2003). CPL (10) 3 – Part II on Municipal Property in the Light of the Principles of the European Charter of Local Self-Governments. *10th, Plenary Session the Congress*, www.coe.int/T/Congress/Default_en.asp.

Jolicoeur, P. W. & Barrett J.T. (2004). Coming of age: Strategic asset management in the municipal sector. *Journal of Facilities Management*, 3(1), pp. 41–52.

Kaganova, O. & Nayyar-Stone, S. (2000). Municipal Real Property Asset Management. An Overview of World Experience, Trends and Financial Implications. *Journal of Real Estate Portfolio Management*, 6(4), pp. 307-324.

Miles, M., Behrends, G. & Weiss, M. (2000). *Real Estate Development*. Washington, DC: Urban Land Institute.

Reese, L. (1997). *Local Economic Development Policy*. New York, NY: Garland.

RTI International (2006). *A Toolkit for Municipal Asset Management*. University of North Carolina at Chapel Hill.

Utter, M. (1989). Public Asset Management. *Economic Development Commentary*, pp. 4-11.