



Housing and development The Way Forward Conference

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Context: Development comes with moving to cities



Where relevant today?

Where there is urbanization.

- Sub-Saharan Africa and South and South-East Asia
 - Urban share 35-50% now, but city populations typically doubling every 20 years
 - Africa urbanizing at comparatively low-income levels compared to other regions today or in the past (Bryan et al, 2019)
 - Lack of development of institutions for housing and other markets
 - Lack of money for infrastructure “needs” and proper lay-out of cities
- Versus Latin America and most of East and West Asia
 - (Almost) fully urbanized (60-80%)
 - Focus is on clean-up of past problems



The challenges in harnessing urbanization



- Competitive economies require competitive cities
 - Effective intra-city transport and planning
 - People and goods move through city
 - Firms can cluster for agglomeration economies (Heblich et al on London underground)
 - Functional land and housing markets: quality of life
- Most housing development is in already occupied parts of cities.
 - Not solved by new cities or edge city development
 - Need to regularize and/ or redevelop large parts of cities overtime
- But weak institutions and governance

What is at risk? Effective use of private capital.



- (Re) deployment of nations' capital stocks, private and public, to cities
 - Buildings are about 2/3 of the private capital stock of nations
 - Buildings are highly durable
 - Rapid urban construction: must live with decisions made today for decades

What is at risk? Effective use of public capital.



- Up to half of urban land is in public use: a big portion roads, highways, & sidewalks
 - Deployment of public capital affects the spatial development of cities for decades, even centuries.
 - Where housing gets built
 - How people move through the city
- The allocation of these two sources of capital, the major portion of the capital stock of countries, will affect lives of billions of people

Housing markets



- **Some key reforms for more efficient markets**
 - **Property rights:** full private rights (freehold or leasehold)
 - Slums and spaces with informal rights
 - Planning & land use regulation
 - (Public and private finance)

Property rights



- Theory: 2 + tier system in much of the developing world, sustained after end of colonial era
 - Urban: historical formal rights (at least in colonial portions of the city)
 - Can be small portions of the city, typically city center
 - Rural: customary rights (Indonesia, China, much of sub-Saharan Africa)
 - These are distinct & solid rights, but not recorded as ownership

Property rights



- Ever evolving urban fringe: in theory, transition from customary to formal rights
- Despite the theoretical system, generally, large parts of cities governed by “possessory” rights, where land transacts informally
 - Neither customary nor formal, but can be secure
 - Owner-occupied housing in large parts of Africa. DHS sample of a number of cities. 10-35% self-report title

Why privatize?



- Private benefits
 1. Risk of expropriation; encroachment; inheritance; standing in court
 - Risk of expropriation rises with level of investment (DeSoto, 2000)
 2. Construction and purchase loans; insurance
- Essential to intensive investment
 - Studies on titling (but mostly Latin America slums; Field; Galiani and Schargrodsky)
 - People invest more; are happier.
- Social:
 - Externalities (If you are titled, want your neighbor titled)
 - All property recorded: makes taxation easier (but that is reason to resist titling)



