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# Land and building valuation in Cuba: From land without value to land as financial asset

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**IHS**



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## **Introduction**

In Cuba, the government authorities define the priorities for land and property distribution. One might expect that those official development programs would take account of the value of land and buildings. But that is

not so, although there is a growing awareness of its importance. When appraisals are made, they are usually for the housing sector and for negotiations with foreign entities. However, in the last decade (1995 – 2005) the issues concerning urban land planning, land allocation, and land and property valuation have grown in complexity. There are many technical conflicts and legal gaps, with many overlapping processes and the approaches are not coherent. This essay provides an insight into the way land and properties are appraised in Cuba, in the expectation that this will be of interest to other experts and city authorities around the world and will contribute to the international debate on this topic.

The paper begins with a general overview of the changes in land management which the Revolution introduced and of the new policies and methods for implementing urban development. It will be seen that political decisions have been very influential, in many cases exceeding the role of other factors such as locational advantages, urban regulations and social demand.

The housing sector requires a separate analysis, as the application of variables and mechanisms for land and building valuation is different for housing than for other sectors. Moreover, this sector has gone through various institutional and legal reforms in an attempt to improve its performance and to cope with the increasing number of informal transactions with housing land and properties in the last 15 years.

The 90s are stressed as a turning point because in that decade, while certain sectors of the economy retained the prerogative of receiving grants of land according to their development needs, an alternative opened up. This was for negotiations with foreign capital, where the decisions largely depend on financial considerations and land becomes an important source of value. Most of the projects connected with foreign developers required new techniques for land and property valuation, different institutional frameworks and key legal reforms.

In the past ten years, the Cuban institutions that deal with economic and urban planning have shown a growing concern for land management and land valuation. These institutions are willing to assume a wider perspective and to go beyond the customary appraisals and price setting in order to complete a transaction with a foreign investor. Nevertheless, there is still little understanding among the local actors of the potential for developing land fully and appropriately, nor of the conceptual and technical complexity of doing this.

## **Summary**

This article aims to provide an overall analysis of the land valuation process in Cuba divided in four main periods, the first two cover the first decades from 1959 to 1989, where market mechanisms were not considered and all land allocation was made through the government planning instruments and regulations. A third moment goes from 1990 to 2001, where the government starts the introduction of certain market and valuation mechanisms to develop businesses with foreign developers but retaining control over land and building assets. The last period from 2001 to the present explains the return to high centralization and the beginning of a transition process that shows the authorities' willingness to improve the country's economic performance. We attempt to examine the character of each period, the assessment methods and the legal instruments applied and introduce some of the technical conflicts and impacts derived of them with the final objective to extract regularities and irregularities that will allow us to analyze the Cuban failures and achievements on this field.

In Cuba, as in other highly centralized countries, planning instruments became the preferred means to achieve economic efficiency and to foster territorial development, replacing the role of the market in search of more equitable progress. Since the first years of the Revolution, the market stopped acting as the mechanism for assigning and managing land efficiently. The government authorities sincerely aspired to obtain higher efficiency and quality through the planned provision of social services, and to mitigate the social segregation that had marked the capitalist production of space in preceding times. Land allocation for housing, industry, public service infrastructure, tourism and real estate was centralized by the government, which approved physical and economic development plans for the whole country, provinces and municipalities.

During the 60s and 70s, economic and physical planners concentrated their efforts on the allocation of land and redistribution of property in line with government social priorities. Nevertheless, problems gradually appeared, such as the application of narrow concepts in land use allocation and in the design of urban functions, the lack of economic and financial vision in land management, the application of excessive regulations and procedures in some areas, a gap in relevant legal areas such as tenancy<sup>1</sup>, and the lack of integration of these aspects.

By the end of the 80s, a group of urban planners became concerned with the lack of differentiation in land allocation, for that could compromise the future of valuable areas of Havana. This endeavor to introduce differential land prices was merely administrative, but it was the first attempt to raise awareness about the economic relevance of land management and about the effects of land use on present and future land value, as well as other external, demographic and environmental concerns. Unfortunately this experience

did not change the dominant vision, and the top officials neglected the opportunity to produce a more diversified analysis of the relevance of land for urban development.

At the beginning of the 90s, the overall situation in Cuba became extremely difficult, and the Government introduced an urgent process of economic, financial and institutional reforms in order to reinsert the nation into the international scene. The opening to foreign investment opportunities was the most important adjustment, and it necessitated thinking of land not only in terms of its social use but also in terms of its highest and best use. In the middle of constant debate among institutions and national and international experts, the country produced a new institutional framework, introduced international valuation methods and created legal instruments to articulate, in a short time, practices to develop credible land and building valuation process for projects with foreign investors.

In the last two decades, a large number of land and buildings, owned by both the state and individuals, have been appraised for different purposes - social housing, urban cadaster, profitable investment projects - and in parallel the government has continued to apply the zoning and planning tools to allocate land for major industrial, social and tourism functions. The lack of integration and contradictions in the mechanisms applied for the different areas and sectors makes it difficult to obtain a coherent picture of the process.

This paper will describe and explain the procedures and regulations established for land distribution and appraisal for state projects, for the housing sector both for nationals and for foreigners, for the negotiations with foreign enterprises, and the institutional framework created for land and building valuation. Having analyzed the whole process, we will then be able to understand better the causes and consequences of the decisions made, as well as the failures and achievements of more than 40 years.

## **1. The *non market* value of land. From 1959-1968 / 1968-1989.**

In 1959, the market<sup>2</sup> for land was removed, as the government wanted to abolish land speculation and corruption in urban development, and as the Socialist State declared the social welfare perspective as a priority in all new developments<sup>3</sup>. During those years, historical conflicts led to a quick radicalization of the Cuban process. As a result, many transformations were executed and adjusted in a process of trial and error, in the middle of conflicts with the advocates of private property and real estate developers. These had benefited from the boom at the end of the 50s, when some land prices reached 100 pesos (equivalent to dollars) per square meter in the El Vedado neighborhood in Havana<sup>4</sup>, one of the most modern and cosmopolitan areas of the capital city.

Private activities coexisted with this fundamental principle until 1968<sup>5</sup>, when the life of the country had come to depend totally on the new structures. From the very beginning of the Revolution, land became the target of drastic reforms, and was seen as an essential resource to fulfill major social changes and innovative plans for housing, services and urban equipment<sup>6</sup>.

These plans were feasible due to the fact that the Cuban government rapidly controlled the majority of land (70% of vacant land in Havana), thanks to the articulation of new laws and regulations and to a new institutional framework designed according to the Revolution's intentions<sup>7</sup>. An important moment was the official cancellation of ground rent with Law 691 of 1959<sup>8</sup>, which established a unique price of 4 pesos per square meter, whether it was urban or rural land. This step reduced the financial incentives for owning and using land and drove out all market signs produced by real estate and land speculation.

