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Institutional Framework of Calculation of Rent for Land in Public Ownership: The Experience of Russian Regions

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Abstract. Purpose: The purpose of the work is analysing approaches applied to the calculation of rent for land in public ownership in the entities of the Russian Federation aimed at optimisation of its mechanism institutional framework to ensure competitiveness of the regional economy.

Design/Methodology/Approach: The authors use two approaches to determination of the rent amount for an immovable property item: element-by-element and coefficient approach. The object of the research is the current legal and regulatory framework in 15 Russian regions on whose territory cities with the population of 1 million people and more are located.

Findings: The most common institutional framework of the mechanism of rent calculation includes the following elements: application of a coefficient approach that involves 2–3 coefficients in most regions; the reference point for the base rental rate is mainly the land tax rate which is adjusted according to the type of activity of a tenant and/or the type of allowed use of a plot and location of the plot; multiplicity and differentiation of rental rates; and other. Multiplicity and high differentiation of rental rates in each region is caused by the effort, one the one hand, to take into account the difference in profitability of use of different land plots, and on the other hand, to use the rent amount as a tool for implementation of the socio-economic policy of the authorities managing the territory.

Originality/Value: Scientifically grounded determination of the amount of rent for land plots in public ownership becomes an integral part of an effective federal, regional and municipal economic policy.

Keywords: Rent · Land · Region · Municipality · Public ownership

JEL Code: K25 · R52

1 Introduction

Rent for land plots in public ownership is an important source of own non-tax revenues of budgets of all levels in the Russian Federation. On the other hand, the rental rate is included in costs of enterprises, serves as one of the criteria of availability of land resources for involvement in production activity. State and municipal land is a considerable part of the forest fund of the country; this is why the amount of its rent has a significant impact on formation of the value of the land and on the situation in the market of immovable property in general.

Finding the optimal balance of public and private interests in land use reduces risks of doing business, leads to improvement in the investment and entrepreneurial climate of the territory (OECD 2011). In these conditions, correct, scientifically grounded determination of the amount of rent for land plots in public ownership becomes an integral part of an effective federal, regional and municipal economic policy. The purpose of this work was to systematize approaches of entities of the Russian Federation with large cities in their territory to determination of land rent.

2 Materials and Method

The institution of land use plays an important role in ensuring competitiveness of economic activity of an individual economic entity and a region as a whole. One of the key elements of land relations is the order of calculation of payment for land if it is rented from regional or local authorities. The amount and the order of determination of rent for land plots in Russia are established by the authorities of a public entity that owns the corresponding land plots. The cost of rent and the order of its formation for land, ownership of which is not divided among levels of government, is established by authorities of a subject of the Russian Federation and credited to the budget of the municipality in whose territory the corresponding plot is located.

The institutionalized order of determination of payment for use of land in public ownership, except general rules of the Civil and Land Codes, can be observed only in the Resolution of the Government of the Russian Federation No. 582 of 16.07.2009 (revised on 21.12.2018) "On the Basic Principles of Determination of Rent for Land Plots in State or Municipal Ownership, and on the Rules of Determination of the Rent Amount as well as the Order, Conditions and Term of Payment of Rent for Land owned by the Russian Federation". This Resolution contains seven principles with which the order of rent formation adopted by the corresponding authority must comply. Therefore, the powers of local authorities, landowners, to establish the rent, with the exception of special cases stipulated by the resolution of the government, are not limited by a strict federal framework.

The study focuses at the regulatory legal acts governing the order of determination of rent in 15 entities of the Russian Federation: Moscow, Saint Petersburg, Republics of Tatarstan and Bashkortostan, Voronezh, Sverdlovsk, Chelyabinsk, Samara, Nizhny Novgorod, Rostov, Novosibirsk, Omsk, Volgograd Regions, Perm, Krasnoyarsk Territories. Selection of regions was determined by location of cities with the population of 1

million people and more in their territories, which forms peculiarities of socio-economic development of these entities of the Russian Federation including their land market.

Rent of public land is an economic transaction but it combines both civil and administrative relations. The rent amount for state (municipal) land is an analogue of prices of goods in market transactions (Serageldin 2016). In cases of sale of land rental rights at auction, it can be assumed that the cost of rent is adequate to the market situation, if the participants are provided with non-discriminatory access. However, in a considerable number of cases public land is rented without the auction procedure. This happens, for example, in relation to the plots on which privatized enterprises are located, or in case of construction of capital facilities on the plot. Transfer of the right of ownership of these facilities entails the duty of the landowner to offer it for rent, and the duty of the owner of the structure to rent the land.

In this regard, the practice of establishment of the rent amount for public land transferred to tenants without auction is of particular interest. In some entities of the Russian Federation the order of rent calculation varies according to the types of land, form of ownership (state, municipal, non-delineated state), as well as in different municipalities of a region. All types of calculation at the level of entities of the Russian Federation and their administrative centres were analysed in course of the conducted research.

