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Urban Land Markets

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

Monrovia, Liberia

October 2012



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

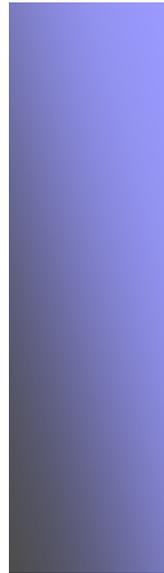


- Who controls land?



government

- national
- municipality
- public agency



a group

- tribe
- family
- cooperative



an individual

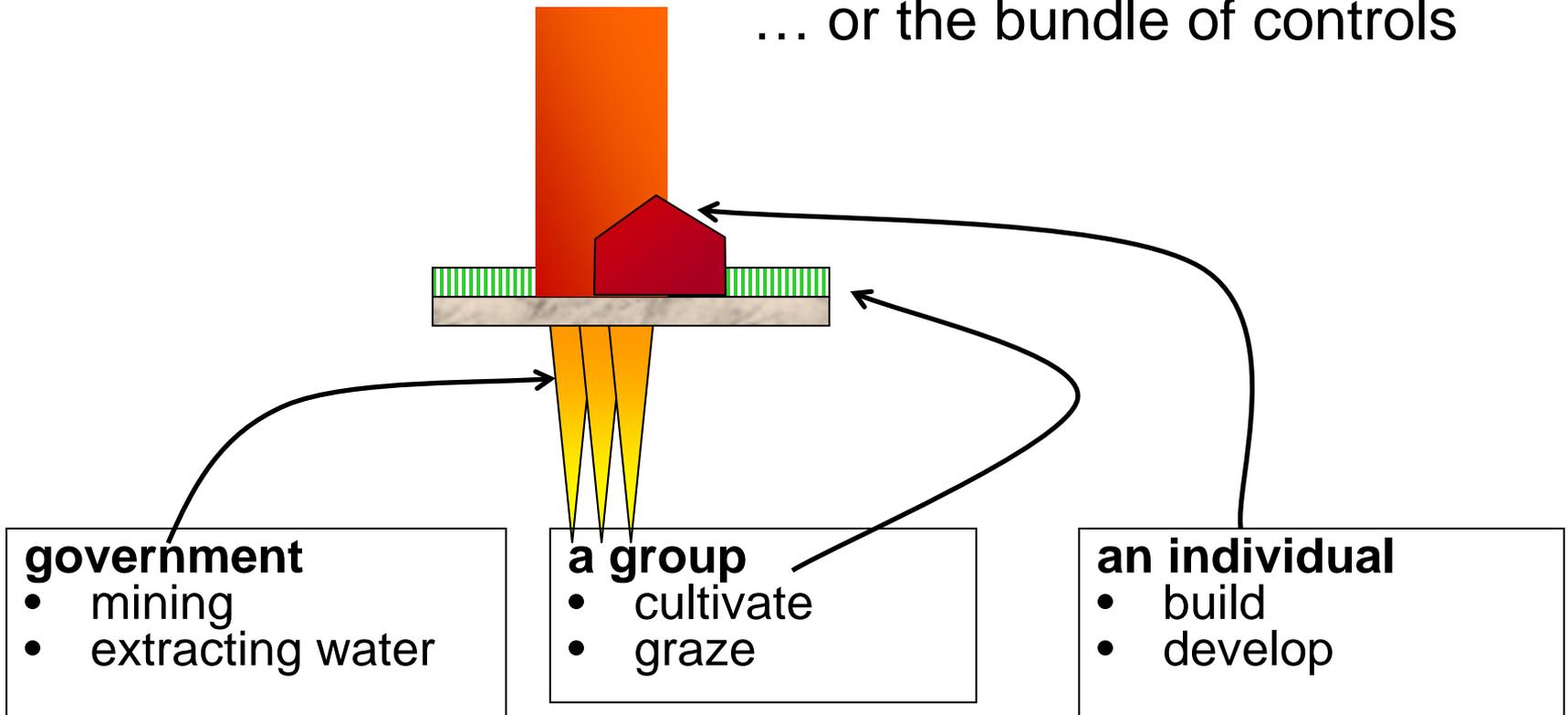
- physical
- legal

rent and the control of land



- The bundle of rights

... or the bundle of controls

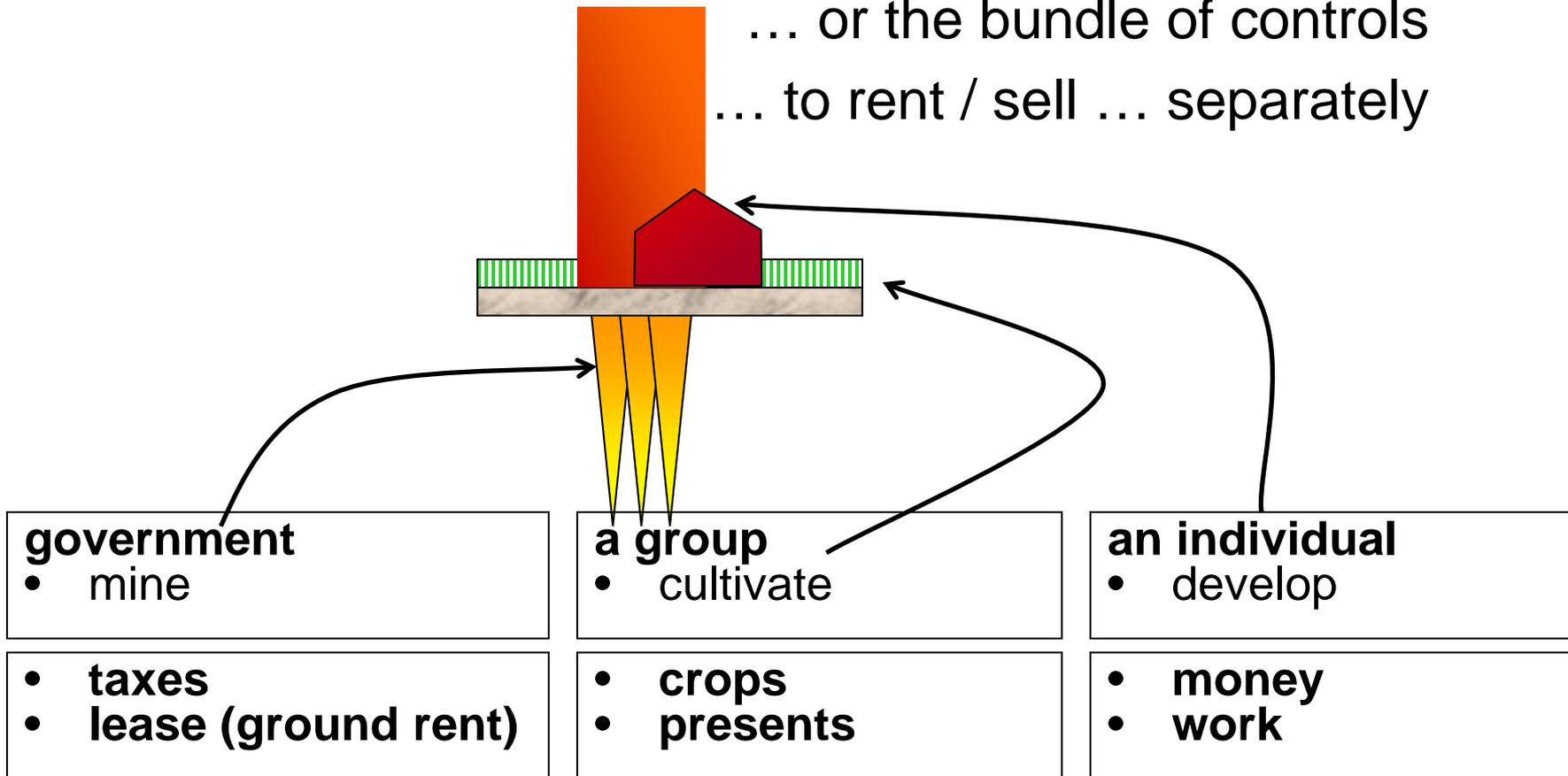


rent and the control of land



- The bundle of rights

