1. Introduction

As any researcher who has ever undertaken one can attest to, comparative studies entail challenges, pitfalls and obstacles from conception to completion. Some obstacles are easy to foresee, such as language barriers and the (un)availability of easily accessible sources. Indeed, the feasibility of any intended comparative study very much hinges on the researcher’s ability to access and understand the right sources. However, there are other, perhaps less obvious obstacles to overcome in order to succeed with the undertaking and produce valid findings. Suppose, for instance, that a researcher sets out to compare state subsidies of some kind between countries. In their home country, the subsidy takes the form of a cash payment, i.e. a monthly allowance. Suppose further, however, that the search for an equivalent allowance in the country or countries of comparison yields nothing, leading the researcher to draw the conclusion that the country or countries in question do not have any subsidies of the studied kind. However, the conclusion may well be mistaken, as the subsidy could take the form of a tax break instead of an allowance (cf. Bogdan, 2003). Thus, the researcher runs the risk of looking in the wrong place and drawing invalid conclusions as a result.

Apart from that, and other obstacles related to the researcher’s contextual limitations and their effect on the researcher’s understanding of the gathered information (cf. Jingryd, 2012, pp. 38-45, and Öçuru & Nelken, 2007), one challenge seems to tower over the rest: the diverging institutional contexts. The word “institutional”, here, is used in a fairly broad sense, to denote legal, economic, cultural and other related factors that give particular meaning to data from a particular country. For instance, the Swedish Land Code does not prescribe any mandatory intervention by third parties for the validity of a real estate conveyance. The buyer is obliged to seek title registration at the Land Registry, but its function is merely declaratory. This may lead a researcher to conclude that buyers and sellers in Sweden are not afforded legal assistance, as buyers and sellers in civil law countries where the notary intervenes to draw up the deeds and advise the parties. Again, this is a mistaken conclusion, as 90 per cent of all residential real estate conveyances in Sweden are accomplished through real estate brokers, who are legally required inter alia to draw up the deeds and give advice. By the same token, the lack of mandatory intervention would seem to invite the conclusion that there are no transaction of that kind, but since the market voluntarily involves brokers to such a large extent, the typical Swedish conveyance must be said to entail such costs.

In Palm et al. (forthcoming) we examined and compared the transaction processes and transaction costs in residential real estate conveyances in Sweden and Croatia. In doing so, we faced challenges in making viable comparative analyses. We set out to conceptualize the real estate conveyance process, creating a model into which we attempted to squeeze the data from both countries. In
short, it was never going to be as straightforward as that. For instance, the Croatian process involves a pre-contracting phase, which is ultimately due to the fact that a binding sale is only accomplished upon notarization. In Sweden, a binding sale is accomplished once both parties have signed the contract of sale, making pre-contracting redundant. The example is a simple yet effective illustration of 1) how the legal framework conditions the functioning of the market, 2) how the comparative researcher must take the legal framework in each studied country into account, and 3) the danger of adopting a narrow praesumptio similitudinis (presumption of similarity).

This aim of this paper is to use the Sweden and Croatia comparative study as a case study, to highlight and discuss the inherent challenges facing the comparative researcher.

2. A Closer Look at the Challenges of Comparative Studies

[Here, the difficulties involved in comparative studies are described in more detail, as well as the theoretical framework.]

- The legal families (civil law, common law, Scandinavian “barbarian” civil law)
- Functionalism v. culturalism
- The functional equivalent

3. The Sweden and Croatia Study

[Here, the comparative study is summarized, and the challenges of making comparative analyses discussed using the Sweden-Croatia study as an example].