Beijing 1984 and today

Land rights

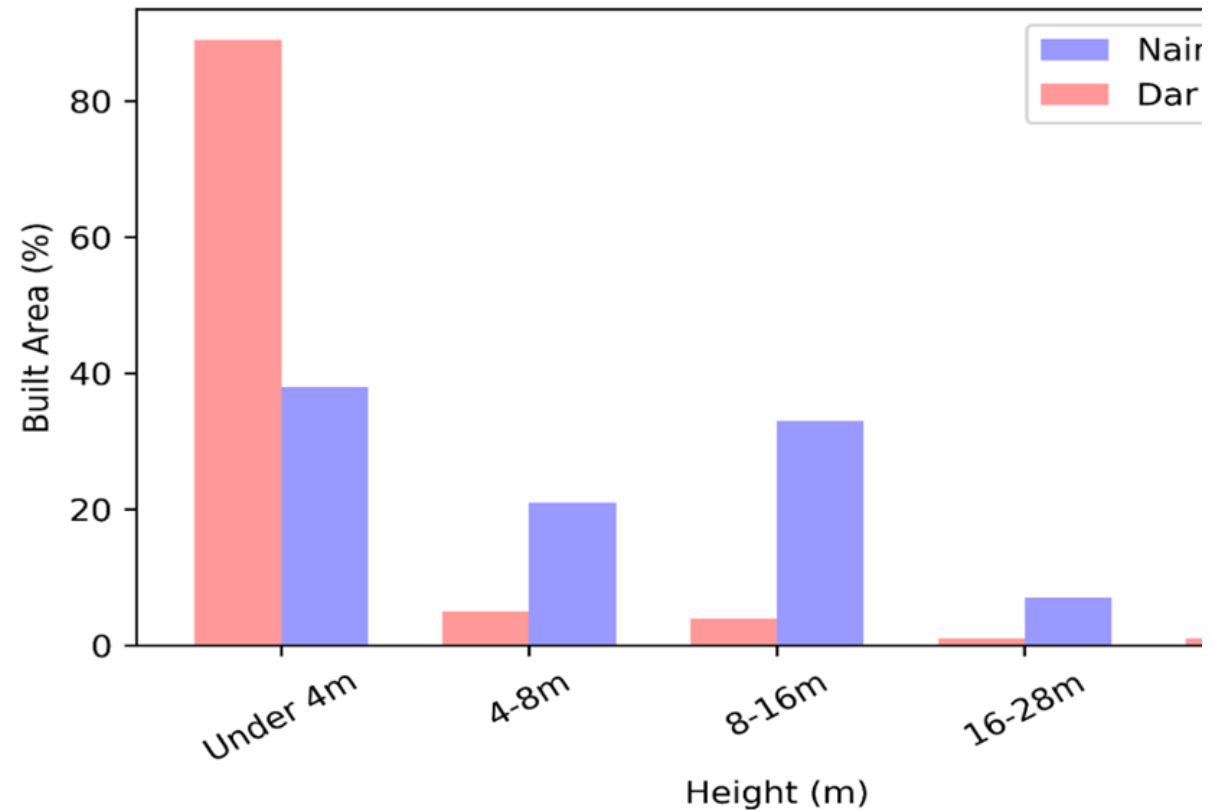
- Land reform in China as precursor to urban construction in early 1990's
- Jump to a new regime and equilibrium



Tale of two cities



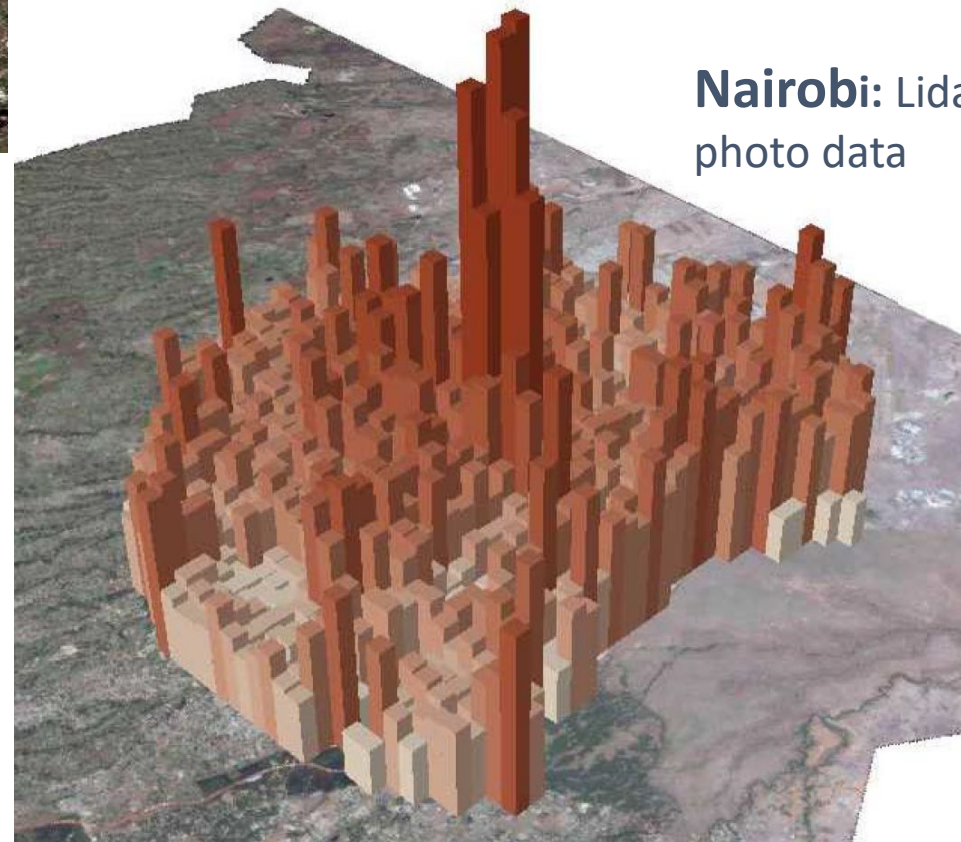
- Nairobi with “private rights”:
 - 90% of land declared to be formal
- Versus Dar es Salaam
 - Maybe of 20% of residential units have title