At the same time, Resolution of the Presidium of the Supreme Commercial Court of the Russian Federation No. 15837/11 of 17.04.2012 states that control of rent for land plots in state or municipal ownership shall be carried out in a normative manner. Calculation of the rent amount is subject to application from the date of entry into force of the corresponding regulatory act, which complies with the rules of Article 424 of the Civil Code of the Russian Federation. Therefore, using the position of (Inshakov 2007) it can be said that the order of determination of payment for land use becomes a part of the institutional form of development of land resources in course of which they turn into a factor of production.

Analysis of theory of rent relations allowed identifying two approaches to determination of the rent amount for an immovable property item: element-by-element and coefficient approach (Zorin 2011; Ionov et al. 2006; Baltin 2018). The element-by-element approach implies establishment of rent for immovable property by summing individual components, the size of each of them is intended to provide landowners with sufficient compensation for the costs of maintaining and operating the immovable property item as well as unearned income from possession of the property (Zorin 2011).

The coefficient approach implies adjustment of the base amount of rent with the use of special decreasing and/or increasing coefficients (Zorin 2011). The amount of the base rental rate, as a rule, depends on the landlord's assessment of correlation of supply and demand in the land market. Another option for calculation of the base rental rate is the implicit (imputed) rental rate, the amount of which is equal to the risk-free interest rate (World Bank 2015). Referral to the implicit (imputed) rental rate is based on the idea that, on the one hand, item owners have the right to expect income from the property belonging to them in the amount of the minimum risk-free return, and, on the other hand, tenants receive income from use of property in their production activity corresponding at least to the benefit from the most reliable way of allocation of resources (Deiningner 2003).

Since the value of land, like any other factor of production, is due to its capacity to bring profit when used in the process of creating goods (Peterson 2006), application of coefficients is purposed to consider differences in profitability of land use when calculating rent. This position is also justified in works by Ricardo (2016) and Smith (2017), and most fully substantiated in K. Marx's theory of land rent (1985). Despite the fact that in classic works absolute rent, differential rent of types one and 2 are considered in terms of agricultural land, the conclusions of scientists are quite applicable to other categories of land plots. Consequently, demand for land, as well as for other production resources, is a derivative of demand for goods in production of which it participates. With consideration of inelasticity of land supply, the fair rental value will be determined by the maximum possible profitability of its use (Baltin 2018).

Therefore, in this research the institutional framework of the mechanism of rent determination formed in each of the regions under consideration was compared with provisions of the theory of rent relations. The obtained results made it possible to conduct a positive analysis of Russian approaches to calculation of payment for use of land in public ownership.

3 Results

In course of the conducted research, it was established that the element-by-element approach is not applied in calculation of rent for land plots in public ownership. The specific nature of the owner determines the lack of expenses associated with possession of land plots, which explains use of the coefficient approach to determination of the rental rate in all the territories analysed by us.

The base rental rate in absolute monetary terms is established only in Saint Petersburg and Nizhny Novgorod. In a range of regions, the amount of payment for land use is based on the rate of return of risk-free financial instruments. For example, Volgograd Region provides for application of the rate of return of government bonds in rent calculation, Voronezh and Novosibirsk Regions – the refinancing rate of the Bank of Russia.

The Republic of Tatarstan, Krasnoyarsk and Perm Territories, Novosibirsk Region established the base rate of rental payments in the amount corresponding to the land tax rate. Probably, this is due to the fact that the amount of land tax represents alternative minimum costs of a non-state user of a land plot in case of acquisition of land ownership. In the vast majority of other regions, the base rental rate is not singled out expressly. On the basis of the values of the coefficients (3–5% of the value of a land plot) approved by regulatory legal acts it is possible to draw a conclusion that the authorities of the corresponding territories also relied more on land tax rates (1,5–2,0%) rather than on other economic indices.

The number of coefficients included in the order of calculation in the entities of the Russian Federation under consideration varies from one (Moscow, Republic of Bashkortostan, Omsk Region) to seven (Saint Petersburg). Undoubtedly, application of a large number of coefficients complicates the mechanism of rent calculation for both tenants and landowners but at the same time increases its flexibility and aims to make it more reasonable (Ziyadina 2018). All analysed regions without exception adjust the

rent amount with the use of coefficients or by establishing differentiated rates, first of all, to take into account the type of activity carried out in land plots. Therefore, in practice authorities apply provisions of the classical theory of land rent.

