



Secure Tenure for the Urban Poor The Cities Alliance

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*Access to serviced land by the
urban poor*

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Points

- ❖ Prices of serviced land much too high!
- ❖ High land prices the cause of informality and poverty;
- ❖ Regularization programs do not necessarily contribute to lower land prices;
- ❖ Current policy tendencies – to allegedly facilitate access to land – may actually be going in the opposite direction!

Land Prices much too high

3 enigmas

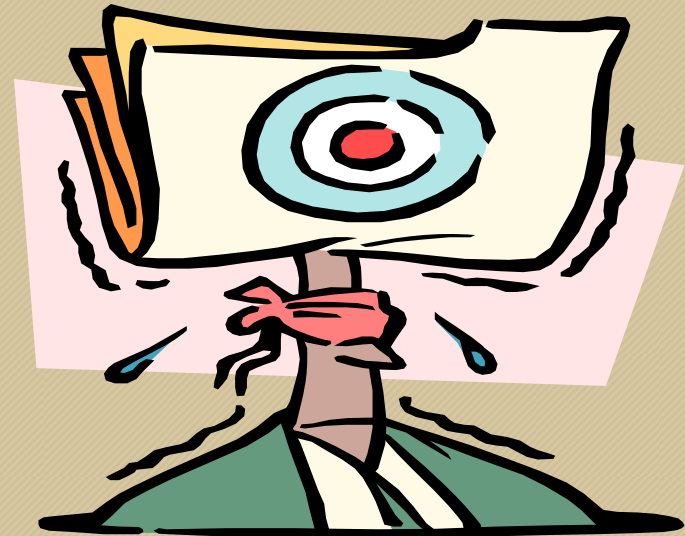
- Prices of land higher than in developed countries
- Small interest of private agents in the production of urbanized land i.e. with infrastructure and services, in spite of high *mark-up*!
- Prices in informal markets higher than in formal markets;

An enigmatic mutually disadvantageous (perverse?) relation between formal and informal market

Prices for serviced
land in Latin America
not lower than in
developed countries

Prices of land with services

- **Defining**
- **Measuring**
- **Comparing**
- **Always a 'tour de force'**



... Yet here some indicators

Prices US\$/m² of urbanized land (urban fringe)

	United States (1)	Germany (2)	Latin America (3)
Minimum	28	61	32
Maximum	145	124	172

Source: (1) Boston Globe - Oct. 6 2001, (2) Dietrich et.al. (1993), (3) Interviews with specialists – own interpretation

Prices (per m²) for 'popular' lot of 125 m² regularly offered in the formal market

- ❖ Porto Alegre = US\$ 55.-/m²
- ❖ Rio de Janeiro (West zone) = US\$ 70.- /m²
- ❖ Belem do Para = US\$ 72.50
- ❖ Palmas =US\$ 70.-

Source – realtors (CRECI)

Price of land in the metropolitan area of Boston

Indicator	Price US\$
❖ Median \$/m ²	33.60
❖ Average \$/m ²	38.30
❖ Non-urbanized	3.60
❖ Urbanized – urban fringe (max)	145.00
❖ In high income áreas	828.00
❖ Total per lot price - median	310,000.00

Fonte: Boston Globe

Access for the poor to urbanized land on city fringes

Region	Reference income US\$	Price per /m² of urbanized land US\$	M²s that can be afforded!
United States	960 (SM)	145	6.7
Germany	716 (15% poor fam)	124	5.8
Latin America	130 (SM)	172	.8

Price per m² of serviced land designated for residential construction

	US\$ /m ²	Newspaper adverts
Dallas (Corinth)	30	Dallas Morning News 01/15/2002
Phoenix (Carefree)	35 a 40	The Arizona Republic 01/12/2002
Boston (Acton)	23	Boston Globe 10/17/2001
Boston (Wayland)	158	Great Places Realty
St. Louis	6 a 10!	St Louis Dispatch 01/10/2002

Land prices – gated communities*

City	US\$ /m ²	Source
Buenos Aires	40 a 250	Propiedades Jun/Jul 2001
Carrasco, Uy	150	Idem
Lima	75 a 198	Inmobiliarias (Calderon)
Bogota	150 a 254	Metrovivienda
Caracas	68 a 205	Akros y Proinverobras

* Country Clubs, etc

Why do private agents show so little interest in the production of urbanized land if the mark ups are so high?