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



rent and the control of land



- 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
- poor information
- asking price: enough to replace use value
- misled by inflation

rent and the control of land



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- Types of land owners

... according to economic behaviour

as patrimony

as investment



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

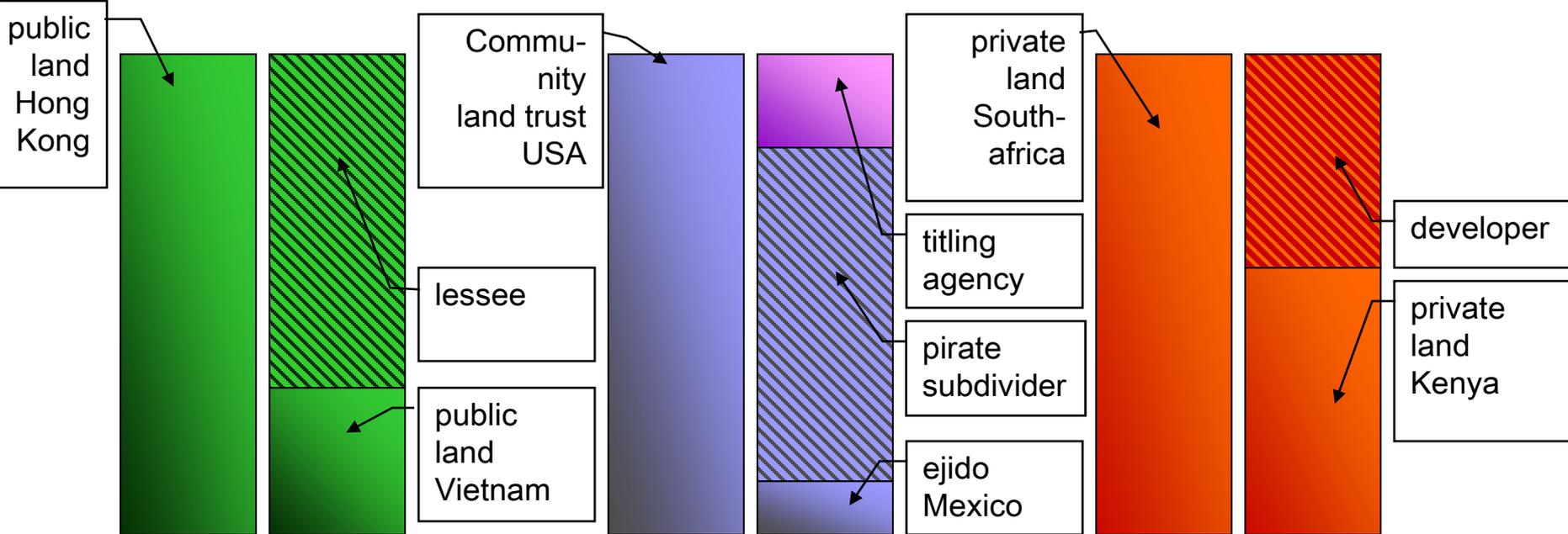
as occupier

rent and the control of land



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• 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