During the 70s, after a decade *faced with the reality of an arbitrary use of land*<sup>9</sup>, a group of professionals started working out a plan to diversify the categories applied for land use allocation, in order to achieve a more efficient implementation of new investments. The proposal, which included actions such as a *tax system and an economic valuation method to compare location alternatives*<sup>10</sup>, was never implemented, as the government was more oriented to eliminating of all memories of capitalism.

In 1985, physical planners came up with a system of values/prices structured in seven categories, with a minimum price of 8 pesos and a maximum of 33 pesos per square meter for urban areas. The seven categories were applied only to Havana city, four were applied to Santiago de Cuba, second city of the country, and three to the rest of urban settlements<sup>11</sup>. The price of rural land was fixed at 6 pesos per square meter.

This second attempt to differentiate the value of urban locations, inspired by the wish to promote a more efficient land use<sup>12</sup>, found its only practical application in setting the price of the new dwellings built as part of the government's housing program. In those years, that program was to build 120 thousand units, of which 25 thousand would be located in Havana<sup>13</sup>.

The 1985 regulation made little contribution to the way land was managed, because *differential land prices* were not considered to be relevant for the sectoral programs developed by the government. The demand for developable land was presented to the physical planners, who automatically granted it without posing any important obstacles. The possibility of taking advantage of the price categories in order to produce financial

incentives was not important at that time, although it could benefit the inhabitants, help preserve more vacant land for the future, favor the reuse of land or its exchange between institutions according to the projects aims<sup>14</sup> and program needs.

Another limitation of this procedure was the lack of monitoring and updating of the information. There are no systematic records of changes in the city context as a result of the factors which were taken into account when establishing the seven categories, nor of the positive and negative consequences of decisions which altered land values (such as improvements to infrastructure and public services) or which led to important modifications of the city's land use. In conclusion, there were no mechanisms to take account of macroeconomic processes in the city.

Cuban politics during the 60s, 70s and 80s placed emphasis on two basic dimensions of planning, the economic and the physical. In theory, both dimensions are expected to work out strategies and to improve the consistency of territorial and urban development, even although the first one works with a five year prospect and the second one with twenty or more. Nevertheless, in both cases the one-year plan was the instrument which was most employed, and it supported a sectoral perspective rather than a territorial one.

City planners had to struggle with urgent decisions that would have long term impacts, such as the location of prioritized large social programs, experimental urban and industrial projects, and the redistribution and reuse of former private properties. They also needed to reconcile the decisions from the top authorities with more technical problems such as densities, building codes, construction technologies and standards.

At that time, the nation believed that *the economic efficiency worked out in the plan determining the city's land use would lead to a superior urban structure, which would be more manageable, productive and comprehensive*<sup>15</sup>. However, a critical look at the results shows a permanent lag between the planned and the achieved, an increased deficit of urban infrastructure, and lack of connections between city areas. At the end of the 80s, Cuba still lacked a consistent method to fully exploit the capacity of urban land and increase its economic efficiency.

## **2- Land policy for new housing.**

In Cuba, the government is completely responsible for setting the housing policy and for determining at least in general its physical, economical and financial aspects. During the first three decades of the Revolution,

most of the efforts went into the construction of new housing around the whole country, while most of the existing stock awaited long needed maintenance.

Land allocation for new housing is made through the planning institutions at provincial and municipal levels, and housing ownership granted before 1959 is respected as long as the owners are alive and the land use unchanged. The valuation of new housing is performed by the Municipal authorities and the technical officers of the Municipal Housing Directorates. In order to determine the price of a new dwelling, they consider two elements. The first is connected to physical attributes and social aspects regulated by the National Institute of Physical Planning (IPF), which establishes homogeneous areas according to the level of urban infrastructure and service provision. The second one, defined by the Ministry of Finance (MFP), links the public housing subsidies with the families' financial capacity, a process that takes account of the land price, the building construction cost, and the average salary of the population.

The planning authorities are responsible for the analysis of spatial, functional and environmental variables, also the quality of infrastructure, the provision of public services and other urban aspects. As part of the study of the 80s, they finally came up with seven homogeneous zones for Havana. Although the clusters were made according to discernible urban criteria, planners took little account of aspects such as:

- Present and future land uses.
- Site characteristics and land capacity to incorporate new developments.
- Urban regulations and policies according to the zones.
- Size and specific location of land plots as part of the urban fabric.
- The detailed situation of the quality of infrastructure, urban transportation and other public services.
- The acceptance of the community – upon consultation -, its preferences and reactions to the proposals.
- Other positive and negative externalities derived from a project decision, such as green and parking areas, the generation of noise or air pollution, the neighborhood reputation, etc.

The second aspect was connected with the financial aspects of land. According to the Ministry of Finance rules, there was a relation between the maximum value of the housing unit (construction cost), the amount of land (floor area), and the average family income. Thus the maximum price of land was fixed at 33 pesos per square meter for the *best urban location*. The main criterion was equity of the families and not their financial capacity<sup>16</sup>.

The following table shows the land value differentiation-categories developed in 1985:



System of settlements	Categories						
	I	II	III	IV	V	VI	VII
Havana City	13	17	21	24	27	30	33
Santiago de Cuba City	13	17	21	24			
Other provinces' capitals	13	17	21				
Cities > 20 thousand inhabitants	10						
Other urban settlements	8						
Rural settlements	6						

Unit: Pesos per square meter of land.

This system of land prices basically served to differentiate the housing value according to its location, within the boundaries established by the administration procedures and the size of the housing unit. It set the highest prices for the plots with best location, accessibility and infrastructure. Nevertheless, the following hypothetical case in Havana city illustrates how little the housing price (as established by the Municipal Housing Directorate and presented to the Cuban bank in the mortgage contract with the user) is affected by that differentiation in land prices.

Value	Category according to urban location		
	VII	IV	I
Housing construction Cost 1	25 000.00	25 000.00	25 000.00
Floor area of the unit (m2)* 2	80	80	80
Tariff according urban location 3	33	24	13
Land value repercussion 4=2*3	2 640	1 920	1 040
Total housing price 5=4+1	<b>27 640.00</b>	<b>26 920.00</b>	<b>26 040.00</b>

\* The floor area includes a percentage of the building common use areas and of the land occupied by the building.

The example shows that prices are far from reflecting the real locational advantages in terms of cost, opportunities and benefits. The best location in Havana city, in a highly central area, with access to 80% of transportation facilities and other city level services, is only 6,1% more expensive than a unit located in the periphery, practically in the borderline of the rural area.

#### An appropriate comparison

In the United States<sup>17</sup> the price relation between developable and not developable land for urban purposes is at least 3 to 1, this means that the price of 1 meter of developable land is three times bigger than the price of 1 meter of not developable land. The difference is 300%.