3.1 A Summary of the Study

Table I. Fees and Taxes in Croatia and Sweden¹

<table>
<thead>
<tr>
<th>Phase</th>
<th>Fees and taxes</th>
<th>Seller</th>
<th>Buyer</th>
<th>Seller</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Real estate agent’s fees</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Marketing fees</td>
<td>0</td>
<td>0</td>
<td>150 Euro</td>
<td>0</td>
</tr>
<tr>
<td>Pre-contracting and Contracting</td>
<td>Legal fees</td>
<td>0</td>
<td>€345 - 413</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Appraiser fee</td>
<td>0</td>
<td>€176</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Bank mortgages fees</td>
<td>0</td>
<td>€135 - 406</td>
<td>0</td>
<td>€30</td>
</tr>
</tbody>
</table>

¹The table shows which party is obliged to pay the different fees and taxes. However, it is debatable to which extent that party is also the one to ultimately bear the cost. As Varian (1999) points out it is dependent on supply and demand elasticity.
### 3.2 The Swedish and Croatian Legal-Cultural Contexts

- Croatia: a civil law legal culture with an Eastern European legacy. Civil law notaries at the center of important transactions such as real estate conveyances.
- Sweden: a Scandinavian civil law legal culture, characterized by pragmatism and the desire to promote trade, with a minimum of formalism. Free assessment of evidence in courts, no “pleine foi”

### 3.3 The real estate market and its characteristics

The real estate market has certain characteristics that distinguish it from other markets. These different characteristics, in turn, have implications on how the real estate market function.

**Heterogeneity** All real estate is heterogeneous. Two parcels cannot be identical, only similar to each other in terms of building style, building year and size. Regardless of how similar to each other, at least they will differ in terms of location, the plots on which they stand. Each unit is thus unique, and therefore two units cannot be considered exact substitutes for each other.

**Fixed location** Real estate is immobile, with each property fixed in location. This distinguishes real estate from other goods, as unlike other commodities it cannot be moved to locations of high demand or from locations with low demand. In turn, this has implications for the efficiency on the market and with which individual properties may be used. Furthermore, the fixed location also implies a great sensitivity to changes on the local market and sensitivity for externalities that will play a significant role on the price of the property.

**Large values** Real estate is traded at large values. In relation to average incomes, the prices of properties, including residential properties, are relatively high. Most buyers, therefore, are required to depend on the credit market to purchase a property. As a result, the cost and availability of credit directly affects demand for property. Moreover, costs and the availability of credit also affect the supply side, since new construction is also dependent on the availability of credit, thus making the pricing of new construction directly dependent on the cost of credit.

**Durability** Real estate is more durable than most other commodities. Most buildings are old, and new properties are developed to last for many years to come. This imposes constraints on the market,
since it is not possible to make marginal changes in the amount of properties in response to marginal price changes. This, in turn, will affect market efficiency.

**Government Intervention** The fact that the real estate market consists of durable goods, at fixed locations, representing large values, government intervention is practically inevitable. For example, it becomes an easy target for taxes and fees as the property cannot be moved. Furthermore, government intervention is politically motivated, particularly with respect to housing. Intervention may be direct or indirect, and directed towards either the demand or supply side or both. It can take the form of rent control for housing or subsidies of certain buildings. Another governmental instrument on the real estate market is planning control. This indirectly determines the amount of land available, the use of available land, and the use of buildings. Overall, government intervention in real estate markets influences the market efficiency.

**Inelasticity of supply and demand** New development of real estate takes time and the supply can, therefore, in the short run be characterised as fixed. Furthermore, regarding supply there are constraints as to how the market can react to price changes. Due to zoning and planning procedures, government intervention, and the relatively long construction period required there will be a lagged response to the market demand. The demand for housing on the other hand is not very responsive to price changes, since housing as such is a necessity for all where no substitutes exist. The implication of this inelasticity of supply and demand of housing is that the market does not readily adjust to prices as an efficient market would.

**Transaction costs** In addition to the relatively high price of housing, participants on the real estate market incur relatively high transaction costs. These costs may be in the form of money or time. Compared to other commodities, the sale of real estate and housing is encumbered by high transaction costs. In addition to the price of the house, various statutory fees and taxes, fees to professionals, such as real estate agents, notary’s, and inspectors must be encountered. In addition to these costs, the completion of a real estate conveyance may take months.
References


