

Correlation between debt policy and land prices?

By Dr. Reinhard Nacke

The Swiss economists Reiner Eichenberger and David Stadelmann of the University of Fribourg disclosed some interesting theses concerning the coherence between property prices and unsound financial behavior of public bodies in the “Neue Züricher Zeitung” dated 1/23/2013. When a municipality finances her disbursements with debts, this means future higher liabilities and a heavier financial burden due to upcoming interest and amortization payments. Because of the higher capital strain, the municipality must either save costs by reducing the benefits for the citizens, or raise taxes and contributions. The downside is in both cases the decrease of attractiveness of the community as residential, working and production place. As real estate buyers observe price development and price behavior, they anticipate lower property prices so that the effect occurs immediately and not just in the future.

Eichenberger and Stadelmann see the theoretical approach confirmed by their own empiric investigations in the Zurich area.

Furthermore, they found confirmed that the higher the real estate owner-

ship rate in the community, the more the municipality finances her expenditures with taxes instead of with debts. Hence, public political parties, which generally represent landlords rather than tenants, are against higher debts, as opposed to more left-wing parties.

If not only the municipality but also adjacent bodies or the central Government had to settle the liabilities of the municipality, according to Eichenberger/Stadelmann real estate prices would not only decline locally, but also supra-locally due to high indebtedness. As people are much more mobile and flexible as in the past, and are even willing to move abroad, an excessive debt policy can pull downwards the real estate prices of the entire country. In general, this means „the higher the debts, the lower the property prices.“

If this is right, property prices would have to be relatively low in the USA, Japan, Spain, France or also Germany, as opposed to those in Switzerland, Luxembourg and the Scandinavian countries.

Amongst other issues, we will discuss these correlations in our next Real Estate practice group meeting, which will take place on 19 April 2013 in Lisbon.



Dr. Reinhard Nacke

GGI Member firm
FPS Rechtsanwälte & Notare
 Law Firm
 Dusseldorf
 Germany
 Dr. Reinhard Nacke
 E: nacke@fps-law.de
 W: www.fps-law.de