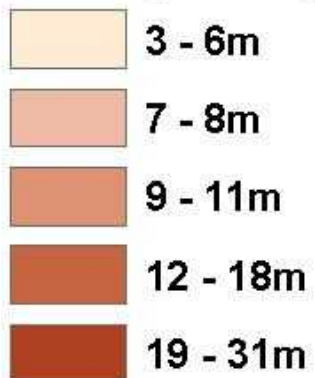
Dar es Salaam: drones
plus surveying

3-D images by grid squares, circa 2015

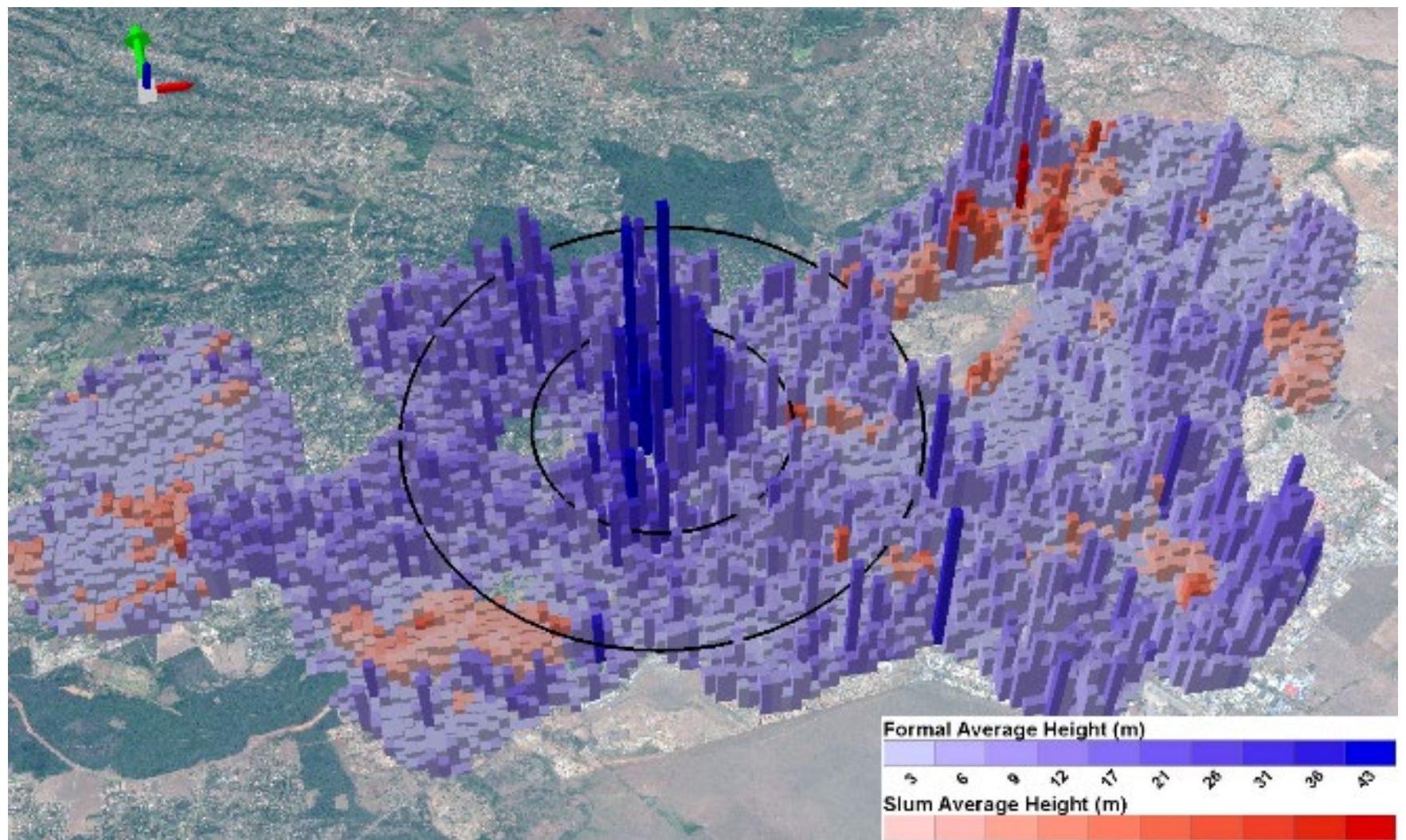
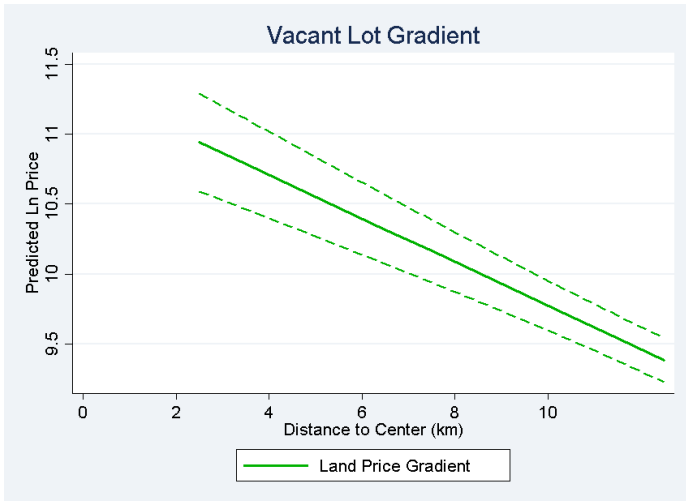