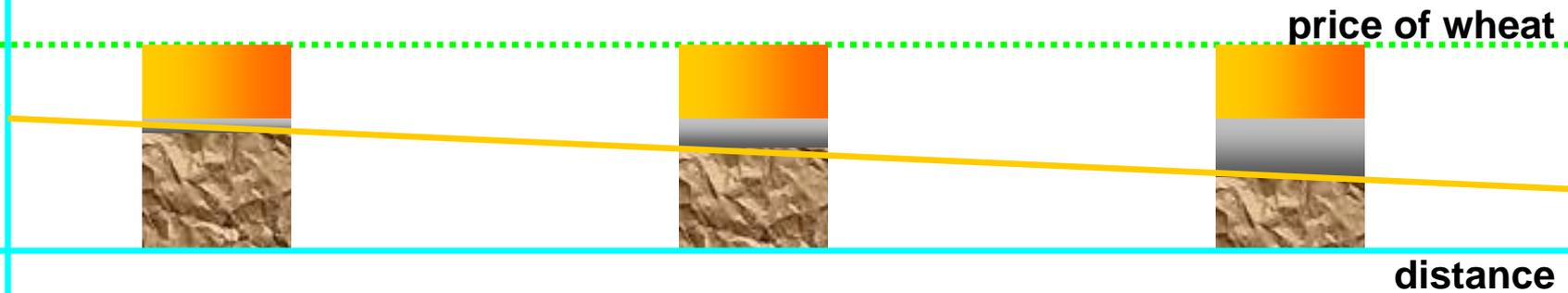
- Rent / price is paid to the land owner
... vs. paid to the land controller
- Full rents only paid if there is an open market
... vs. always shared between various controllers
- End users may pay lower than market price
... vs. user end up paying full market price
- Land values are produced by supply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



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value

- Residual nature of the land rent
... or how “land values” are created (?)



