

# Problems of ensuring sustainable administration of public real estate in Estonia<sup>1</sup>

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## Abstract

The goal of this article is to develop scientific basics for effective management of public real estate in a small country. To achieve this goal the solutions for three main problems in the field of public real estate management will be elaborated: appraisal of funding problems for real estate development in Estonian's public sector; systematic comparison advantages and disadvantages of public ownership with rent of real estate from view of different tasks; creation of harmonised and effective system of administrative and economic linkages between main subjects in the field of public real estate management.

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**Keywords:** real estate, public sector economics, public sector finance, public sector ownership

## Introduction

Public sector institutions in Estonia, dealing with real estate management for development of work and service conditions often do not have enough knowledge and experience in this field yet. They often are not able to carry out proper comparative analyses of offers before signing construction or rental agreements. There is a danger that because of the insufficiency of information, incompetence of the decision makers and absence of a central government controlling body, non-transparent, costly and unfavourable for public sector contracts of real estate management may get signed.

For a sustainable public sector real estate in Estonia, it is essential to possess sufficient competence (knowledge of construction and maintenance technology, schematas of financing, ecological requirements, marketing etc) for the development, administration and maintenance of real estate, so that the institutions can either organise real estate development and maintenance as their own business or as a subcontracting activity. The goal has to be to raise efficiency, avoid the conflict of interests, manage risks, and maintain coherent and accurate records in public sector real estate field.

This article is devoted to develop scientific basics for effective management of public real estate in a small country. Solutions for three main problems in the field of public real estate management will be elaborated:

- Appraisal of funding problems for real estate development in Estonian's public sector;

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- Systematic comparison advantages and disadvantages of public ownership with rent of real estate from view of different tasks;
- Creation of harmonised and effective system of administrative and economic linkages between main subjects in the field of public real estate management.

The article is based on the experiences of author as the member of the board of state owned real estate company (Riigi Kinnisvara AS – RKAS) and on discussions, the author had about the strategic development plan for public real estate management in Estonia.

## **1. Appraisal of funding problems for public real estate development**

Real estate development refers to sizable sums of investments; therefore careful planning of the required financial means is a relevant part of successful real estate policy. R. Liias has pointed to an obvious danger involved in this process - in case of development projects with a limited budget it is often impossible to proceed from the rationality of the economic conception, which is why political aims tend to dominate. (Liias, 2003: 17)

The very first task is to make sure how much money is needed for public real estate development at all. As the volume and quality requirements of the public sector's real estate development have been highly indeterminate until now, nobody has even attempted to assess the size of funds needed by this government activity. The continuing unpredictability of price rises in the current booming construction market makes assessment of investment needs even more difficult and volatile. The adjustment of the Estonian real estate market to the new conditions of the EU market has not been completed yet. Regrettably little attention is still paid in the country to the fact that uncared-for property has negative effect on officials' performance, causing both clients' displeasure with the services and growing renovation costs.

The next task is to analyse the sources and schemes of funding of real estate development. Here, besides ensuring the required volume of resources, it is paramount to consider how much is economically efficient and politically acceptable. Until now, the funding of Estonian public sector's real estate development has been delayed by hopes to find the necessary investment resources from the current budgetary revenues. That has proved to be an insufficient source due to low taxation covering barely routine cost needs of state budget programmes. Unfortunately, no analyses have been conducted which would compare the total lifespan costs of real estate in the public sector, on the one hand, if loan money is involved in the budget and, on the other, if private investment is involved. Nor is it clear what tasks the state-owned real estate firm (RKAS) actually has to fulfil and what are its possibilities to involve extra-budgetary funds.

In choosing a financing scheme for real estate development, Estonia can rely on foreign experience. For example, Redman et al. (2002) describe real estate development funding schemes on the basis of information obtained from interviews with property developers and financial directors of 56 US companies. Whenever possible, US firms tend to primarily use current corporate returns for real estate funding, this scheme being the least risky. In case a need arises for involving external

sources, most companies prefer loans on mortgage or long-term credits (long-term leasing). Large companies can sometimes afford property development with short-term loans, which are needed in case of fluctuating short-term proceeds. When choosing a financing source and scheme, companies take account of the level of spending and the overall state of the financial market (incl. interest rate and taxation characteristics).