In Latin America there are many examples that show the difference between rural and urban areas:

**Bogotá**

**San Salvador**

Zone	Rural	Urban	Δ %
South	1.40	7.45	432
Occident	2.98	11.17	275
North	5.59	26.07	366

Zone	Rural	Urban	Δ %
North	5.00	35.70	614
South-West	12.90	35.70	177

Sources:

\* Bogotá case, information obtained from expert land appraiser Oscar Borrero. Values in USD. The exchange rate is 1 USD = 2685 pesos.

\* San Salvador case, information from banking transactions supplied by expert land appraiser Gustavo Sagastume.

Moreover, the introduction of rigid prefabricated construction systems and inappropriate design criteria created extensive, anonymous, standardized housing projects that took little advantage of the land use capacity<sup>18</sup> (that might have been able to assimilate larger densities and make better use of urban space) and which generated negative externalities in terms of transportation and environmental issues. The method for calculating the housing price neither incorporated the updated construction budgets nor measured efficiency indicators such as the cost per square meter, the execution schedules, the price of construction materials and the equipment<sup>19</sup>. It was not considered important to measure the financial efficiency of the housing production system, nor to analyze the increase of value derived from the improvements made to urban infrastructure. Other legal costs or promotion strategies were not even considered.

The housing boom of the late 80s provided for the first time the opportunity to study the total value of a dwelling including location (in central, intermediate or peripheral areas), the cost of the architectural project, and the building costs. The impact of urban location on the value of the dwelling<sup>20</sup> was at that time, and continues to be, practically irrelevant, fixed by the division into location categories and the limited financial constraints established by the government authorities.

### 3- Valuation of the existing housing stock from 1985 to the present.

The value of an existing house is determined differently. The official way of doing this creates very unattractive financial conditions for the exchange of existing stock, because the state is the first buyer and the prices paid are extremely low.<sup>21</sup> This principle has been very significant for the existence of both formal and informal contexts, and for buying and selling operations, because the inflexibility of the formal context has stimulated the informal context, and unofficial practices replace the role of the formal market in bringing supply and demand into contact.

The valuation of the existing housing stock is performed by the Municipal authorities, the technical staff of the Housing directorates and the community architects. There are around 750 thousand existing units in Havana. The valuation of this stock is required to permute, to clarify housing inheritance issues, to correct imprecision's of former housing descriptions, to request permits for subdivision of interior spaces<sup>22</sup> and to legalize informal construction improvements. New units can be re-valued after five years of construction.

The general calculation procedure uses the concepts of *life use cycle* and *depreciation* and is based on the reasonable price of the dwelling at the moment of appraisal, deducting the depreciation and other indicators of construction decline. The effects of maintenance and major repairs also affect the analysis, because these contribute to extending the life of the building, especially if there are structural upgrading and floor plan enlargements which improve the functional quality of the house interiors.

The estimation of the building's life use cycle depends on the appraiser's opinion. Although the information about costs, depreciation factors and other criteria necessary to authenticate the appraisal appear in the International Accountability Norms, the final decision depends to a large extent on the subjective analysis of the appraiser.

The Cuban housing authorities apply a national calculation method to determine the legal price <sup>23</sup> of the dwellings according to the General Law of Housing. The method takes as its starting point the basic price of the dwelling. This is determined by the inhabitant's purchasing power, average government salary, and it does not consider willingness to pay. The actual value depends on other factors too: the resolution 18-2001 of the Ministry of Finance specifies the aspects – listed below - that must be taken into account when valuing housing and other assets.

- 1- Basic price of the dwelling.
- 2- Depreciation value.
- 3- Effects of geographical location and additional land in the house parcel.

The basic price of the dwelling takes as its reference the following classification, which considers the quality of the construction materials and technologies. It is very important to have the use surface in square meters.

<u>Housing Classifications:</u>	<u>Price x square meter</u>
• Groups I and II	(215.00 to 180.00 Cuban pesos/m <sup>2</sup> )
• Group III	(115.00 Cuban pesos/m <sup>2</sup> )
• Group IV	(65.00 Cuban pesos/m <sup>2</sup> )

- Group V (48.00 Cuban pesos/m<sup>2</sup>)

The buildings made with solid and long lasting construction materials, with predominantly concrete structures or other materials which are structurally and environmentally sound, belong to groups I and II. Groups III and IV include buildings with other construction systems or combinations of them that are less sound than I and II but with higher quality than V. The buildings which use less durable or low quality materials in foundations, floors and roofs such as wood, straw, cardboard or adobe belong to group V. The relation between the square meter price of a high standard residence and an apartment in group I and a low quality dwelling in group V is only 4.48 times.

The second step is to define the depreciation value according to the state of repair and the building's year of construction. The procedure looks at the separate construction components to focus on the causes of depreciation, and expresses this using a points system (see annex 3). The final point score is translated into the Technical State Depreciation Chart.

State of Repair Classification		
Building State of Repair Score		
State of repair Categories	Score Range	Expert Score
Excelent	600-467	
Very Good	466-400	
Good	399-300	X
Moderate	299-200	
Bad	199-100	
Very Bad	99-0	

% of Depreciation	
%	Selection
0	—
3	—
6	—
9	—
12	—
15	—

Building Age Classification		
% Depreciation by Age		
Building Age	%	Selection
0-5 years	0	—
6-15 years	1	—
16-25 years	2	—
26-35 years	3	—
36-45 years	4	—
mas 45 years	5	—

The arrow inserted in the chart indicates the depreciation rate (6%) in the case of a general score between 399 and 300, indicating that the house is in good state of repair (annex 3). The year of construction is very relevant and determines a specific percentage. In conclusion, the total depreciation value is obtained in the following way:

**Depreciation value** = Basic price x [(% Depreciation by state of repair) + (% Depreciation by age)]

**Depreciated price of dwelling** = Basic price – Depreciation value.

According to the existing regulations, the dwellings included in groups I and II cannot have their basic price reduced below 60 and 70 % after depreciation.

The effects of geographical location and additional land have very precise calculation methods. The first - **geographical location** - is calculated according to geographical location rates multiplied by the use surface of the dwelling. The location rate is obtained from the table below, where the values are classified according to the quality level of urban services. The resulting value is added to the basic depreciated price.

System of settlements	Geographic Location Rates Categories						
	Unit: Cuban pesos x m2						
	I	II	III	IV	V	VI	VII
Havana City	7	11	15	18	21	24	27
Santiago de Cuba City	7	11	15	18			
Other provinces' capitals	4	7	15				
Cities > 20 thousand inhabitants	4	7					
Other urban zones	2						

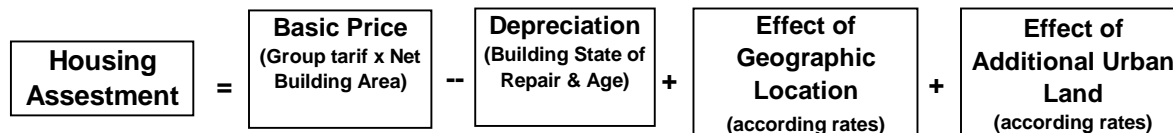
The **additional land fee** is used to include the value of dwelling areas that are not considered as part of the use surface, such as gardens, inner courtyards, backyards, terraces, external surrounding corridors, etc. It is calculated in the following way:

- 1- Declared land = Construction area x 1.5
- 2- Additional land = Land plot area - (Construction area + Declared land)
- 3- Additional land fee = additional land rates x additional land.