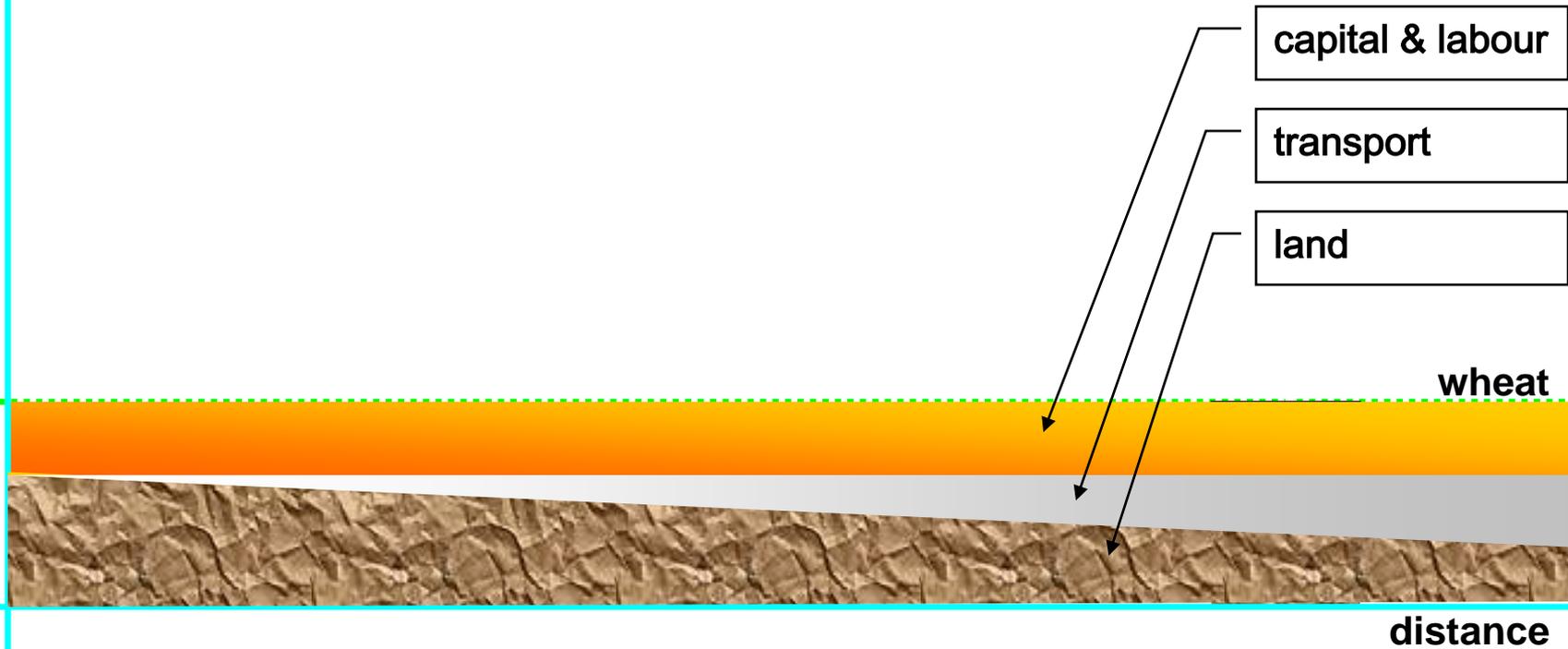
rent and the control of land



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value

- Residual nature of the land rent
... or how “land values” are created



rent and the control of land



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value

price of a house
maximum amount a household can pay



distance

rent and the control of land



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value

price of a house

maximum amount a household can pay