A political decision must now be taken in Estonia, as it is being rushed by the time schedule for qualitative improvement of the public sector's property, which would raise it to the required level. In this connection, the following questions need to be answered. How to achieve high quality of the buildings at the disposal of the public sector? How long will it take to achieve the required quality if different funding sources and schemes are used? How to ensure the budgetary funds needed for the maintenance of up-to-date buildings that have sufficient holding capacity and meet all modern requirements?

When looking for sources of funding and working out funding schemes one must bear in mind a long-term perspective - i.e. the total lifespan costs of real estate development and maintenance. The experience of both the developed world's business and public sector shows that nowadays a substantial part of real estate investments is made thanks to mortgage loans, in which case property acts as security for repayment of the loan. (Hill, 2001: 337) Due to low taxation, Estonia has no other way but to resort to the same method.

The Estonian Ministry of Finance has tried to pose the question about which functions make it economically rewarding for the public sector to own real estate and for which functions it is more expedient to lease property from the private sector. Until now it has never been substantiated for what reasons this question is being dealt with from the platform of the public sector functions. However, the two alternatives – whether to own or rent property - should be compared in regard to their economic expediency and efficiency, proceeding from the total costs and risk levels of real estate development. Until now, relatively few analyses have been undertaken to compare the factors affecting property owners' and lessees' total costs and their dynamics throughout the lifespan of property and the market risks involved. Nor is there a database collecting, organising and preserving data inevitably necessary for performing such analyses.

Our proceeding point is the fact that, apart from the rental payment, the leaseholder's costs include various expenses incurred by guaranteeing that the agreed-on terms of the lease contract are honoured, as well as the fees and charges incidental to the transaction. The rental payment also includes profit whose rate depends on the state of the competition on the real estate markets. The main problem affecting the real estate market is the limited nature or even absence of competition due to the limited land area and the great importance of the location factor. Because of these factors, firms outside the real estate sector are not particularly eager to buy real estate services in the free market, even though, considering the logic of specialisation and the experience of purchasing support services, the situation might be quite contrary (see Kops, 2004 based on Canadian experience). On the other hand, it is unreasonable to hope that the government or public sector in general would start promoting the purchase of real estate services (see Kops, 2004: 28), since even in a small country

the public sector is bigger than any private business and can therefore guarantee a better cost and quality ratio in real estate development than would ever be achievable to comparatively small enterprises at an imperfect market.

As suggested by Matthew Hill's (2001) analysis, it may only be reasonable to hope that leasing property will help save on current expenses in the event of a depressed market when rent charges can even decline to the minimum level determined by current expenses of administration and maintenance of real estate. As a general rule, leasing will not help save on current expenses. Property ownership, on the other hand, is supposed to help the owner economise, which is considered as the productivity of a particular real estate investment.

The question of leasing property is put on the agenda in real production sector when the efficiency of a real estate transaction is estimated to be so much lower than the productivity of investing in major manufacturing that relocation of capital from the real estate field to the main manufacturing activities will enable to cover the large current leasing costs and even leave a surplus. Such a situation may appear only if there is a wish to quickly expand superprofitable main manufacturing activities, and if access to capital is limited (in case of a big loan burden). Neither of these conditions is met by the Estonian public sector.

Pottinger et al. (2002) point out the fact that leasing is not a good alternative for large-scale organisations who can obtain the necessary loans from the money market at cheap rates. Small and medium-sized enterprises are often forced to lease property not because this service is cheap but either because of their inability to borrow or/and because of the prohibitively high rate of interest on advances.

Huffmann (2002, 33) emphasises the fact that short-term leasing can possibly be used for risk management when starting up or expanding business, thereby minimising the property-related losses in case of failure. However, when considering leasing as an alternative option, one has to bear in mind that usually there is no exactly such property on offer in the market that would support the functions of the organisation in the best possible way, and leasing unsuitable property may be one of the reasons why business expansion fails.