The additional land fee is obtained from the following chart:

System of settlements	Additional Land Rates / Categories						
	Unit: Cuban pesos x m2 of additional land						
	I	II	III	IV	V	VI	VII
Havana City	13	17	21	24	27	30	33
Santiago de Cuba City	13	17	21	24			
Other provinces' capitals	13	17	21				
Cities > 20 thousand inhabitants	10	13					
Other urban zones	8						
Rural settlements	6						

The resulting value - the additional land fee - is added to the Basic depreciated price. In conclusion the final appraisal of a dwelling takes places in the following manner:



This method intends to simplify the appraisal process, but there are elements that make it more complex. In particular, each building is different, and in many cases there are differences inside a single dwelling, with spaces in different state of repair that are classified in different groups. This happens when the dwelling was constructed progressively and using various materials. In the same building, it is possible to find very solid and durable areas and others poorly executed. It is also possible to find that the family income allowed maintenance or improvements in the first bays, but that the rest of the building is in bad shape. The valuation method has to adapt to these changing circumstances, and the resulting value is obtained by adding the partial value calculations for each dwelling area. (See annex 4: Official Case of Housing Assessment in Havana City).

Although the calculation method has a very coherent philosophy, there are many distortions and contradictions when compared with the social and economical reality. When comparing the official appraisals with the values negotiated informally, it is evident that a big difference is caused by the low financial variables used to distinguish between the housing groups (I to V). Secondly, while in the informal market the values are in constant change, in the official context they are fixed. They do not respond to the real demand and they are not monitored or updated. This creates a considerable gap between the 48-215 pesos basic price per square meter used in the official calculations and values obtained from the state records of construction budgets, which are around the 600 pesos per square meter of use area<sup>24</sup>.

The real effect of macro and micro location also differs greatly from the official formulae. The indicators in the table do not reflect the real location advantages, the capacity and quality of infrastructure, the accessibility and integration with other city areas, and the environmental quality. Other housing attributes highly appreciated in informal transactions<sup>25</sup> such as balconies, garages, open terraces, courtyards and gardens are also undervalued in the official valuation methods.

The inflexibility of these procedures and the subjectivity of some of the judgments stimulate negotiations where government representatives become key actors in the valuation process. They may be acting in good faith, but they can also be susceptible to manipulations and speculation, rising or lowering the values for the benefit of themselves or the owners involved.

Official housing valuation of the existing stock in Cuba is far from reflecting the real problems and dynamics in the demand for housing, and it does not reflect the financial and economic appraisals which residents make when considering functional, aesthetical and technical aspects of the buildings. The immediate context of the neighborhood or even the big city, the distinctions derived from the property rights (ownership, rent, and usufruct) and other legal aspects are not properly taken into account. The question is, whether it is possible to go on ignoring reality and not wanting to see what is already there, or to make mechanisms more flexible in order to produce more reliable and useful methods and to obtain more transparent results based on realistic information.

#### **4- The 1990s, structural changes to face new events**

It is no secret that planning and legislation in Cuba were not prepared to face the impact of the new realities which arrived with the 90s after the disintegration of the socialist block. Once again, historical events forced major structural changes in Cuba. The unprecedented crisis threatened not only the physical environment but also the economic, social, moral and cultural aspects of life.

The search for new markets and foreign partners became the country's most urgent need. For thirty years, the government had been the only provider and the main consumer of land. As a result, the different state institutions were not trained in the use of appropriate methods, and they had no effective financial and legal instruments when negotiating land values with a diversity of financial actors. There was no alternative but to learn rapidly.

There are four basic factors <sup>26</sup> that radically transformed the situation:

- Enterprises were decentralized to deal with the diversification of economic agents and the new role of non government actors in the economy.
- The economy was opened to foreign capital and joint ventures.
- The public administration of the state economy was reformed.
- New planning methods were introduced.

The development of new projects with foreign entrepreneurs and other providers of financial capital required the creation of joint ventures, which demanded from the local parties the valuation of urban property such as land and buildings. The behavior of these international economic associations is shown in the Annex 1.

The Cuban authorities followed two trends. One was to reorient economic development, making changes to the legal, economic and administrative frameworks<sup>27</sup>, the other was to maintain the social progress achieved by the Revolution. The overall strategy was to adjust the development model so as to favor the insertion of the domestic economy into the international networks, without compromising the basic principles of the country, namely: rejection of the predominant neo-liberal policies of privatization, low budget social programs, deep inequalities, and a small role for the government in the social and economic life of the country. The chronology of reforms accomplished in a relative short period of time is given in the Annex 2, and it reflects the degree of change and its impact on the organization and management of the Cuban society<sup>28</sup>

These changes reflect the government's efforts to replace bureaucracy with efficiency and to make the rigid procedures more flexible with strategies to promote management decentralization, while at the same time encouraging the traditional strengths of the Revolution and keeping economic development under control of government institutions.

#### **5- Land as a *financial asset***

The first official experience in land valuation after the Revolution was with the tourism projects developed between 1989 and 1992<sup>29</sup>. In 1991, the government commissioned experts from a section of the Vice Presidency of the Executive Committee of the Council of Ministries to develop a tourism strategy with the objective to start negotiations with foreign partners. To that end, the government created a multidisciplinary technical commission, drawing on the Physical Institute of Planning, the Ministry of Economy, the Ministry of Construction and other top state institutions.

The first agreements between the partners were that land value should be a percentage – generally set between 8 and 15% - of the total investment value. The generalizing character of this method soon caused many contradictions. The modus operandis had evident limitations; it was not based on a careful evaluation of market demand for the different project modalities (tourism, residential, industrial) and it ignored the relevance of certain land capacity aspects of the selected area<sup>30</sup>.

The commission of experts traveled to different countries of the Caribbean and Central America in order to update information for future development plans and current land and building transactions, mostly in tourism projects. In 1992, the administration entities responsible for foreign investment tried another



method. This was a combination of reference prices<sup>31</sup> according to the project functions, and a coefficient named **K3**<sup>32</sup> for valuing the qualities of the land or the selected location.