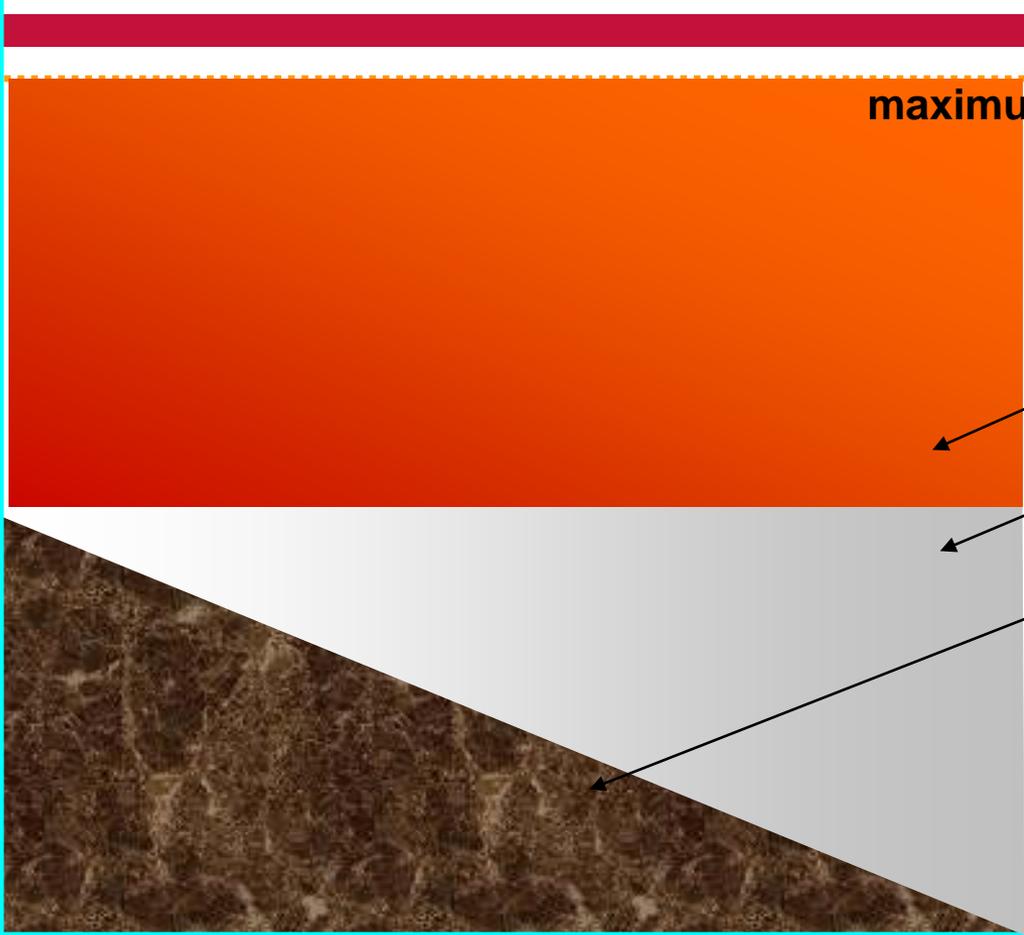
capital & labour

transport

land

distance

rent and the control of land





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value



distance

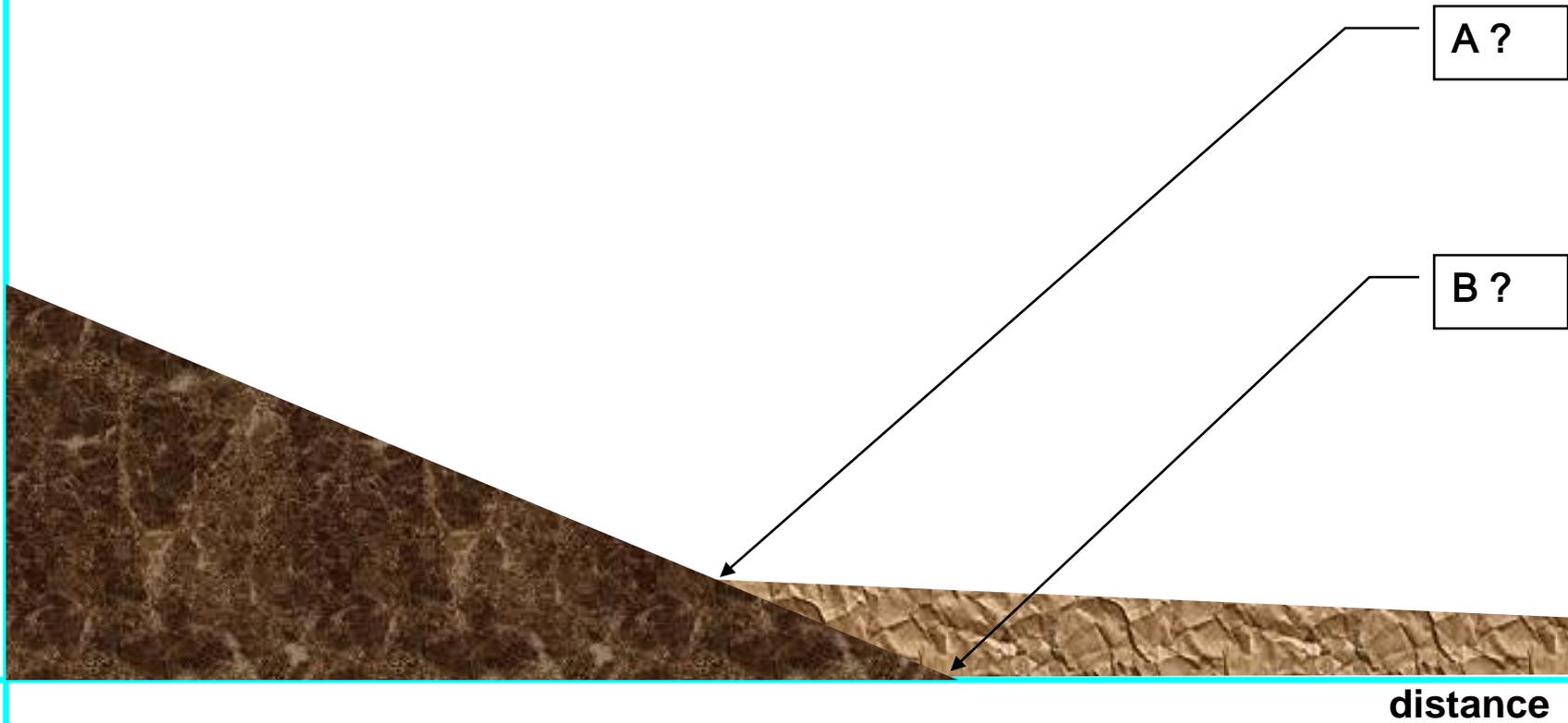
rent and the control of land



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value

- Where will agriculture start?



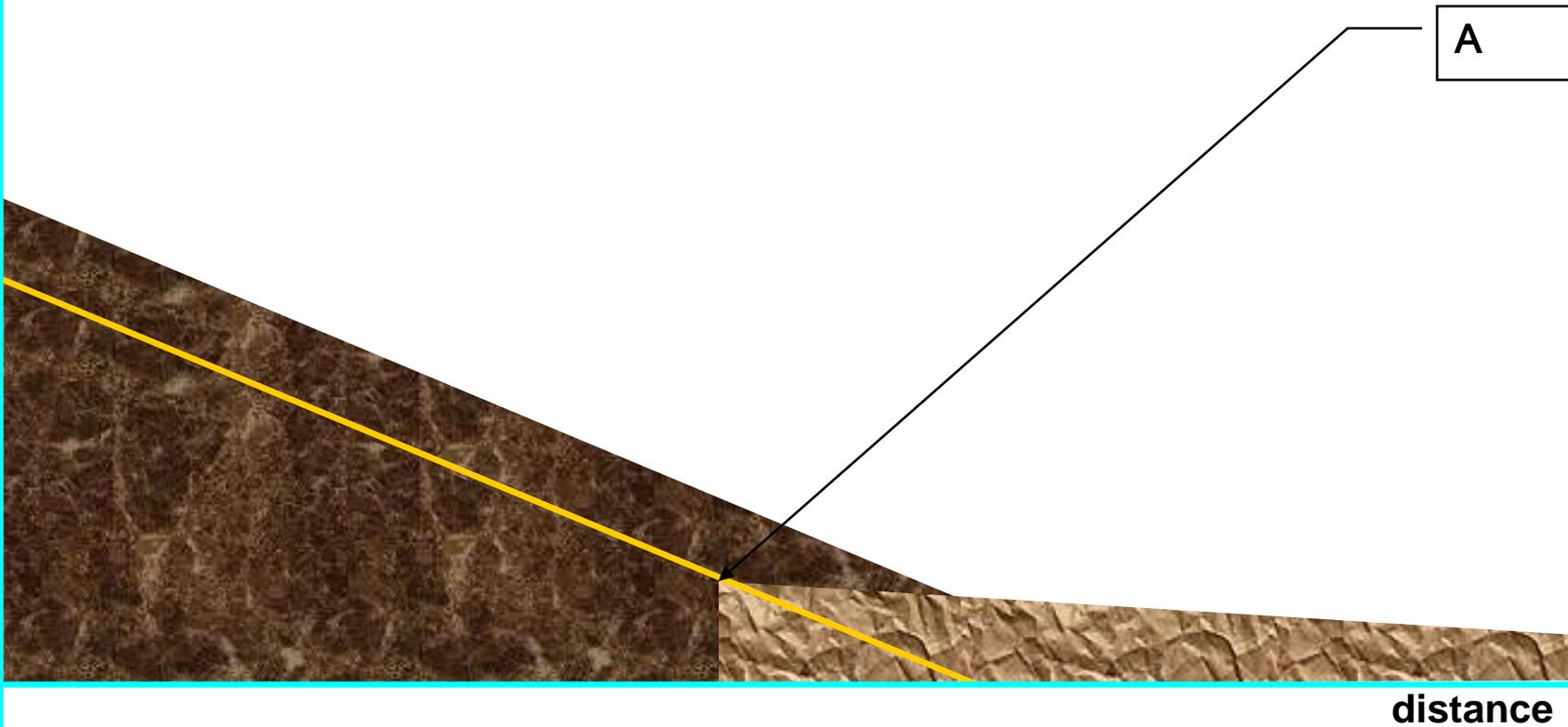
rent and the control of land



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value

- What if demand for the city is expected to increase?