Krzysko ja Marciniak (2001) who studied the ways of optimising real estate funding admit that the choice between whether to buy or lease property depends on many factors, such as the situation and prospects of the money and real estate markets, the phase of the organisation's lifespan, the organisation's financial status, its investment philosophy and naturally, its property needs. Eventually, the decision is mainly determined by the organisation's mission and the time-horizon for achieving its goals: in view of costs, it is more profitable to own property for carrying out the organisation's long-term functions, whereas leasing proves to be more profitable for short-term tasks (e.g., for a ten years' time-horizon) as property depreciates quickly (Krzysko, Marciniak, 2001: 288).

The public sector does not enjoy the positive economic effect which appears when capital is relocated from the real estate field to the principal activity. This is because, on the one hand, this sector usually generates such public goods and benefits that are distributed free of charge. On the other hand, the public sector's investments in real

estate are made in order to directly service the sector's principal activity (offering public goods and benefits). Deriving from their missions and aims in ensuring a democratic life-style to society, the functions of the central and local governments tend to have long time-horizons. Accordingly, the functions of the property must be viewed as long-term. As long as the central government or local governments have an opportunity to get cheap loans for buying property, it is not profitable for public sector institutions to lease property.

The loan burden of the Estonian government sector is so small that no public institutions should have any economic pressure to lease property. In a public sector with a medium loan burden the need to lease property may arise only due to some non-economic (political, geographical etc.) factors. Thus the public sector can principally enjoy the advantages offered by property ownership listed by Hill (2001: 335) and Krzysko & Marciniak (2001: 289) as follows:

- flexibility in shaping its activities and adequate property for a long term;
- full long-term control over the necessary infrastructure;
- isolation from fluctuations of the real estate market; full control of the real estate development and management costs;
- financial flexibility; in case of need, real estate can be used to secure mortgage loans;
- easier tax terms (e.g., turnover tax is added to the rent charges).

Thus property ownership is generally considered to be less costly than leasing.

The Finnish public sector's real estate strategy summarises the assessment of the relationship between property leasing and owning as follows. Generally, in providing real estate for long-term functions, it is not in the public economic interest to conclude long-term leasing contracts in whose case the project's construction costs are principally covered from the rent charges total, without conveyance of property ownership rights to the government. Property should be taken on lease only in such cases when this measure helps the public sector to keep down expenses. The contract must allow the government to become the owner of the property in accordance with the previously agreed-on terms (Riigi kinnisvarastrateegia ..., 2006: 8–9). Naturally, in each single case, the effects of ownership and leaseholding must be subjected to systematic scrutiny.

Finding proper sources and schemes of funding for real estate development is a complicated task whose successful performance rests on how clearly the aims are set and how single-mindedly the set aims are aspired to. When working out funding schemes, it is important to proceed only from the criteria of economic efficiency, since the funding of the public sector's real estate development has no direct bearing to any other sustainability dimensions. However, to be able to assess what funds are needed for real estate development one must possess transparent and accurate information about the costs involved.

## **2. Ownership or rent in public real estate management**

The function of the public sector is to provide public goods and benefits in the economically most expedient and stable way in view of social and ecological

restrictions. For fulfilment of the public sector's functions in the best manner, it would therefore be reasonable to clearly distinguish between all these functions and analyse the fulfilment of each function separately.

The state audit office has established (Riigikontrolli..., 2004) that it would be unreasonable for all the institutions dealing with the administration and management of public property (nearly 500 entities) to maintain respective up-to-date competence. The current author suggests that a special public property government department/agency or, to begin with, a respective department at the Ministry of Finance, should be brought to life whose tasks would include the elaboration and implementation of a public real estate policy.

It would be wrong to see a potential threatening conflict of interests in the fact that the real estate required for performing public sector functions must combine, in the most optimal manner, the one-off construction costs and the permanent maintenance costs (the need to keep the maintenance costs low). The builder may be orientated towards short-term gains (to complete the buildings as cheaply as possible and successfully survive the warranty period, however big the maintenance costs might be in the future). But it is only a profane owner that would place an order for a building as such, while a wise owner would commission a building as a tool by which certain functions of the government or public sector could be performed in the best way economically, socially and ecologically. Proceeding from the various schemes of implementing the public sector's real estate policy, this would also be one of the main tasks of either a real estate government agency or a department of the Ministry of Finance.

