Urban Land Markets

Presenter: Carlos Morales-Schechinger

Best Practices for Land Tenure and Natural Resource Governance in Africa
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Content

- Land rent and the control of the use of land
  - what use, who controls
  - how much rent (or price)
- Rent capitalized into price
  - rent capitalized into price
  - effect of a land tax on price… & rent
- Land policies
  - cost vs. benefits
  - land prices vs. quality
- Land instruments
  - zoning, taxes, rights, expropriation, readjustment
• What is land rent?
  … payment to have access to the use of land
  … to anyone who controls such access to land
• In money
  … or in kind
• Periodic payment
  … or in advance
• Statutory control
  … or customary control

rent and the control of land
• Who controls land?

- government
  - national
  - municipality
  - public agency

- a group
  - tribe
  - family
  - cooperative

- an individual
  - physical
  - legal

rent and the control of land
• The bundle of rights

... or the bundle of controls

rent and the control of land
• The bundle of rights

... or the bundle of controls
... to rent / sell ... separately

rent and the control of land

<table>
<thead>
<tr>
<th>government</th>
<th>a group</th>
<th>an individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>• mine</td>
<td>• cultivate</td>
<td>• develop</td>
</tr>
</tbody>
</table>
| • taxes
  • lease (ground rent) | • crops
  • presents | • money
  • work |
- Types of land owners

... according to economic behaviour

**patrimonial**
- exchange values
- did not invest
- sells for a profit / benefit
- can wait forever
- buyers seek them
- has poor information
- asking price: highest of the region / city
- misled by inflation

**investor**
- exchange values
- invested
- sells for a profit
- waits for land use change
- seeks buyer
- has good information
- asking price: most able and willing user
- not misled by inflation

**occupier**
- use values
- Invests to improve use values
- sells to replace use values
- cannot wait for long
- seeks buyer

**rent and the control of land**
• Types of land owners

... according to economic behaviour

- as patrimony
- as investment
- as occupier

1. industrialist with an old factory
2. poor family with a titled plot
3. developer with agricultural land
4. farmer with land in urban fringe
5. chief with vacant in the inner city
6. government housing agency with land

rent and the control of land
• How much rent?

- government
  - market rent
  - administrative rent
  + a bribe

- a group
  - market price
  - agricultural price
  + market price
  - cost of regularization

- an individual
  - market price
  - low density price
  - high density price

Rent and the control of land
Land market misconceptions

- Rent / price is paid to the land owner … vs. paid to the land controller
- Full rents only paid if there is an open market … vs. always shared between various controllers
- End users may pay lower than market price … vs. user end up paying full market price
- Land values are produced by supply … they derive from the thrust of demand

rent and the control of land
• Residual nature of the land rent
  ... or how “land values” are created (?)
• Residual nature of the land rent
… or how “land values” are created

rent and the control of land

value

- capital & labour
- transport
- land

distance

wheat
rent and the control of land
rent and the control of land

price of a house
maximum amount a household can pay

capital & labour
transport
land

value

distance
rent and the control of land
• Where will agriculture start?

rent and the control of land
• What if demand for the city is expected to increase?

rent and the control of land
• What if demand for the city is expected to increase?

rent and the control of land
annual payment : $1,000

\[
\text{land price} = \frac{\text{rent}}{\text{interest rate}} = \frac{\$1,000}{5\%} = \$20,000
\]

annual land tax rate = 2\%, $400

\[
\text{lower price of land} = \frac{\text{rent} - \text{tax}}{\text{interest rate}} = \frac{\$600}{5\%} = \$12,000
\]

rent capitalized into price
annual payment: $1,000

\[
\text{land price} = \frac{\text{rent}}{\text{interest rate}} \times \frac{1,000}{5\%} = $20,000
\]

annual land tax rate = 0.2 \% $40

\[
\text{negligible impact on price of land} = \frac{\text{rent - tax}}{\text{interest rate}} \times \frac{960}{5\%} = $19,200
\]

rent capitalized into price
land price = rent - interest rate

annual payment : $1,000

\[
\text{land price} = \frac{\text{rent}}{\text{interest rate}} \times \frac{\$1,000}{5\%} = \$20,000
\]

very lower price of land = \( \frac{\text{rent} -\text{tax}}{\text{interest rate}} \times \frac{\$200}{5\%} = \$4,000 \)

rent capitalized into price

annual land tax rate = 4 %, $800
22

household

house

neighbourhood

city

agriculture

household

+ income
- basic
= housing :
  . savings
  . loan
  . rent

. self- built
. private developer
. government agency

. municipality :
  . property tax
  . betterment charge
  . building permit
  . value capture tax