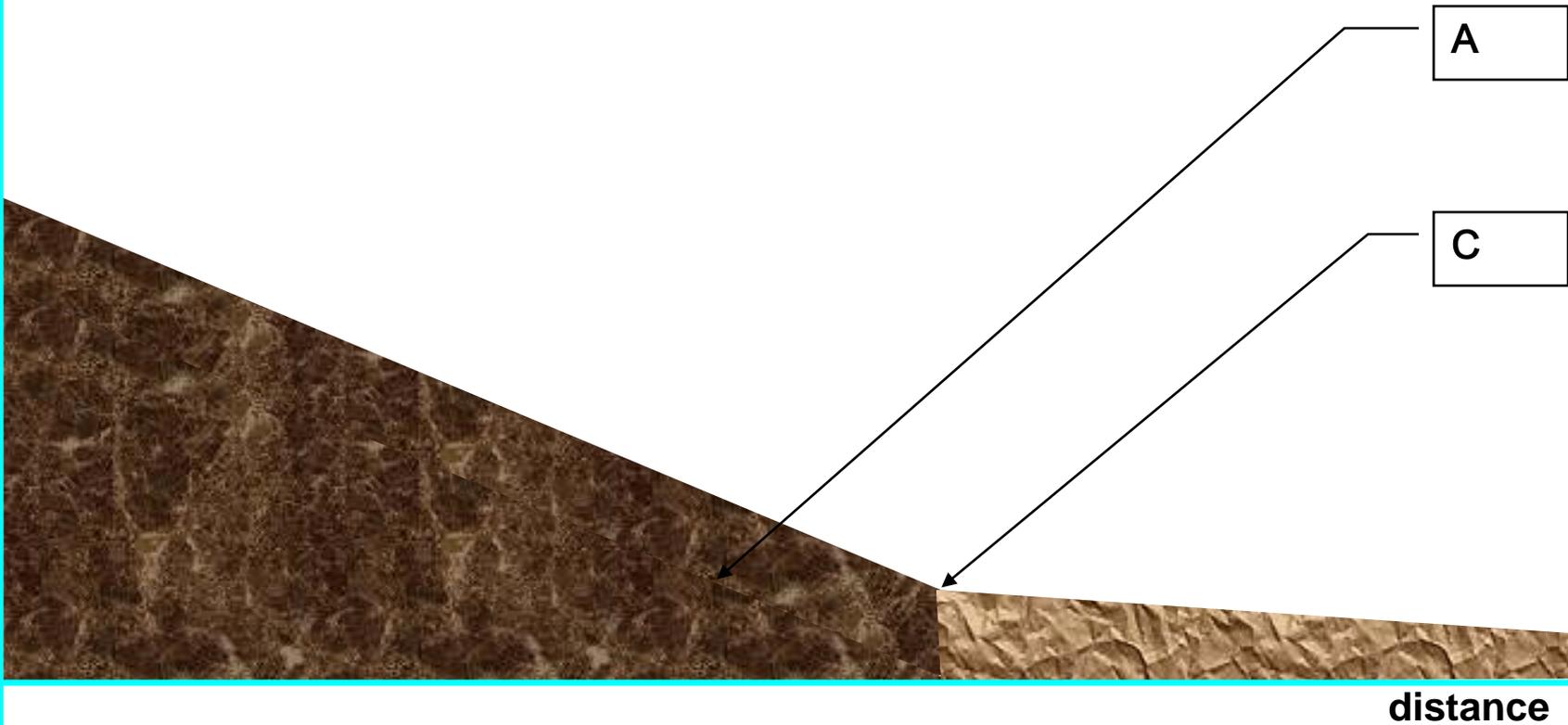
rent and the control of land



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value

- What if demand for the city is expected to increase?

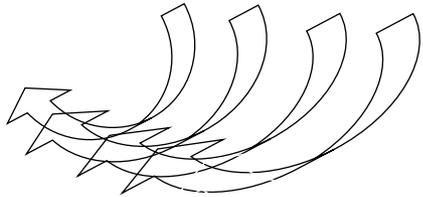


rent and the control of land



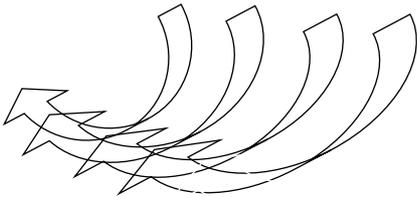
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annual payment : \$ 1,000



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

time



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



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annual payment : \$ 1,000



time

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



annual land tax rate = 0.2 % \$ 40

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

rent capitalized into price



annual payment : \$ 1,000



time

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



annual land tax rate = 4 %, \$ 800

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

rent capitalized into price



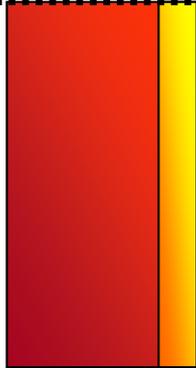
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household