The argument that has been put forward in developed countries for government ownership of the real estate needed for performing the public functions is that the state can regulate the investment rate in accordance with the economic cycle - speeding it up if economic growth slows down and imposing restraints on it if there is a danger of overheating. In developed countries, the public sector's real estate policy appears to be one of the main political instruments for balancing the economic cycles. In Estonia, unfortunately, especially in the Estonian Ministry of Finance, this understanding has not yet hit home.

Apart from the abovesaid, leasing real estate has several other negative aspects. Namely, it is extremely difficult to realistically forecast the public sector's needs and financial circumstances for decades to come even in such countries whose development is stable. In countries like Estonia, which have not worked out long-term development policies, incl. real estate policy, this is practically impossible. The public sector has not even been able to formulate the elementary principles for assessing offers for contracts of tenancy. Therefore long-term contracts may often incur great losses in money terms (additional costs) if the tenant needs to undertake rebuilding works or make changes in design unspecified in the contract. An owner, on the other hand, can always adjust his/her property to changes in the functions.

At the same time, it would be wrong to look at leasing and owning as polar opposites. Instead, a flexible and differentiated approach should be taken. By analogy with private business, the public sector should also possess real estate for fulfilling its stable long-term functions, while for short-term (temporary) functions it may be

reasonable to rent property. As shown by Krzysko and Maciniak's (2001: 296) analyses, renting property from a real estate developer/investor proves to cost nearly 40% more than owning it, while developing real estate together with a long-term investor costs 25% more than owning it. However, in the well-developed, stable US real estate market it is possible to find leasing models that are 5-10% cheaper than ownership.

Both in renting and owning, from the point of view of the public sector it is a prerequisite that exhaustive transparent information is provided on the development and maintenance costs of the property. Admittedly, in case of rentals, the transparency of costs can be guaranteed only in a fully state-owned enterprise (RKAS) if it is laid down by law what information and how RKAS must provide to the leaseholder. In case of renting from private business it is principally impossible to guarantee transparency, because public institutions have no right to audit the accounting of private enterprises.

In the real estate market, the public sector must proceed from the same principles and rules of economic expediency as the private sector. As private enterprise, the public sector as owner will buy those services which are offered in the market at cheaper prices than production costs. Also, the public sector must organise own production of those services that, due to the inadequate market, are more expensive, or would involve overly big contractual costs or market risks. For this purpose, the institution implementing the public sector's real estate policy must work out a system for accounting different building maintenance and administrative costs, which would enable comparing the prices for services in the free market and their cost of autoproduction by a public sector institution. To motivate institutions to aspire towards more optimal real estate investment and maintenance costs (incl. seeking cheaper leaseholds), the agency implementing the public sector's real estate policy must work out well substantiated norms for real estate provision and maintenance costs, on the basis of which public sector institutions will be allocated financial means from the national budget. Lessors' offers of lease contracts at ungroundedly high rates (e.g., due to an overly high profit margin, risk premium or depreciation norm) actually do not stimulate any public institutions to economise because, there being no normative cost basis, their costs will in any case eventually get paid by the national budget. As a result, the running costs of all the institutions leasing rooms from the private sector have substantially grown.

To help judge whether the public sector should continue as a real estate owner or choose to lease, a comparison of various aspects of real estate-related risks and obligations is presented below (see Table 1)

To sum up, it is evident that in a long-term perspective it is generally less risky and economically more efficient for the public sector to own than to rent the real estate that it needs for the purpose of carrying out its functions. In most cases, the need to subject an institution's real estate operations to its vision, mission, and objectives does not allow it to separate the former from the institution's general administration. Most developed countries whose public sector institutions take on lease only a minor part of the necessary real estate have reached this conclusion. Leasehold schemes may be more efficient than building or purchasing schemes primarily in case of short-

term (temporary) functions and in meeting the need for small-size premises in small towns and settlements.

Nevertheless, the public sector must have competence in real estate in order to, on the one hand, be familiar with the state and development prospects of the construction and real estate market, and on the other, develop and apply real estate norms and standards as well as a system of incentives for efficient real estate development and maintenance. The existence of a clearly defined systematic real estate policy and an integral well-functioning real estate administration system are the primary preconditions leading to the public sector's efficient real estate activity, incl. comparison of the risks and costs related to owning and hiring real estate.