. peasant / original owner
. agric. value

housing:
  . dignified
  . served
  . located
  . secure
  . on time

land policies
the speculator:  
- manipulates information:  
  - hiding, future infrastructure  
- buys agricultural land:  
  - retains unused  
- captures externalities:  
  - public infrastructure  
  - authorized land uses  
- lobbies for:  
  - tax abatement  
  - “incentive”  
  - regularization  
  - pirate development  
  - de-regulation  
  - no plan, no standards  
  - subsidies  
  - loan rate, up front, services  

house, neighbourhood, city, speculation, agriculture, household
If household’s ability remains the same

- A given city “production cost”
  - Tax & services
  - Cheaper tech.
  - Tax rebates
  - Free titling

= The residue becomes land price

If cost reduced
- Low standards
- Free titling

= The residue increases

If costs increase
- High standards
- Eviction risk
- Higher tax
- Inclus. P/s/e/a

= Smaller residue

If household’s ability improves

+ House subsidy
+ Wage increase
- Same costs

= Higher residue

If a land use with higher ability appears

+ New zoning
+ New accessibility
- Same costs

= Higher residue
economic content that could go to pay for land

lower price of land

more house, neighbourhood and city

how much for each?

with which instruments?

higher price of land

less house neighbourhood and city

land policies
Zoning

- inclusionary zoning
- exclusionary zoning
- social interest areas
- density areas
- development requirements
Land taxes

... updating values, present vs future use
... rate at high percentage of land rent
... land taxes vs. land leasing
... flat rate vs increasing rate
... vacant land surcharge
... rate increasing in time
... value capture tax vs betterment charge
. Development rights

... transferred from government

... transferred between landowners

... building licence fees

... pricing according to land value increment

... parallel: land leasing
Expropriation (eminent domain)

... definition of public interest

... original, present or future value of land

... according to taxation criteria

... to substitute owners’ responsibilities

... vs. to punish non compliance of obligations
Land readjustment

... equitable distribution

... of costs and benefits

... multiple land use polygon

... compulsory association rules

... continuous vs discontinuous polygones
WEAK MUNICIPALITIES

scarce public funds
low investment on urban services

price rise expectations
subsidized services deregulation and tax reduction “incentives”

serviced land withdrawn from market
land retained for future market

tax exemption, titling and subsidized services
deregulation and tax reduction “incentives”

low development costs

INFORMALITY

families impoverished
higher profit expectations

unserviced land over-priced
refuge in informal serviced land market

low tax base, higher need for services
exclusion from serviced land market

WEAK MUNICIPALITIES

higher tax on capital and labour (productive activities)

transfers
subsidies

Adapted from Smolka, 2004
Lower tax on capital and labour (productive activities)
Less transfers
Less subsidies

STRONG MUNICIPALITIES

Abundant public fundas
High investment in urban services

Access to formal land

Services and lower need for services
Inclusion in serviced land market

Moderate expectations
Dispise of informal unserviced land market

No tax exemption, nor subsidies, no need for titling programs
Families with surplus
Serviced land not over-priced

Supply of serviced land

More serviced land supplied
Land released for current market

Lower prices expectations
Development costs internalized

No subsidies higher expectations
Regulation and taxes on vacant land

Serviced land not over-priced
Inclusion in serviced land market

Higher tax base and lower need for services

Adapted from Smolka, 2004
land and the urban poor

Kibera
Nairobi

Khayelitsha
Cape Town

Rosinha
Rio de Janeiro

Tunel La Planicie
Caracas

Kali Besar
Jakarta

Neza, Mexico City

THANK YOU

QUESTIONS ?