Formation of land prices: 'mark-ups' on access to scarce services

Median prices based on Latin American experience (US\$)

Type	Minimum	Maximum	Average
Raw land	6.7	17.5	11.6
Cost of urbanization	25.8	43.3	33.1
Final market price	60.7	172.4	73.3

Source: own – Interview with experts on 11 countries/cities

A brief summary of land prices:

Data valid for Rio de Janeiro (1996)

Type	ECIA	SMH&DU	Estilization
	Private developer	Public Agency	
Raw land	10 or 15	10 or 16.8	5/10
Cost of urbanization	32	35.7	25/35
Market price	70 to 143	52	60/120

Why, in spite of high mark-up private agents show so little interest in the development of urbanized land?

- ❖ Developers of popular projects also find it hard to get access to credit;
- ❖ Urbanistic regulations a bother
- ❖ Intangible costs – legal fees

The provision of irregular land is more profitable!

Why the provision of irregular land is more profitable than that of 'regular'?

- ❖ Smaller immobilization of capital
 - Lower cost
 - Less risk (!)
- ❖ Avoids the 'via crucis' of getting permits;
- ❖ Intangible costs lower - e.g. of security;
- ❖ Higher land prices on a per square meter basis due to smaller plots (higher density use of land)
- ❖ Others?

It is often
easier and more profitable
for private land developers
to operate
in informal land markets
than to operate
in formal markets

Operating margins of developers

Developer	Informal	Formal
Floor	US\$ 5/10 (vacant land)	US\$ 45 (10+35)
Ceiling	US\$ 20/40	US\$ 70/170
Margin	> 400%	< 400%

Prices per m² of
land in informal
market higher
than in formal
market

Illegal plot prices per m²

- ❖ Guarulhos (RMSP) – from US\$ 20.- to 40.- (Ellade 2001).
- ❖ Bogotá, Colombia – from US\$15.78 to 18.94 (Carmen Iriarte 2001).
- ❖ Lima, Peru - US\$ 33,6 (Julio Calderon 1998)
- ❖ Cochabamba, Bolivia - from US\$ 25.- to 30.- (Fabio Farfan 2001).

Informal lots in Latin America: price in US\$/m²

	Minimum	Maximum
Average	9.2	29.1
Median	8.4	23.7

Source: Interviews with specialists

Illegal lot

- ❖ Average size – less than 100 m²
- ❖ Location – periphery
- ❖ Services – ‘cosmetic’
- ❖ Prices from US\$ 8 to 24.- per m²

The plot is small, the location is bad, the services are few ... And the prices are high !

Overpricing in informal markets

- ❖ Direct financing - ‘guarantees’
- ❖ Complicity of buyer and seller
- ❖ ‘Captive’ markets?
- ❖ Per m² vs. area paid for
- ❖ ...capitalizing on expectations of being regularized

Regularization:

*the solution
that is part of the problem,*

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Regularization: arguments in favor

- ❖ Not regularizing not a political option
 - Social/humanitarian reasons
 - Negative externalities (?)
 - ✓ Urban violence
 - ✓ Health/epidemics etc.
 - ✓ Aesthetic reasons
- ❖ Existing structures – housing etc.
- ❖ Convenience: cheaper than new developments (?)

Regularization: Revisiting cost-effectiveness

- ❖ Bad quality of housing
 - Most self produced – inappropriate for living!
- ❖ Densities much too high
 - *Barrios en Caracas* 205 hab/ha vs. *Copacabana* 305 hab/ha!
- ❖ Hidden operation and maintenance costs in services and infrastructure of ‘alternative solutions’
 - e.g. mail delivery, condominial sewage, garbage collection!
- ❖ Inadequate location
 - e.g. environment risk

Irregular settlements: badly located

❖ *Favelas* in São Paulo

- 49,3% on river banks;
 - 32,2% suffer periodical flooding;
 - 29,3% are on steep slopes;
 - 24,2% on lands being eroded
 - 9% on garbage tips or landfill sites
- (ref. Maricato 1996, p.58)

❖ *Barrios* of Caracas

- The average slope is of 38% (ref. CONAVI).