Table 1. A comparison of the public sector's position and problems as an owner and a lessee

Tasks	Public sector as an estate owner		Public sector as a lessee	
	Pluses	Minuses	Pluses	Minuses
To guarantee the country's sustainability	Stable fulfilment of the public sector's functions is guaranteed, as the owner can adjust its real estate flexibly to the environment	For short-term and small-capacity tasks owning real estate proves to be expensive and cumbersome	For short-term and small-capacity tasks, leasing proves to be more economical than owning	It is difficult to make realistic long-term forecasts about leasing conditions, but later adjustment is costly
To develop and maintain real estate	The public sector is exempt from the need to take any market risks (rise in real estate prices, corruption in signing rental contracts)	The system of real estate administration and maintenance may prove to be cumbersome and slow	Public sector institutions are exempted from direct real estate development, administration and maintenance	Real estate is separated from the institution whose vision and mission, and the fulfilment of whose tasks it must guarantee
To guarantee transparency of real estate development and maintenance	By establishing a system of accounting and control it is possible to guarantee total transparency of actions	There is neither sufficient need nor motivation for control of the costs related to real estate	It is possible to get rather adequate information about a state-owned business for the assessment of its efficiency	If real estate is hired from the private sector, the rental rates are not transparent due to the insufficient competition
To possess technical competence for organising real estate management	Technical competence can be either assembled into a coordinating centre or bought in by this centre	There is no system for comparison of the level of competence with that of private entrepreneurs	There may be a few competent real estate specialists in the market, but they need to be recognised by competent office workers	The level of service providers' competence varies; to appraise it, public sector institutions need to have sufficient competence
To create a real estate environment as required	A centre for pursuing the public sector's real estate policy may elaborate and implement real estate norms and standards	Referring to a shortage of financial means, only essential improvements are made at present	Obligations can be delegated to the lessor, provided that there exist standards as well as funding for their implementation	It is difficult to both incorporate all the conditions in the contracts and control them; alterations to contracts are costly
To guarantee sustainable development and maintenance of real estate	By establishing a system of sanctions and bonuses, it is possible to place responsibility on the acting and deciding body	Due to the diversity of real estate operations, it is difficult to devise a uniform system of motivation	Responsibility can be assigned in a rental contract if there are sufficient means to pay a rent that would manage all the risks faced by the lessor	Incomplete laws and judicial system make realisation of contractual responsibilities difficult and costly in Estonia



To guarantee fast development and good maintenance of real estate	The credit capacity of the Estonian government surpasses all private entrepreneurs' opportunities to mobilise the necessary financial resources	The speed is determined by a 3% restriction of the budget deficit, which, true enough, presents no problems to Estonia	In case of a profit-making contract, the lessor can involve external finance (financial leverage) without the need to face any bureaucratic obstacles	Due to greater risk sensitivity, tenancy makes the profit requirement and lessor more expensive than in the case of the public sector
To guarantee efficiency of use of the rented rooms	The government can apply norms for efficient use of rented rooms	The government must guarantee that historic buildings are used and their peculiarities considered	It is possible to lease real estate meeting the requirements for efficient use of rented rooms	It is difficult to foresee future needs when signing the contract, and later changes are costly
To avoid the conflict of interests	The State Real Estate Board ( <i>Riigivaraamet</i> – Est.) can work out a system of management balancing the interests and responsibilities	It is difficult to take account of different institutions' peculiar features and requirements incurring costs	The State Real Estate Board ( <i>Riigivaraamet</i> – Est.) should manage to draw up contracts meeting the public sector's interests and exercise control over their implementation	It is difficult to foresee changing conditions in the contract, and later changes are always costly
To guarantee efficiency of financial resources in investment	It is guaranteed within the available competence; limited resources help avoid cost overrun	The insufficient resource capacity fails to meet the needs and does not allow adequate investments in proper time	In case of the lessee's strongly limited budget the lessor, to get the contract, may seek the most efficient investment opportunity	Not guaranteed if the lessor wants to increase its investment, and the lessee's budgetary limitations are weak

Source: The author's compilation

### 3. Conceptual basis for real estate administration

When building up the administration system, it is necessary to work out, in a harmonised manner, the organisational, legal (division of the competences of making decisions and taking responsibility), informational (movement of administrative information and reporting), personal (labour division) and financial components. On the basis of the Swedish public sector's 15 years of real estate activity (see Lind & Lindquist, 2004), it can be concluded that within the public sector's real estate administration system the relations of three subjects (stakeholders) should be regulated: a state centre for real estate administration (in Estonia, for instance, the State Real Estate Board or a department for real estate policy at the Ministry of Finance); a centre for technical, marketing, legal etc competence in real estate (in Estonia, for instance, RKAS could become one such centre); public sector institutions using real estate objects. To guarantee efficient control, an integral and balanced system of relationships between the said institutions should be established (see Figure 1).