The K3 coefficient expressed the location advantages that directly affected the reference land price according to the type of project. It had two basic limitations. First, it was too focused on tourism development. Second, each aspect scored a maximum of five points according to the expert's subjective opinion and not according to a system of rules or indicators. Here again we find the same limitation that affects the valuation of housing properties. Nevertheless, the land coefficient **K3** was more comprehensive than the urban criteria developed in 1985 by the Physical Planning Institute (see earlier in this paper), because it widened the scope of the analysis and included more aspects of land capacity. It is still used to determine land price for various investments. (See Annex 5)

This use of reference prices allowed profitability rates to be varied between the different developments, whether for tourism or of real estate. Foreign investors reacted positively to this attempt, as they found it easier to compare with their own market information. It also provided a more logical way of reasoning and gave the possibility of obtaining a more realistic picture of infrastructure capacity and land attributes.

Nevertheless, the application of the reference prices obtained from other countries had certain weaknesses. Other countries may have similar environmental conditions, similar urban fabrics, building typologies and construction materials, even related cultural and social backgrounds, but they definitely have different property systems, economic structures, planning and management methods, and government priorities. These create fundamental differences with the Cuban tourism and real estate situation

Finally, in 1994 to achieve a more transparent and credible process of land valuation in order to face the growing number of businesses with foreign developers, the authorities decided to apply international valuation methods, adapting them as much as possible to the economic, political and social conditions of the country<sup>33</sup>.

The introduction in 1994 of those procedures was sudden and quite arbitrary. After a short period of very dynamic learning, the institutions involved had to test the procedures in real projects, face the errors, the successes, and to take political decisions when that was required. At the beginning, it was not clear which institution would establish the guidelines and methodologies. Then, in 1994, the Directorate of Patrimony of the Ministry of Finance became the leading authority in those matters.

The methods applied are the following:

- 1) Market Approach
- 2) Capitalization rate
- 3) Residual value
- 4) Replacement Cost

The specific aspects of these calculation methods are widely covered in the existing literature<sup>34</sup>; therefore it is not necessary to discuss them as part of this research. For our present purpose, it is more relevant to go through their application to the Cuban reality.

The **Market Approach** was not easy adaptable to Cuba, as there are no official markets and no reliable information on rents, selling or buying<sup>35</sup>. Nevertheless, it was the closest procedure to what had been applied so far, using the regional price. It even applied the K3 coefficient to adjust the results according to the site characteristics.

In time, the first cadastre of negotiations came out, which included the financial transactions with foreign partners. This allowed new investments requiring land and buildings to be compared with similar successful transactions. This recording, however, was very limited, not providing enough location and other land information for evaluating a new investment. The appraisers departed from a few facts, ignorant of the negotiation process, for they had no say in the decisions, which are usually made between high Cuban officials and international partners. This raises many questions about the reliability of the valuations, for the appraisers only partially trust the given information and they are not sure if it is up to date and if the comparisons are appropriate<sup>36</sup>.

Other valuation entities tried the **Capitalization Rate** method, based on the principle of anticipating at the present moment the rate of return or future income generation capacity. This financial and economic procedure is very transparent for the actors, but brings serious limitations in the face of the diversity and discretionary application of specific variables in the Cuban case.

The critical assumptions concern the expected rate of return of the business and the actualization rate (discount rate) applied. The first is assumed by developers representing the market segment, and there is influence from the commercialization criteria imposed by the Cuban authorities.<sup>37</sup>The second aspect is very critical: given the lack of information about similar investments, the valuers tend to assume the interest rate on loans for similar projects.

In parallel, other appraisers have tested the **Residual Value** method, recognized in the literature as a technique derived from the market, capitalization and replacement methods. The land price is here obtained as a residual value once the investment costs, the operation costs and the different utilities have been subtracted from the expected gross revenues. The application of this method has prevailed over the others, because of its transparency and recognition among experts. It has also been used in parallel with the Market Approach method to compare results. But, just as with the Capitalization Rate, its application in Cuba produces many distortions in the variables applied.

Further, as applied in Cuba<sup>38</sup>, the Residual Value method does not consider important aspects of land such as:

- The physical characteristics of the land plot.
- Functional, aesthetic and environmental quality of the site.
- The effect of regulations: urban, ecological or other
- Influence of macroeconomic aspects such as inflation and risk.

The residual value method has the limitation of depending too much on economic variables: its results show similar land prices in city areas with different quality infrastructure and urban regulations. In some cases the outcome has been a negative land value, something impossible given the type of locations usually chosen for foreign investments, and in other cases, highly profitable projects give extremely high land prices that differ from other estimations obtained with other valuation methods in the same area.

The **Replacement Cost** method has been applied to existing building stock. It is made by obtaining the building value according to certain physical attributes and its functional capacity, adding the cost of present day construction technology and materials, and by including a depreciation effect<sup>39</sup>.

In addition to the known limitations of this method, in Cuba there is another limitation as a result of the compulsory use of guidelines and regulations for calculating the construction budgets. These project variables are not periodically updated, even though prices and tariffs of construction materials and activities vary depending on the complexity of the building, architectural value and year of construction.

The gradual implementation of the various international valuation methods in Havana City over a decade has a big financial significance. The table below shows some of the results of land and building valuations obtained in the 1998-2003 period. From the 368 projects evaluated, 272 required the valuation of vacant

land for new development, and in 96 cases the buildings - improvements only were evaluated, excluding land area.

Type of assets	Buildings	Land plots	Total
	96	272	368
Value of assets	118.5	750.4	868.9

Unit: Millions USD.

Source: Patrimony Department at MFP, 2004

If we consider the prevailing type of projects, the most important is hotels, secondly industrial constructions and finally real estate for offices and apartments. These three represent more than 80% of the valuations. . Most valuations are concentrated in Havana city as shown in annex 6.

The high officials in the government have always resisted authorizing business that concede ownership rights to the foreign partner. In fact, this took place just in a few cases, and since 2000 that possibility has been practically abolished, allowing only surface rights to be owned and not properties

All these transactions took place within the boundaries of a formal context where the parties involved are legal persons and all the arrangements are conceived according to precise legal and institutional frameworks. The whole process has been revised and approved by the *National Directorate of Patrimony*, the entity responsible for final approval of the land and building values. (See annex 7: Land Price of real estate projects in Havana City).

The land and building prices derived by these methods are considered the minimum for these investments. This means that during the negotiation, the price could be driven up or stay as first assessed. This process would be more dynamic and financially favorable for both parties if the Cuban appraisers were involved in the negotiation process from the beginning and if they expanded their knowledge about land potentials and land markets in order to establish a fair determination of land price. The country requires general valuation norms for methods and procedures: it should establish better guidelines, concepts, definitions and uniform techniques, in order to achieve a consistent valuation of tangible and intangible assets<sup>40</sup>.

The government entities in Cuba have the power over two impressive monopolies. One is over almost all urban and vacant land, and the second is over the final land price definition for all developments. This latter, price definition, is a very powerful instrument in the hands of the government. But there are serious risks

that the changes made in the last few years will be wasted<sup>41</sup> if land valuation is seen only as a temporary escape valve for the crisis (1990-2004), if decision makers are not aware of the long term economic and financial benefits obtained from appropriate land management, and if their objective is not to develop lasting policies but to profitably close each particular negotiation.