Regularization: general effects

❖ Signals

- Premium
- Immigration

❖ Opportunity cost

- Curative vs. preventive

❖ The 'day after'

- The stigma – sticks!
- Market validation

Regularization: Signals

❖ Premium

- Expectations of future regularization
 - ✓ Informal land prices
- Hard to prove – indirect

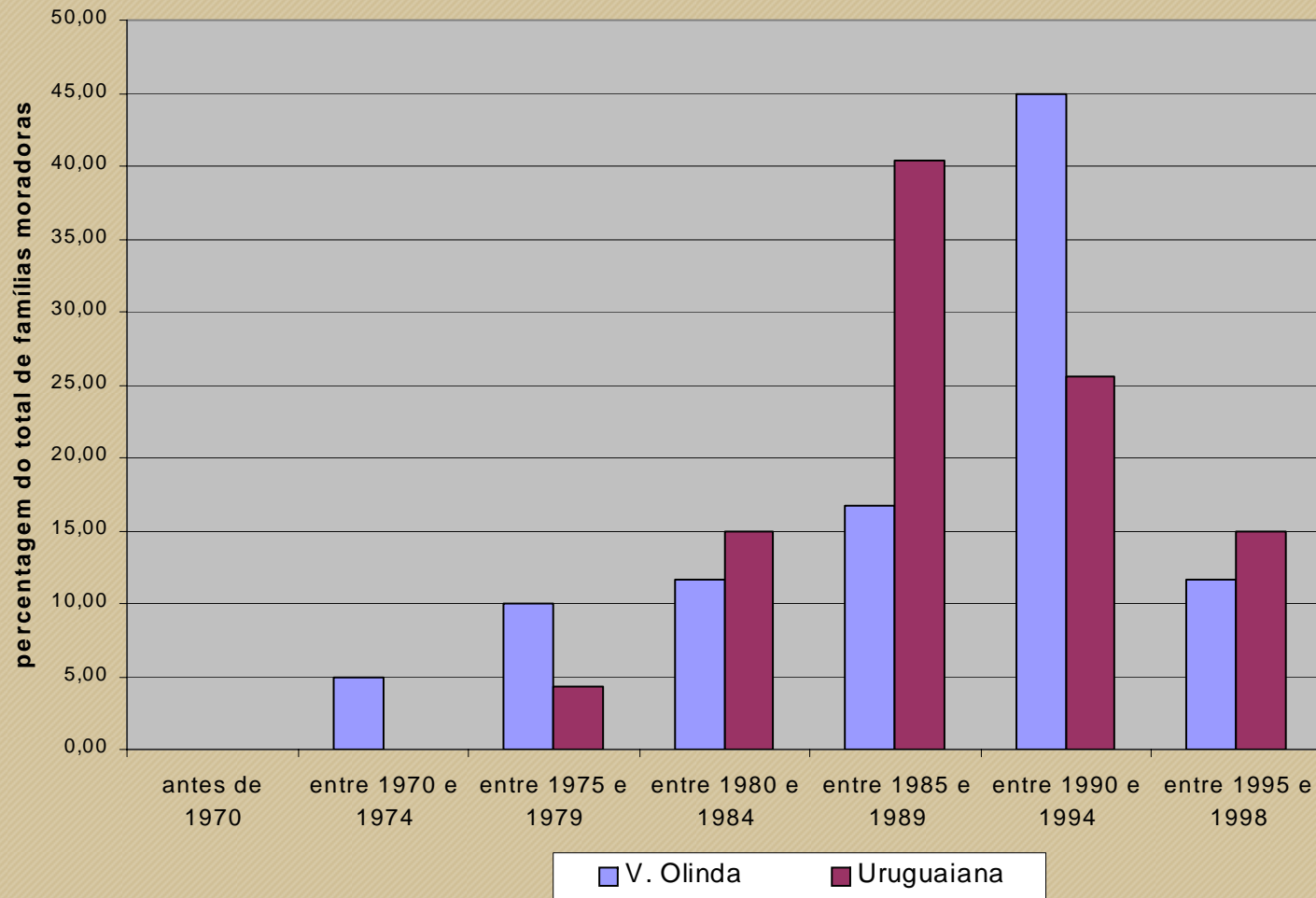