The state centre of administration will shape the real estate development and maintenance policy, considering the public sector institutions' vision, mission and objectives to be achieved. This policy is harmonised with the other policies, and a system of relationships for its implementation is created between the subjects of real estate activity, i.e., a legal, organisational and informational basis is created for these relations.

The centre of administration will set to the public sector institutions using real estate certain standards and norms specifying the size and quality of real estate they can exploit, as well as the budgetary resources allocation programme for real estate development, administration and maintenance according to each institution's needs as prescribed by the norms. The users of real estate will keep the state centre of administration informed about the size, quality, development needs, and maintenance and development costs by filling in the established forms for statistics and reporting.

The state centre of administration will provide all-round information to the real estate competence centre (RKAS) about the public sector's real estate's condition, quality and development needs as well as tasks for implementing the real estate policy – mainly for creating and maintaining readiness to offer real estate services to state institutions and deal with real estate that has fallen out of use. The real estate competence centre (RKAS) will work out solutions for real estate development and maintenance that socially, technically, ergonomically, and financially meet present-day requirements, and on the basis of the solutions will submit to the state centre of administration real estate policy implementation projects for both development and maintenance.

The real estate competence centre (RKAS) will offer real estate-related services to the public sector institutions using real estate (for development, signing tenancy contracts, administration and maintenance). Users of real estate will place orders for real estate development, administration, maintenance, etc services, comparing the real estate competence centre's offers with those of others in the market.