Despite all the problems, these transformations have motivated many urban actors to learn more about the economic possibilities and other development potentials of land. The efforts made by the Ministry of Finance to maintain a climate of debate and to raise the professional level of its officials deserve to be highlighted. In the last 10 years, there have been eight National Seminars on Land Valuation as well as technical meetings with foreign experts from Europe, Latin America and the US to discuss conceptual and practical aspects in land and asset valuation<sup>42</sup>. These working sessions have made people aware of different international experiences, positive and negative, allowing the Cuban experts to appreciate the technical level, complexity of analysis and juridical-legal framework of other practices.

## **6- The institutional framework for land valuation: Entities and appraisers**

The land valuation activities which started in 1990 did not have the support of an institutional framework until 1994, when the State Central Administration was restructured. All responsibilities were then transferred to the Directorate of Patrimony of the Ministry of Finance and to the Department of Valuation of Activities, with the fundamental purpose of establishing guidelines, legal certificates and policies for land, building and other assets<sup>43</sup>.

In 1998, the Valuation Department issued the first regulations on asset valuation<sup>44</sup>, while in parallel the Directorate of Patrimony supervised the process, widening the records of appraisals according to the No. 1 Resolution of that year. In 2001 the Executive Council of Ministers passed the agreement 3944 authorizing the MFP<sup>45</sup> to develop assessments, registers and financial evaluations according to the International Economic Associations and of other bodies in which the Cuban government participated, and also to issue as many technical arrangements as required to regulate and control the fulfillment of the law<sup>46</sup>.

The Directorate of Patrimony gradually set up a management team with a department of valuation and two groups: Patrimony and Businesses. It also developed norms for the resolutions and instructions presented below. At present this Directorate is revising the 1998 and 2002 laws to connect them to the new economic and planning logic of the country.

**Resolution No 1, 1998:** The MFP will certify the minimum value of the state patrimony assessed by the authorized entities, to act as the Cuban contribution to the social capital of the joint venture<sup>47</sup>, together with other assets and rights that may be considered necessary by government interest.

**Instruction No 2, 1998:** Incorporates the assessments certified by the Directorate of Patrimony into the accounting system of the Cuban government entities.

**Instruction 3, 1998:** The Directorate of Patrimony must create and update the Register of expert appraisers and establish their working procedures. Each appraiser will be officially authorized and legally registered.

**Instruction No 4, 1998:** Contains the Basic information about asset valuations and the procedure to present them to the Directorate of Patrimony.

In the 1994-2004 period, the main Cuban entities authorized to make land and property valuations were: Intermar S.A, Conavana S.A., Rado and Associates S.A., Conás S.A., Bandec (Cuban Bank) and Emprosime. Most of them are anonymous societies working within the government logic . The number of appraisers from 2000 to 2006 is listed below:

List of Cuban Valuation Agencies									
Years	Number of Experts	Ministry	INTERMAR S.A	CONAVANA S.A	RADO y Asociados S.A	BANDEC	CONAS S.A	EMPROSIM	Other Agencies
2000	146	4	46	16	8	58	6	8	0
2001	156	5	54	17	8	58	6	8	0
2002	126	5	48	12	7	50	4	0	0
2004	138	5	52	14	7	55	4	1	0
2006	116	4	41	18	4	42	4	0	3

The Register of Appraisers organizes the general procedure for applications, inscriptions, and approval of experts. Among its fundamental objectives, this office appoints and trains future valuers, organizes and implements the inscription of valuers and delivers the legal authorization to operate. Additionally it updates the register files and renews the licenses.

The Law of State Patrimony of 2002, chapter V establishes the following functions of the MFP:

- Financial control of all assets and property rights concerning state patrimony.
- Purpose and control the use rights of state patrimony.
- Establish links with other official records that inscribe assets and property rights.
- Supervise and control the actions of all government entities and other institutions which have state patrimony.

During the 1994 to 2004 period, the institutional and professional capacities were raised. However there are still many limitations:

- Appraisers have not assimilated the dynamics and expectations that should be made by development agents. They lack intuition or cannot use their instincts.
- The results of valuations are basically supported by mathematical financial models disconnected from important variables such as the physical and functional characteristics of the site or building, the infrastructure capacity, land use conflicts, etc.
- In theory, valuers should distinguish between the impacts of different property rights on financial value, but they lack the means to quantify them.
- Appraisers recognize the effect of cultural and heritage values on the property value, but they cannot determine their financial size<sup>48</sup>.
- There is incongruence between the initial information and the evaluation criteria, with the result that the same building or land parcel can produce different values even using the same valuation method.
- Appraisers are generally ignorant of the details of the negotiation process, therefore they do not capture elements that could be relevant to the final valuation results.
- There is lack of systematic feedback between the institutions connected with urban planning and valuation; the appraisers therefore underestimate important aspects of urban development, limiting their actions to determining the numerical coefficients.
- The data records are not available to all appraisers, for they are not included and updated in a computer network.
- There is no monitoring of land and building values, of the trends and of deviations between the planned and the implemented. There is no follow up of the effectiveness of the calculation methods, nor of connections among public and private actors.
- The separation between the valuation of land and buildings as a financial asset from the formal methods for valuing housing and other individual property is the main cause of the distortions and unawareness about real estate values in the urban context.

## **6. The present situation**

In a recent interview in a Cuban intellectual journal, 'El Pais', it is said: 'The future of Cuba is being decided now - the word is 'change'. And the journal added: 'But how and when is still unknown, the Cuban utopia continues to be necessary, but there is a need for structural changes to overcome the errors of the past.'

There is an ongoing debate in Cuba that is spreading through the whole society. The main targets are the excessive centralisation of decision making, the structure of the planning institutions, the distribution of wealth, the organisation of production, and salaries of workers, and other aspects of life. Part of the present stagnation is seen as a consequence of the policy that placed social (jointly used) property and state property at the same level, and of the dual economy (hard currency and Cuban pesos). It is widely recognised that the opening of the economy in the 1990's was insufficient to solve the country's problems, and that some of those measures contributed to widening social differences.

The issue of property continuously appears as part of this internal debate. What rights should Cuba citizens have to acquire a home, a car, a parcel of land, and what freedom should they have to sell it to others? Another point is the demand for more economic opportunities, which includes the change from central economic planning to other co-operative, communitarian, or entrepreneurial forms, whereby the government would assume a more democratic role in economic decisions. The style of the 'Battle of the ideas', with large enthusiastic solutions that do not consider other priorities or the costs and benefits of the decisions made, is being largely criticized by economists and analysts.

While planning is still positively accepted, the approach where the top levels determine all the programs and action for the whole nation, determining when and how they are adequate for the provinces and municipalities, has not received the same level of acceptance.