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

house



- . self- built
- . private developer
- . government agency

neighbourhood



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

city

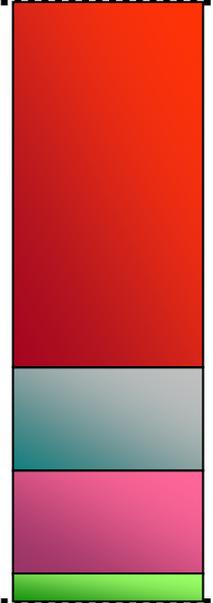


agriculture



- . peasant / original owner
- . agric. value

household

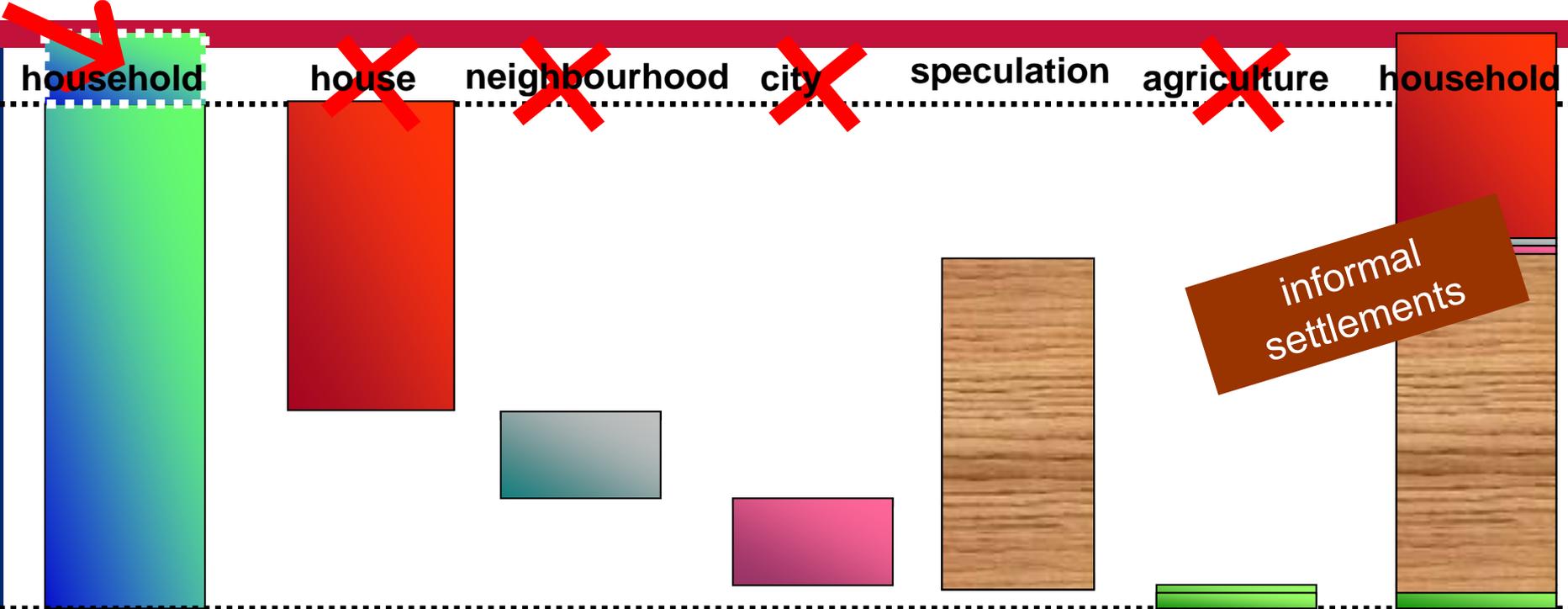


- housing:
 - . dignified
 - . served
 - . located
 - . secure
 - . on time

land policies



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the speculator:

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

land policies



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if household's ability remains the same

- a given city
"production cost"
tax & services

if cost reduced

- . low standards
- . cheaper tech.
- . tax rebates
- . free titling

= the residue
becomes land
price

= 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

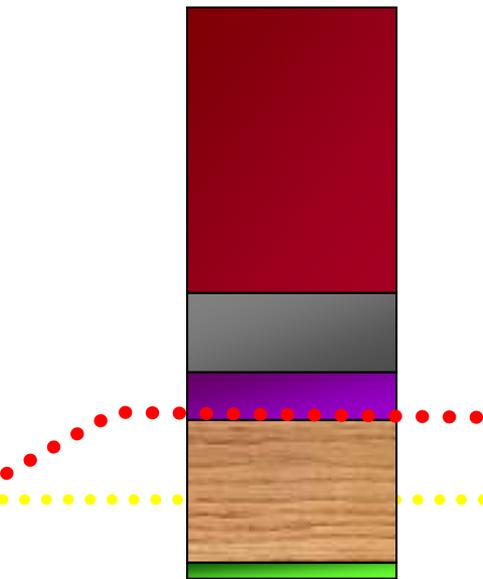
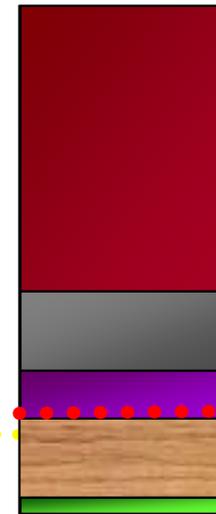
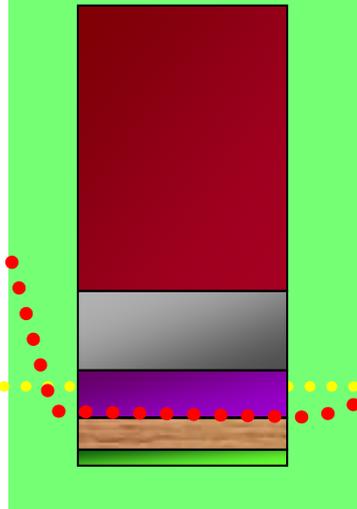
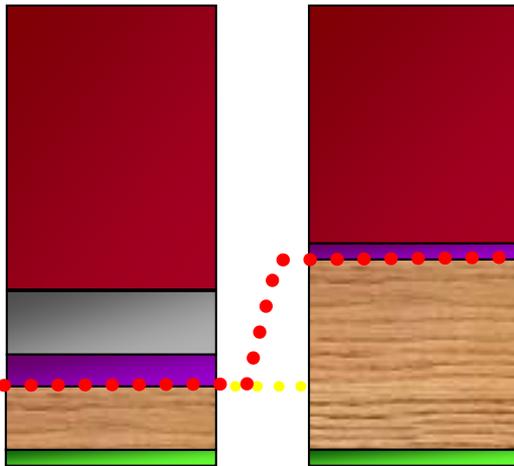
if a land use with higher
ability appears