Nairobi: Lidar and aerial
photo data

Average Height



Nairobi

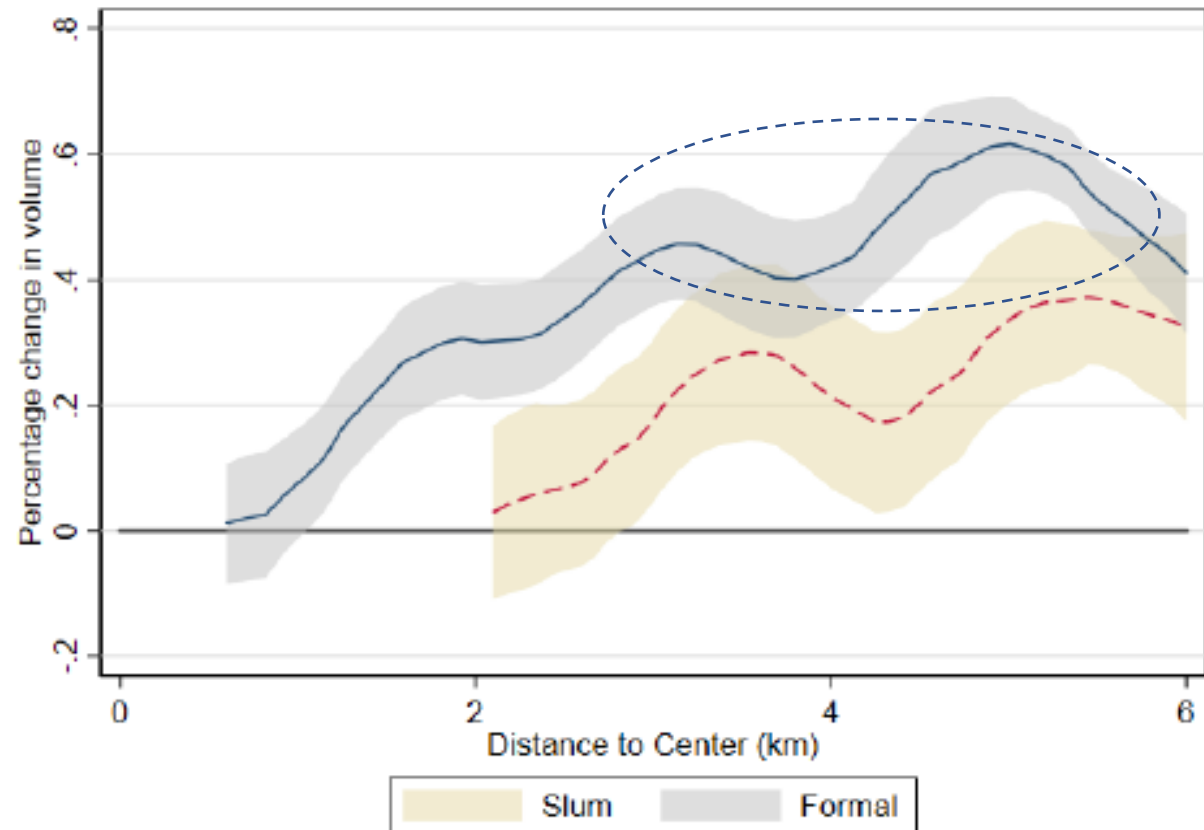


- Slums low & formal high in height
- Different building materials
 - Corrugated iron sheets/mud vs brick and block