At the government level however, this current debate is marked by a return to centralization and to planning, as the essential vehicle to manage economic development, revising some of the decisions of the 1990's.

One of the most dramatic decisions has been the creation of the 'unique account'. This is a central state account wherein is deposited all the gross revenues of the state country's businesses. This decision has considerably limited the autonomy and efficiency of the businesses that generate these resources. These enterprises need only to accomplish the production plans according to the assigned budget, while the central authorities can count on the total amount of economic value: this is used to fulfil the national financial obligations, to develop the social programs, and to cover the basic needs of the population.



Many economic experts consider that, despite the American embargo, the nation has similar or even better condition than in the 1980's: it has negotiated a stable supply of oil from Venezuela, favourable soft credits from China, and there are good expectations about the value of some of the Cuban products - such as nickel, fruit, and what is called the knowledge industry - in international markets. The tourism industry is performing acceptably after a period of recession. However, the lack of flexibility in the economic organisation jeopardises these favourable possibilities.

From 2001 to 2006, foreign investment firm was considerably reduced. Many small and medium foreign firms stopped their operations. The government considered encouraging foreign investors when tourism stagnated, but many former partners have lost confidence in Cuba, as the government is the only actor which may make final decisions.

## **7. Final Considerations**

Land and building valuation in Cuba after 1959 has gone through four general stages:

- 1959-1968 Major revolutionary reforms. Changes to the institutional structures and properties status, legal frameworks and land and building values. Cancellation of ground rents. Price is no longer the coordination mechanism.
- 1968-1989 Consolidation of institutional frameworks. High centralization of resources and development projects. Land use allocation through planning mechanisms. Absence of land price differentiation and rigid system for housing valuation.
- 1989-2001 Beginning of the disintegration of the socialist block. Special Period declared as a result of the economic crisis. Opening to foreign investment. Authorization of hard currency circulation and new institutional and legal frameworks to deal with foreign investment. Dynamic learning process about land and building assessment.

- 2001-2006 Return to economic and political centralization. Large support of countries like Venezuela and China for large scale social programs. Reduction of foreign investment. Adjustments to valuation practices.

In Cuba, the land allocation is centralized by the government institutions according to territorial policies and planning mechanisms and according to the development strategies throughout the country.

Opening the economy in the 90s introduced development possibilities with wide repercussion in the fields of politics, economic development and urban planning. Among other things, the impacts served to awaken the minds and to install new practices for lasting changes, not easily reversed. One of the most innovative and complex issues has been the valuation of land and buildings.

There are various official methods to value land and buildings, applied by government institutions created to that effect. However, the restrictions on these methods when applied to privately owned land and buildings have stimulated a wide range of informal activities for valuating privately owned land and housing.

In the last 15 years, the support of government institutions such as the Ministry of Finance and the recognized valuation agency such as Rado and Associates, has been very important in building capacity for incorporating advanced concepts and experiences in financial instruments and policies for land<sup>49</sup>. These efforts have involved different public actors, international and national experts as well as the decision to publicize the information among all interested entities linked to planning, housing, transportation and environmental aspects. This has been the first step towards acknowledging the need for a change.

It is necessary to allow the expression and recognition of the logic of land and how it is used and valued. It is important to change the idea that land and the financial value of land and other assets is an obstacle to the development of government social policies, because it incorporates capitalist elements.

The daily signs related with land management, including its financial side, should be monitored and taken into account. Cuban cities in particular need to open up to the potentials of land development and to the diversity of actors and possibilities. The best way of doing that is to recognize the need for mechanisms for transforming the regulatory framework, to make flexible and articulate the fragmented and incomplete legal and institutional system, and to raise the technological and professional capacity of the teams and officials. In parallel, after a careful analysis of the situation, a set of guidelines, planning and financial instruments to deal with land issues should be worked out and adopted

Since 2004, there has been a clear return to economic and political centralization. Political considerations are again ruling over the economy, as the central administration strengthens its role in the control of financial resources and state enterprises. These changes have adjusted land and building valuation and official transactions, as they modify the decisions taken during the 90s for real estate and tourism businesses.

Nevertheless, the present situation has overcome certain limitations of preceding decades. It is superior in terms of the role of the economic actors, after acquiring experience from the short period of opening to foreign investment, and there is a better understanding of the values and development potentials of the city. Professionals have accumulated experience in land valuation, in the organization of feasible projects, and they have learned how to choose appropriate partners for development. The valuation and management of investments will become even better if the country develops more flexible strategies for economic development.

It is both interesting and alarming to see how the value of land and properties is not mentioned in most of the current government strategies. It does not even appear in the ongoing intellectual debate about property, at least not directly. The enormous possibilities for mobilizing financial resources through land values, or for using that value as collateral in credits and other financing, are largely ignored. The municipal and provincial authorities lack a coherent property register of state and private property with their respective land and building values. There is no discussion about introducing public policies for introducing a fiscal method for capturing land values. The plan, whether economic or spatial, does not consider the importance of land and property values, and the authorities are blind to the importance of valuation for the development of Cuba.

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<sup>1</sup> Among other actions, all property registers were deactivated and the tax systems were dismantled.

<sup>2</sup> If the land market is abolished, this value becomes completely unimportant. The use value, however, gained importance as it was essential for the location of all new projects and ideas.

<sup>3</sup> Urban land as a factor of social and economic inclusion. The experience of Havana city. Msc. Ricardo Núñez Fernández. Research on Land Markets in Latin America with the Lincoln Institute of Land Policy, 2000.

<sup>4</sup> In the area of El Vedado connected to the corners of L street and 23 avenue, were registered the most competitive land prices between 1955 and 1957. Buildings such as the Havana Hilton \_ today Habana Libre hotel \_ and the Coppelia icecream restaurant occupy important parcels on this intersection. See references in the book 500 years of construction in Cuba.

<sup>5</sup> The moment of the revolutionary offensive marks the end of the creative decade of the revolution. The nostalgia for this decade is constantly evoked by the actors of that generation.

<sup>6</sup> As early as 1960 were created the first departments of urban and territorial planning. The law no. 86 from February 1959 created the INAV \_ National Institute of Savings and Housing \_ in order to develop social housing programs in former subdivisions of private ownership and using the money from the lottery to finance the constructions.

<sup>7</sup> The first laws proclaimed by the Revolution were very much related with land and housing. The Law no. 26 of January 1959 eliminated eviction of people, the Law no. 135 of March 1959 lowered rents by 50%, the Law no.691 fixed the price of four pesos for all the land and the compulsory sale of vacant land to the government, the law no. 892 of October 1960 complemented the previous one and finally the Law of Urban Reform of the same month and year. Roberto Segre, pages 79-81. Housing in Cuba: Republic and Revolution, 1979.

<sup>8</sup>Magazine IPF, 2006 Reflections on urban segregation in Havana city:Policies, instruments and results. Rosa Oliveras and Ricardo Núñez. Research for the Latin American Program of the Lincoln Institute of land Policy. 2001.