❖ Attracting - immigrants

The expectation of being regularized - contributes to more irregularity

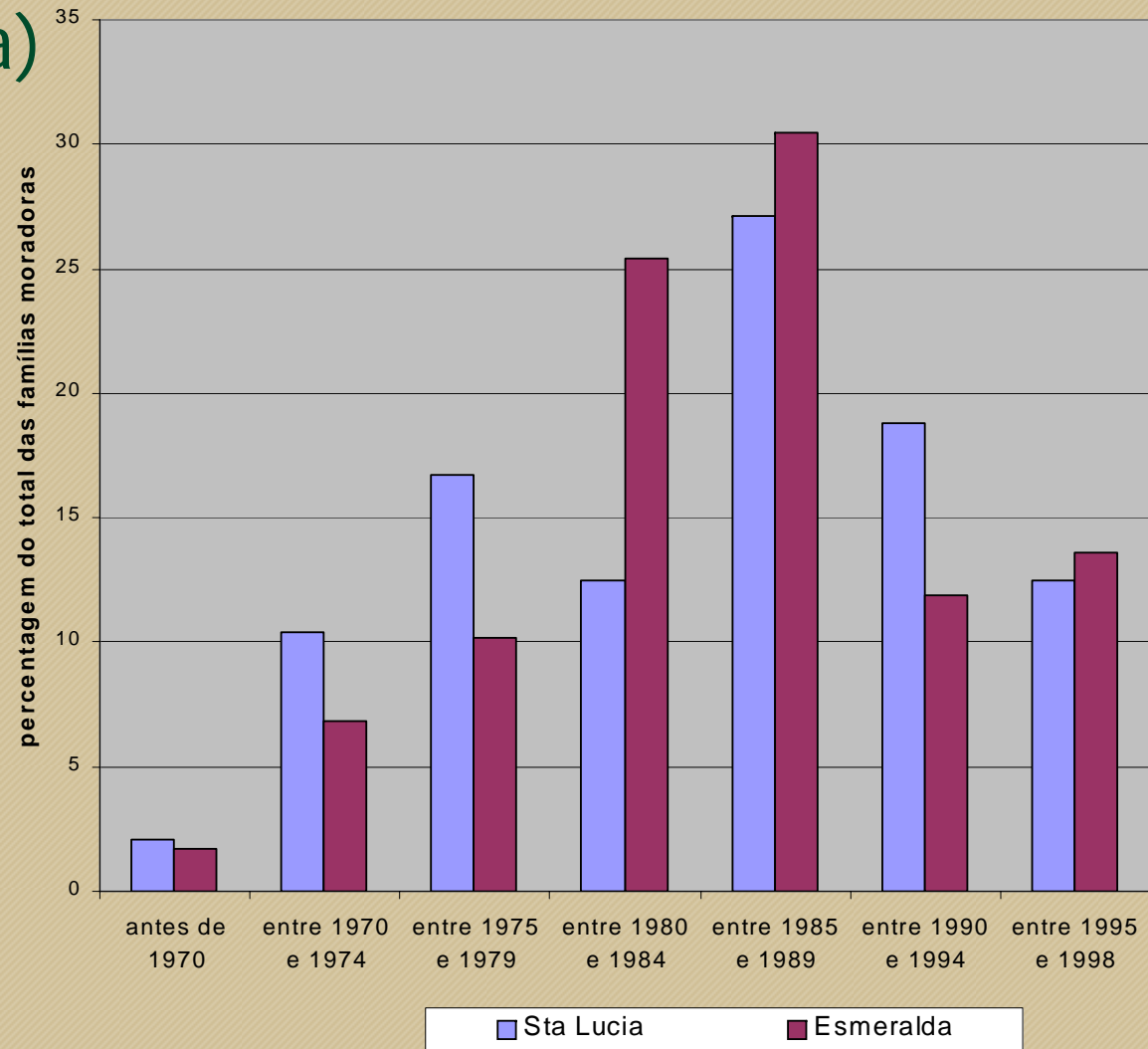
- ❖ Irregular occupations and ...elections
 - Miguel Arraes, Roriz, etc.
- ❖ Temporary settlements made permanent
 - Riofrio 1991
- ❖ Dates of arrival in settlements
 - Evidence of H. Menna Barreto (2000)