Within city volume growth: Nairobi slums versus formal sector



- Growth 2003-2015 in total volume of building space
 - Formal:
 - None near center (rebuilt earlier)
 - **Renewal at 3-5 kms from center (35% of buildings torn down in 11-12 years) . Triple height of buildings**
 - vs. greenfield building nearer fringe.
- Government owned vs. private slums



Informal settlements near CBD & redevelopment

- Informal (e.g., Jakarta kampongs; Tanzania)
 - Mostly owner-occupied. Strong possessory rights
- Land invasion (Brazilian favelas)
 - Squatting, but often “owner-occupied” housing
 - Public lands, and private under title dispute
- No property rights (Kolkata bustees; Nairobi slums)
 - Run by illegal slumlords who pay bribes and rent out housing.
 - Public lands, and private under title dispute
- Redevelopment of older slum sections of the city into commercial use requires formality; Hard to achieve.
 - Political connections of illegal slumlords; govt unwillingness to grant title
 - Also, with squatting, political power of the residents



If formality is so great, Why is it so lacking?



- **Formality needs registry: institutional capacity**
 - All properties surveyed (boundary disputes)
 - All transactions including resales are recorded
- Issues
 1. Costs of (even mass) surveying and registry may exceed willingness-to-pay for many.
 - Owner incentives: If strong possessory rights, why pay to title?
 - **Titling only becomes critical when change use to higher order use**
 - Low height residential to commercial use or high-rise apartment blocks with intensive investment

Issues in moving to formality



2. Pricing of initial title and transfer

- Cities need to raise revenues; vast overpricing of titles and transfer
 - Dar es Salaam: About 80% of price is in excess of surveying & registering cost

3. Lack of trust if registry corruptible (Nairobi)

- Titles mis-recorded or not recorded, switched; fake titles.
 - High cost to ensure uncorrupted titles: specialized industry and investors.
- Skews market towards big investors
 - Scale to afford corruption-free registration of their properties.
- Transparency by accessible, on-line registry record

4. Politics

Issues in moving to formality



- **Incremental does not work (vs. UN SDG's)**
 - Example in Dar es Salaam of residential license [RL] vs title
 - RL gives standing, is registered for 5 years, and is renewable.
 - Tiny price (but property *not surveyed*) .
 - Has little renewal of licenses (after 5 years)
 - Not used as collateral
 - No progress to title