+ new zoning
+ new accesibility

- same costs

= higher residue

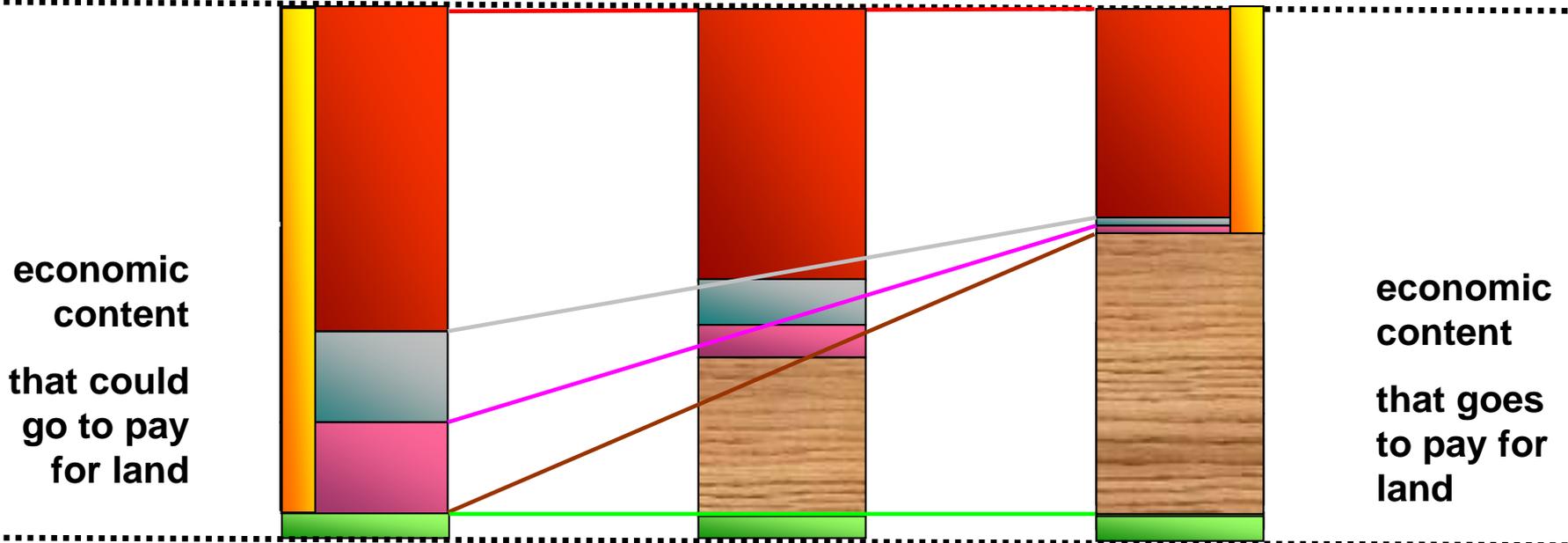
land improvements



land policies



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economic content
that could
go to pay
for land

economic content
that goes
to pay for
land

lower price of land

how much for each ?

higher price of land

more house,
neighbourhood
and city

with which
instruments?

less house
neighbourhood
and city

land policies



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. Zoning

... inclusionary zoning

... exclusionary zoning

... social interest areas

... density areas

... development requirements

land instruments



. 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

... transfered from government

... transfered between landowners

... building licence fees

... pricing according to land value increment

... parallel: land leasing

land instruments



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. 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 instruments



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. Land readjustment

... equitable distribution

... of costs and benefits

... multiple land use polygon

... compulsory association rules

... continuous vs discontinuous polygons

land instruments



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Adapted from Smolka, 2004

higher tax on capital and labour (productive activities)

transfers

subsidies

WEAK MUNICIPALITIES

scarce public funds

low investment on urban services

tax exemption, titling and subsidized services

lower tax base, higher need for services

scarce serviced land

serviced land withdrawn from market

families impoverished

higher profit expectations

exclusion from serviced land market

serviced land over-priced

land retained for future market

unserviced land over-priced

refuge in informal unserviced land market

price rise expectations

subsidized services deregulation and tax reduction "incentives"

low development costs

INFORMALITY

SPECULATION

land instruments



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Adapted from Smolka, 2004

lower tax on capital and labour (productive activities)

less transfers

less subsidies

STRONG MUNICIPALITIES

abundant public funds

high investment in urban services

no tax exemption, nor subsidies, no need for titling programs

higher tax base and lower need for services

abundant serviced land

more serviced land supplied

families with surplus

moderate expectations

inclusion in serviced land market

serviced land not over-priced

land released for current market

serviced land not overpriced

disposal of informal unserviced land market

no subsidies higher regulation and taxes on vacant land

lower prices expectations

development costs internalized

ACCESS TO FORMAL LAND

SUPPLY OF SERVICED LAND

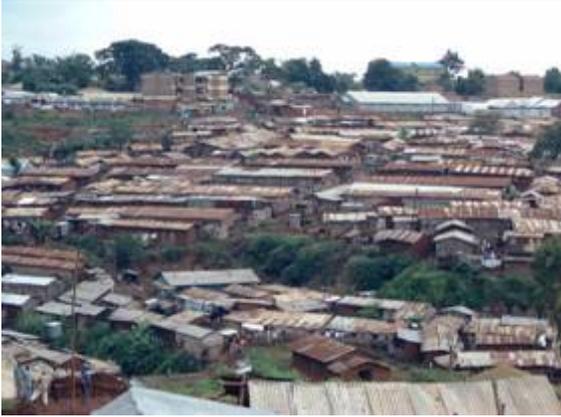
land instruments



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THANK YOU

QUESTIONS ?



Kibera
Nairobi



Khayelitsha
Cape Town



Rosinha
Rio de Janeiro



Tunel La Planicie
Caracas



Kali Besar Jakarta



Neza, Mexico City

land and the urban poor