Peru – irregularity from 17% (1961), to 38% (2000)
(Calderón 2001)

Dates families arrived vs. regularization programs (Areas: V. Olinda and Barão de Uruguaiana)



Dates families arrived vs. regularization programs (*favelas* Santa Lúcia II and Esmeralda)



Regularization: Opportunity cost

❖ ‘Repairs’ costs of irregular settlements

- 2.7 times that in new planned areas (Aristazabal y Gomez 2001)
- Guarapiranga program – US\$ 153.- /m² (Rocha et al. 2001)
- Average cost of about US\$ 40 to 70.- /m²
 - ✓ 14 projects (*Favelas* in 7 cities in 5 States of Brazil) – US\$ 3,400.- average
 - ✓ (Caicedo & Izar 1999), or
 - ✓ Favela-Bairro in RJ (1st phase) – US\$ 3,500 to 4,000.-
 - ✓ Caracas US\$ 57.20 (ref. CONAVI)

❖ Cost of fully servicing land in new development

- US\$ 25 to 35.- /m² (ref. Latin American data)

Regularization: The 'day after'

❖ Low market recognition of up-grading

- In Favela-Bairro program in RJ – property appreciation from 28% to 43%. Applied to average property value of about US\$ 12K barely absorbs per family cost of up-grading (US\$ 4K)
- In low-income 'formal' areas - appreciation > costs!

❖ Inertia of the stigma

- Areas 'up-graded' 15 years ago still considered as *favelas*

❖ Higher turnover (> 8%?)

- Cashing
- Filtering up or down?

N.B. Few available studies!

In sum, regularization does not necessarily contribute to:

- ❖ **Reducing prices;**
- ❖ **Increasing the capacity of public administrations to provide serviced land;**
- ❖ **Discouraging further irregular occupation;**
- ❖ **Making the formal land market more profitable than the informal!**



Current
policy tendencies,
to allegedly facilitate
access to land
by the urban poor,
may actually be going
in the opposite direction

Revisiting proposals to deal with the question of informality

- ❖ Reduce the minimum size of the plots
 - Higher density => lower price?
- ❖ Adaptation of infrastructure technologies
 - Cost reduction
- ❖ Property tax exemption
 - The poor cannot pay or high cost to collect
- ❖ Deregulation
 - Formalization (or glorification) of the informal
- ❖ Simplification of titling processes

Overlooked aspects/costs!

- ❖ Lower minimum lot sizes and other low standards
 - Cost reductions necessarily transferred to lower prices?
- ❖ Alternative infrastructure solutions
 - Hidden higher operation and maintenance costs
- ❖ Waiving one's fiscal responsibilities
 - Ignore or overlook positive extra-fiscal effects
- ❖ Surrogate or special tenure titles
 - Protects holder from discriminatory market practices?

Over or under-regulation of land use?

❖ The experience of Goiania, Brazil:

- Protocols between the realtors' association and the local administration transferred inspection roles to the realtors.
 - ✓ Unregistered land brokers are denounced, brought to court and often put in jail.
 - ✓ Registered broker who sells land plots that do not comply with official ordinances is summarily disbarred.
- As a result,
 - ✓ irregular subdivisions – have virtually been eliminated
 - ✓ land prices – declined on a per-square-meter basis.
- Better to: deregulating rich areas and regulating poor áreas!

Property Taxes, and Access to land by the urban poor

- ❖ Direct effects: local public revenues
 - Considerable margin for improvement
- ❖ Indirect effects: extra-fiscal
 - Capitalization effects that reduce market prices
 - ✓ Surrogate credit mechanism (Linn & Bahl)
 - Official means of legitimizing tenure rights
 - ✓ Fiscal cadastre vs. registration system
 - Disciplining the functioning of land market
 - ✓ Penalty on land retention (re: speculation)
 - Fiscal citizenship
 - ✓ Tax payers' rights to services