Equity issues with privatization



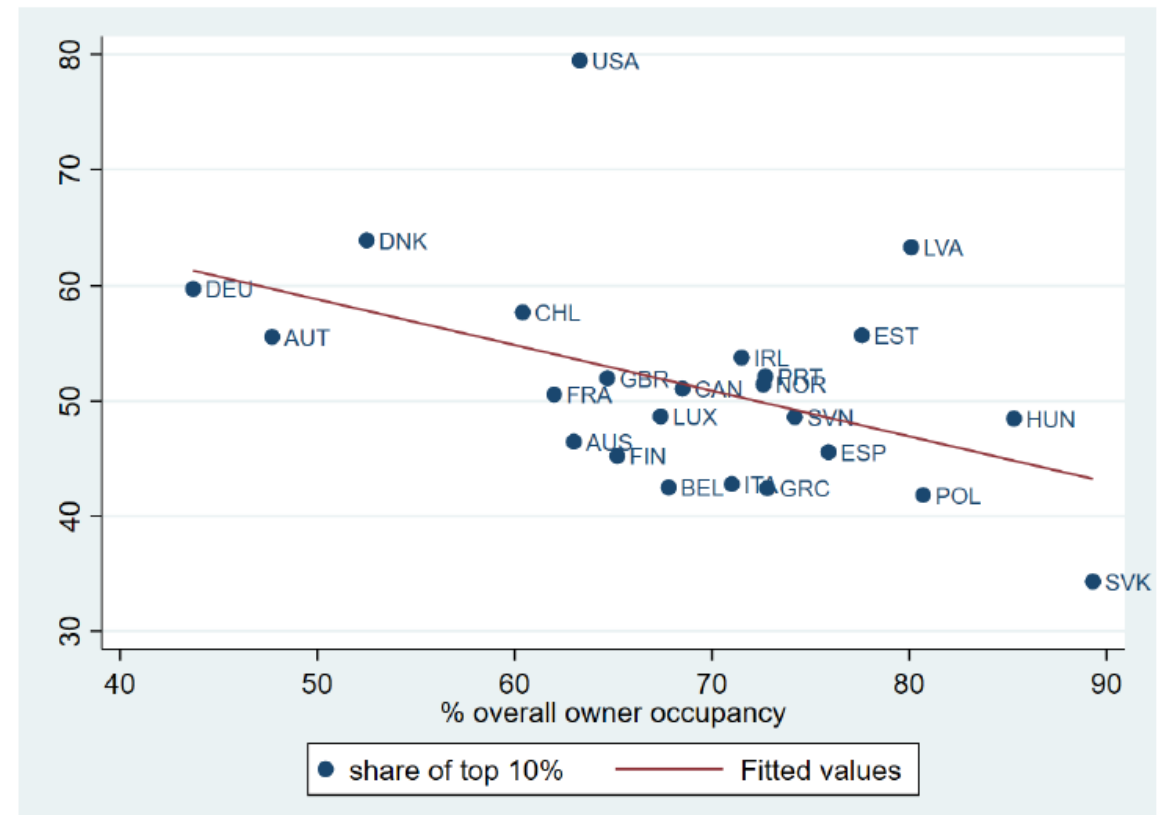
- Should be done with transparency and with equity in mind
 - Titles for those owner-occupiers with possessory rights.
 - Good intentions; slow speed (Tanzania discussed above)
- Vs: Nairobi where 86% (2009) of residents in formal sector rent
 - 1990's privatization by decree and dispossession (Commission, 2004; Southall, 2005)
 - Large land holders under 1990's formalization?: Not relinquish holdings
 - On-going corruption: Large scale investors who can mitigate corruption (or deal with it)

Why matter if rental vs owner-occupied market?



- Most private wealth is residential land and buildings in all countries
- If most people rent: implies small group of owners.
 - Renters don't generally own a different house which they rent out
- OECD data on share of wealth held by top 10% vs owner occupancy rate.
 - As rate rises, inequality drops

Figure 3: Wealth concentration (share of wealth held by top 10%)



Inequality



- For the 24 OECD countries, *minimum* rate of owner occupancy is over 40%
- For 21 African countries in primate city, 62% of those cities have under 40% owner-occupancy
- Africa data limited, but may be same OECD link to inequality
- Who will benefit from wealth increase as real property values in cities rise with city growth?

Planning and regulation

- Do “well-planned” cities to do better?
 - No real data or studies in terms of growth outcomes
 - Establishing causality!
 - Does affect land use & sprawl
 - Sprawl: car vs. public transport
- Part of planning is regulation
 - Good vs bad vs “ineffective”
 - Economists versus planners
 - But housing is a “planned” markets:
 - High public ownership of land which drives private use.
 - Regulation for externalities