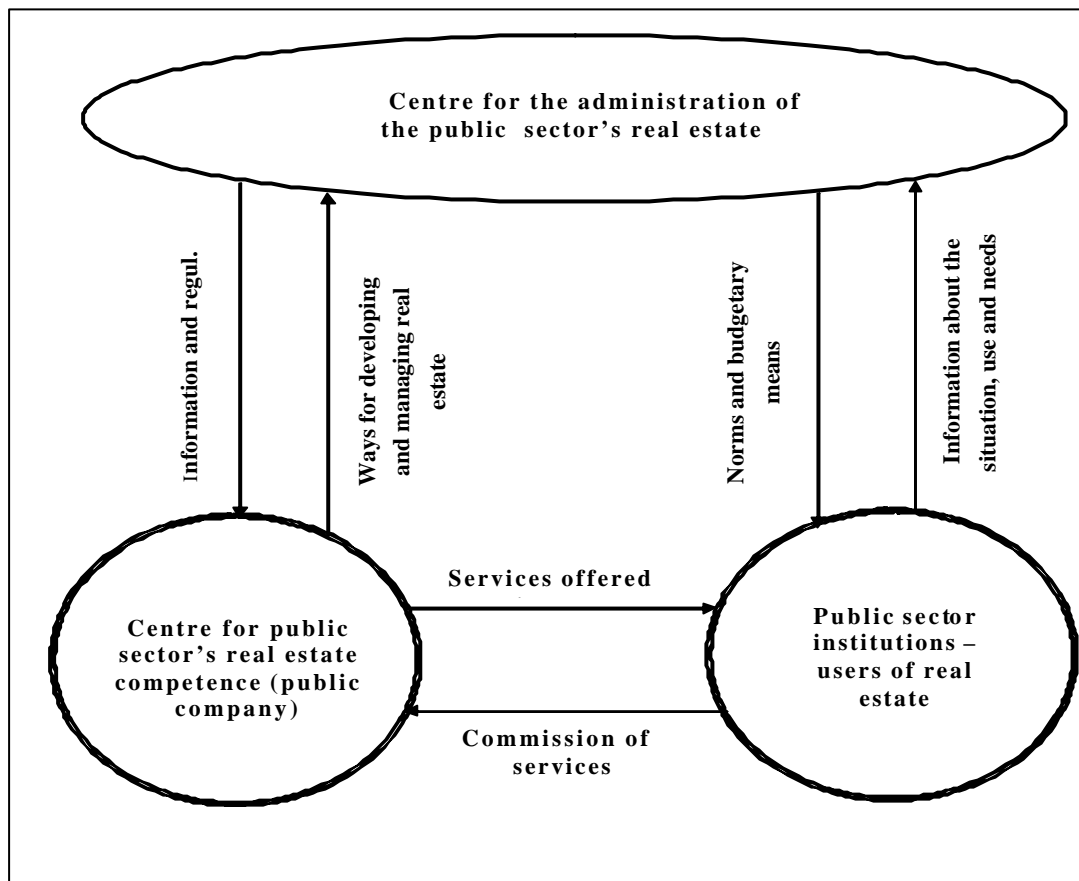


Figure 1. System of relations between the main subjects in the public sector's real estate operations (compiled by the author).

The aim of the real estate administration system is to ensure that particular users of real estate would not be able to treat the real estate at their disposal as a free resource. Determining the real estate-related capital costs as well as the administrative and maintenance costs of keeping it running will enable the institution to calculate the profit (economy) or losses (overuse). The actual money flows between the stakeholders for financing real estate investment and meeting the administration and maintenance costs must be arranged in such a manner that would stimulate all those involved to aspire towards more economic rationality and efficiency. (Cock and French, 2001)

By theoretical estimation, however, it seems that building up an administrative system based on the stakeholders' mutual payments (financing norms, internal rent charges) makes sense only if certain prerequisites are met in reality: that is, the subjects factually have a chance to decide how to organise their real estate activity, the subjects in fact have the freedom to choose (the right to free choice), the subjects have the necessary information and competence for picking the optimal way for action, the subjects factually assume stimulating economic responsibility for the consequences of the choices they make, and the costs of creating and maintaining the system of management are substantially smaller than the possible economic effect achieved by implementation of the system. For lack of appropriate preconditions, many enterprises have not introduced a system for real estate management that would

be clearly separable from their general system of administration; nor are they taking efforts to build up such a system (Cock, French, 2001: 271). To make real estate management systems cost-effective, the enterprises introducing and maintaining them must be sufficiently large. Hence the public sector might meet the above prerequisites even in a small country like Estonia.

Stoy ja Kytzia (2004) present three basic dimensions of real estate strategy (policy): social, physical and financial. From the point of view of an organisation's success, these dimensions are not of equal importance, but the chosen course of action must consider all three dimensions. Viewed from the social aspect, the public sector's real estate must support the provision of a public good or benefit by the institution using it in a way and form primarily satisfying the latter's clients - the people, enterprises, institutions and organisations that it serves. At the same time, it must consider its own personnel's satisfaction with the working conditions, which is an important prerequisite for keeping people at work, motivating them and stimulating their willingness to provide services.

As seen from the physical aspect, the location, exterior design, architecture, division of space and interior design of the public sector's real estate objects must be chosen, proceeding not only from a particular service providing institution's narrow aims that are related to its mission and vision, but also from a broader image of the country as a whole. On the one hand, the physical aspect of the real estate objects at the disposal of the public sector must emphasise the state's authority and representative role, on the other, its respect for and kindness towards people.

From the financial aspect, real estate development and maintenance must be rational and efficient. On the one hand, the task of funding proceeds from the social functions and related physical design of the real estate in question. Therefore we cannot speak about the economic efficiency of real estate activity in general terms; instead, we must bear in mind the economic efficiency of fulfilling the social and physical functions of the real estate used by a particular institution. At the same time, the decisions to attribute certain functions to real estate must be made after careful deliberation, considering the actual financial capacity of the country at a particular stage of economic development. It is relevant that a country's real estate policy and the system of its implementation should achieve a dynamic balance (optimal relationship in time) between the public sector's real estate requirements and the actual financial means available. All the three dimensions of real estate policy have a certain room for manoeuvre, and it is within the latter that the best solution must be found, not only for the moment when the decision is made but for the whole life span of the real estate objects involved.

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