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9 José A. Perdomo IPF-Cuba. International Seminar on Urban Land Markets. UNAM, México, 2001.

10 *ibidem*

11 The minimum price of 8 pesos per square meter was set for all urban areas. This regulation was passed on July 1 1985.

12 The efficiency criteria will be analyzed in the Theoretical research analysis

13 Dávalos, Rodolfo. La Nueva Ley de la Vivienda.

14 Land planning use aims to achieve the best use according to the site characteristics and broad value location such as landscaping.

15 Urban land as a factor for social and economic inclusion. Havana experience. Ricardo Núñez Fernández, Research on Urban land Markets in Latin America. LILP, 2000.

16 During this research we have not found any price elasticity studies about social housing or any other public service in Cuba. The indicators used to show the population well being are education, health, basic services, family income and life expectancy. However, in the case of family income the official records do not include other sources such as family remittances, informal economic activities and others.

17 Case study of Brooklyn Park, Suburban area in Minneapolis, USA. Data supplied by Professor Martim Smolka in the Course Land value capture and urban land markets in Latin America. Cartagena de las Indias, Colombia. September 13 to 17, 2004.

18 The current possibility offers by urban infrastructure

19 We know that the real costs of housing construction per square meter are around the 600 pesos; however, the Cuban legislation establishes that citizens pay only 115. Alicia Alvarez, Conás. Presentation to the Seminar Valuation of urban assets and value capture. Lincoln Institute of Land Policy and Rado y Asociados, La Habana, 2004.

20 The budget value of the housing project is determined according to the architectural plans and the list of materials and constructive activities to perform. In practice, this budget is almost always surpassed because of inefficient execution, delayed schedules and price adjustment, however, these changes are not reflected in the price evaluation of the finished building.

21 Oficial Newsletter. Resolution no. 14/06 of the National Institute of Housing. First published on January 24, 2006. Complement to the General Housing Law. Chapter III. In Buying and selling of dwellings to the state, it is declared that buying and selling operations are not allowed between individuals. In all cases the Municipal Direction of Housing that exercises the right to do this, in the name of the state, acquires the property of the dwelling by paying its legal price.

22 The subdivisions are made after family members agree to divide the spaces of the house into smaller units and demand a legal acknowledgement of this result.

23 The Executive Committee of the Board of Ministries agreed in June 25, 1985 established the methodology to obtain the legal price of housing. There are other joint resolutions of the National Institute of Housing and other entities of the Central State Administration.

24 The information of 600 pesos per square meter in state construction budgets is taken from Alicia Alvarez-Buylla Domínguez, Consultant Valuator # 123, Associate consultants S.A, in the technical meeting Valuation of urban assets and value capture. Rado and Associates – Lincoln Institute of Land Policy, Havana, March 2004. Nevertheless, prices can be much higher if we consider that government price records are not updated and also most improvements to housing and self effort constructions buy materials and hire labor in the black market.

25 This investigation devotes one chapter to the analysis of informal transactions developed by families and individuals. The data collected allow the comparison between the official and informal mechanisms referred to in this article. For more information see chapter on informal transactions. Pages 32-35.

26 Carlos García Pleyán. Fundamental principles for the Law of land, territorial and urban planning. IPF, 1997.

27 It is not exactly a change of paradigm or a transformation process, In fact there are many different opinions [[ about what ??]]

28 Presentation in Scientific Seminar of Dr. Alfredo González from the Institute of Research of the Economy (INIE). Ministry of Planning and Economy. Havana, November 26 to 28, 1996.

29 Reference source: Law decree No. 50 of 1982.

30 At that initial moment land for tourism projects was chosen considering the general zoning plans of the Physical Planning Institute but these plans lacked detailed analysis of environmental and ecological suitability, of topography, of infrastructure and transportation availability, of the presence of natural or built heritage, of preferable uses, population densities and other aspects that affect land development capacity.

31 Prices registered in different cities for the Caribbean and Central America.

32 There was a K3 for industrial projects and another one for tourism developments.

33 Master in conservation and rehabilitation of built heritage. "Trends in real estate valuation in Cuba", engineer Jacqueline Vale. Technical University CUJAE, Faculty of Architecture, Havana, 2002, page 9.

34 For Cuban appraisers the author recommends the book Building valuation and guarantees by expert appraiser Oscar Borrero Ochoa, Bogota, Colombia, 2000.

35 *ibidem* 17

36 Asset valuation in Cuba and International Accounting Normatives. 6th Workshop of Asset Valuation in Cuba. Eng. Alicia Alvarez-Buylla Domínguez, Expert appraiser # 123, Associate Consultants S.A.

37 Hotel projects only include in their profit analysis the income from renting rooms and other spaces. They do not include the profits from other collateral services.

38 In Cuba, this method starts from discretionary variables, and many aspects are not integrated in the analysis due to the absence of the financial logics of any market structure. Sometimes, the method is applied backwards, setting a land price first and finding the residual value inversely.

39 Alvarez-Buylla Alicia. Constructions: cadaster value versus asset value. Opinion of an appraiser. 7th Workshop on Asset Valuation. CONAS. Ministry of Finance, 2006.

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<sup>40</sup> Arq. Antonio García Gómez, Perito Valuador No. 005, INTERMAR, S.A., Ponencia Consideraciones acerca de la valuación en Cuba, III Taller Nacional de Avalúos, Cuba

<sup>41</sup> This is making reference to the return to centralization since 2004 when the businesses and transactions with foreign companies which boomed during the 90s decreased and the government turned to a few partners such as China and Venezuela.

<sup>42</sup> Summary of National Valuation Workshop, Eng. Dulce María Maceo Sagó, Ministry of Finances, 2006.

<sup>43</sup> Tangible Asset Valuation in Cuba and Accounting International Norms. Eng. Alicia Alvarez-Buylla Domínguez, Expert appraiser # 123, Associate Consultants S.A.

<sup>44</sup> In Cuba tangible assets are defined by the Resolution. 10/97 del MFP.

<sup>45</sup> Ministry of Finance and Prices.

<sup>46</sup> Final Thesis of the Masters Course of Rehabilitation of the Built Heritage. Present trends in Real Estate Valuation in Cuba. Eng. Jacqueline Vale, Politechnical University-CUJAE, Faculty of Architecture, Havana, Cuba, 2002, page 45.

<sup>47</sup> The joint ventures are partnerships to form new enterprises between the Cuban government and a foreign entity. The contribution of social capital is 50% to 50% to develop a project for 25 years, extensible to 50.

<sup>48</sup> Bancas appraisal entity is implementing – as an experimental study - the assessment of intangible elements connected with heritage buildings.

<sup>49</sup> Since 1995 Cuban assessment entities are working in land policy capacity building with prestigious academic institutions and research centres such as LILP – Lincoln Institute of Land Policy of Boston- and other Latin American and European Universities.