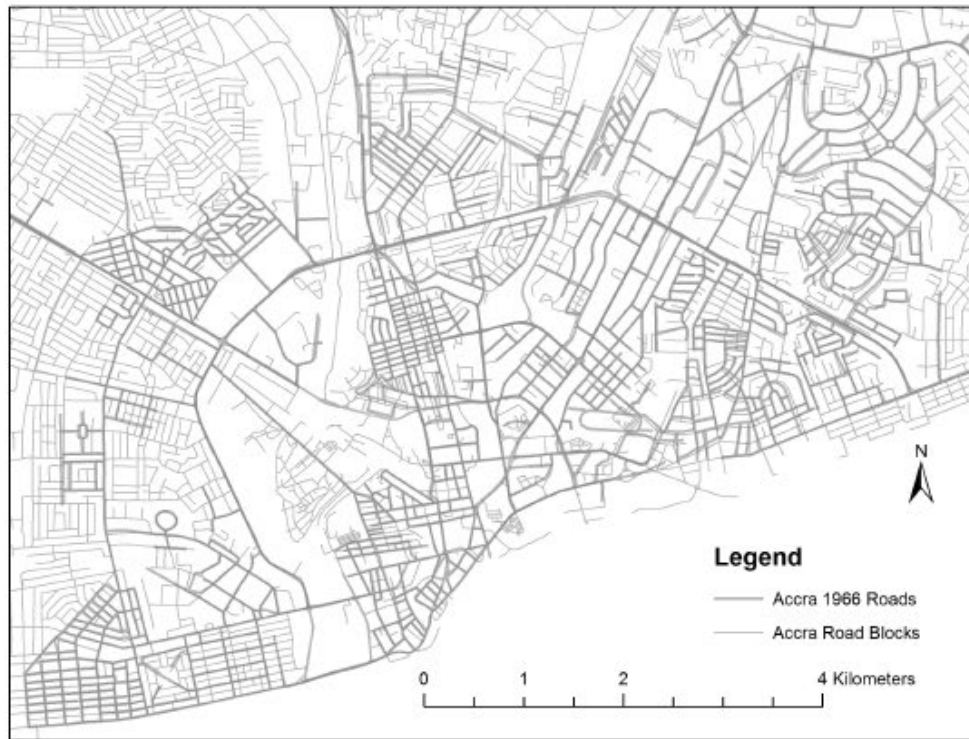
The impact of the past: Francophone vs. Anglophone cities



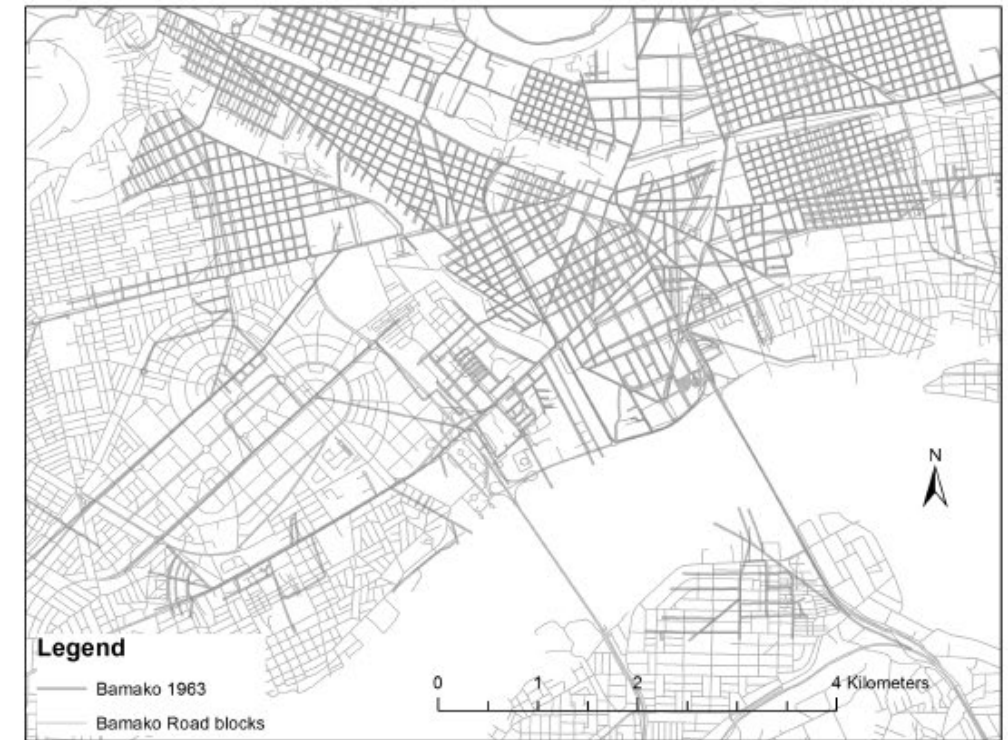
- Francophone *single land authority*. Planning with grid-layout and enforced contiguity starts early on (1910's)
- Anglophone: Dual mandate and next to no overall planning
- Persistence of colonial norms.
- Look at density of built area in over 300 cities in Sub-Saharan Africa. 1975, 1990, 2000, 2015 (Baruah, Peng and Henderson, 2020)
- Findings on Anglophone cities:
 - Sprawl (low density everywhere; bigger area for same population)
 - Lack of grid-iron road structures
 - External margin leapfrogging