The form of implementation of this provision in regional and municipal regulatory acts differs only in the number and method of gradation of types of economic activity in rented plots. In nine of 15 studied entities of the Russian Federation differentiation of rent amounts depends also on the type of permitted use (purpose) of land plots and on the category of tenant. For example, Novosibirsk, Chelyabinsk, Volgograd Regions and Krasnoyarsk Territory at the same time apply two corresponding coefficients, in Perm Territory there is one coefficient – the coefficient of types of land use and categories of tenants (K_1), but it takes into account both classifications. In Sverdlovsk and Rostov Regions, Republic of Bashkortostan and the city of Moscow the differences in the rent amount depend on the range of the scale of rental rates determined jointly by the type land and the category of tenant. In Tatarstan, Saint Petersburg, Voronezh, Samara and Omsk Regions dependence was established only in relation to types of permitted use of land plots, and in Nizhny Novgorod Region – in relation to the category of tenant.

Some regions try to take into account location of land plots as a factor affecting their value (Tikhonova et al. 2015) and, consequently, the fair rent amount (Ionov et al. 2006). This approach directly complies with the differential rent of the first type (Marx 1985). For example, in Sverdlovsk, Novosibirsk, Rostov Regions, Perm and Krasnoyarsk Territories local government bodies are granted the right to approve own values of the coefficients applied in calculation of rent for land plots in state ownership, including those in non-delineated ownership, or even a regional regulatory legal act contains differentiation of calculation by municipalities in the territory of the subject of the Russian Federation. Moreover, the cities of Saint Petersburg, Ufa, Chelyabinsk, Samara and Nizhny Novgorod have performed zoning of the whole territory with the aim to additionally differentiate the rental rates.

In all of the analysed territories the mechanism of rent calculation provides for cases of significant reduction of payments for individual groups of tenants, which include organisations carrying out socially important types of activity (Baltin 2018), as well as organisations the activity of which corresponds to the current priorities of the authorities managing the territory. As a rule, such priorities are implementation of large investment projects, comprehensive development of land plots, and completion of projects of bankrupt construction companies. As such, the practice of establishing preferential rental rates means expanding the designated purpose of the institution of public land rent beyond the exclusive source of budget revenues and giving it the role of one of the tools for implementation of the socio-economic policy of the authorities managing the territory.

This leads to multiplicity of rental rates in each subject of the Russian Federation and expansion of the range of values of rental rates in combination with differentiation of the rent amount due to consideration of the multifactorial nature of formation of the fair value of land resources. According to our estimates, the difference between maximum and minimum rental rates in one region is 10 times and more and can reach thousands of times.

Rules of civil law provide for the possibility to change the rent amount taking into account the continuing nature of land rental agreements and the need to reduce risk from adverse market factors caused by instability of socio-economic processes as well as to establish a fair price (Tikhonova et al. 2015). If a land rental agreement stipulates that the rent amount shall be calculated with consideration of coefficients established by a state authority, an actual change in the payment amount as a result of adjustment of the specified coefficients will not be an alteration of an agreement provision on the rent amount in compliance with par. 3, Art. 614 of the Civil Code of the Russian Federation (Kirichenko and Medvedev 2016). The majority of the analysed regions provide for annual change in the amount of payment for land plots offered for rent both as a result of auction and without auction in line with inflation rates. Saint Petersburg uses the coefficient of immovable property market dynamics instead of the inflation index.

Since only two regions use the base rental rates in absolute terms, other territories faced the need to choose between the cadastral or market value of land plots as part of the rent calculation formula. The cadastral value is less accurate since important individual specific features of land plots are often not taken into account in its implementation (Agafonova and Zavalnyuk 2018). Nevertheless, all the entities of the Russian Federation analysed by us apply the results of cadastral valuation. Voronezh, Omsk, Novosibirsk, Rostov and Volgograd Regions included the market value in calculation of the rent amount of only individual types of land plots. For example, Volgograd Region determines rent for the land plots on which capital facilities are constructed on the basis of the market value. The prevalence of the cadastral value is due to lower costs for its determination (Agafonova and Zavalnyuk 2018). Moreover, many regions, as noted above, relied on land tax in formation of the order of rent calculation, and the land tax is calculated on the basis of the cadastral value. In these conditions, use of the cadastral valuation of land plots when calculating payments for land use supports the unity of logic of the approach being applied.

4 Conclusion

Therefore, despite the diversity of the institutional framework of the mechanism of determination of rent for land of public entities in Russia, the following typical features can be distinguished as a result of systematization of practice of 15 entities of the Russian Federation:

- calculation of the rent amount is based on the coefficient approach and includes 2–3 coefficients in the majority of the regions;
- the rate of land tax usually serves as the reference point for the base rental rate, it is adjusted according to the type of the tenant's activity and/or the type of allowed use of plots and location of plots;
- multiplicity and differentiation of rental rates exists;
- the rent amount changes annually in line with inflation rates;
- determination of rent involves application of the cadastral value of a land plot, only in some cases it is supplemented by the market value.

The conclusions made in this research can be used for further analysis of the degree of optimality of the institutional framework of the mechanism of calculation of rent for land plots in public ownership applied in Russian regions from the perspective of ensuring competitiveness of the regional economy in the largest entities of the Russian Federation.

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