Francophone vs. Anglophone cities

- Bamako: early planning.
- Dark is circa 1960 lay-out
- Light is OpenStreet Map



Accra



Bamako



Another form of planning for the future

World Bank sites and services from 1960's to 1990's



- De novo (greenfield projects). Laid out roads and plots with utilities. Self-build
- Can be large tracts of cities
- At or beyond city edge where de novo land can be assembled. May take years to fully develop
- A form of neighborhood planning
 - Supplements city planning
 - City plans in many situations ignored and non-binding
- Lays out areas for the future, to avoid hodge-podges
 - It works! Historical New York . Places where roads planned and set aside vs. not

Example : Mbeya

- Visible treatment vs control group
 - *Plans followed* (40 years later)
- *Not solve* low income/slum problem
 - Too upscale
 - Higher quality & **values per sq meter**
 - New public/private initiatives
- Michaels, Nigmatulina, Rauch, Regan, et al. JPE 2021

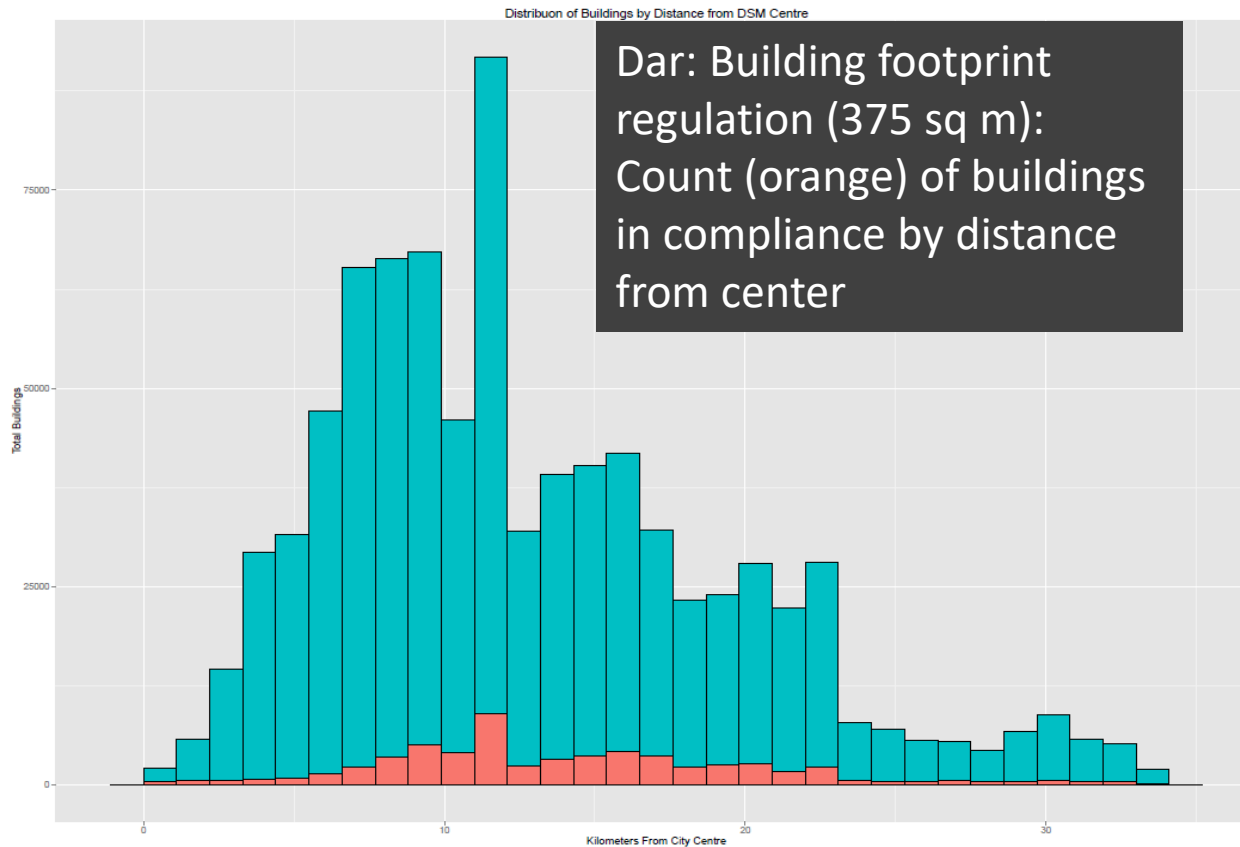


Land use regulation

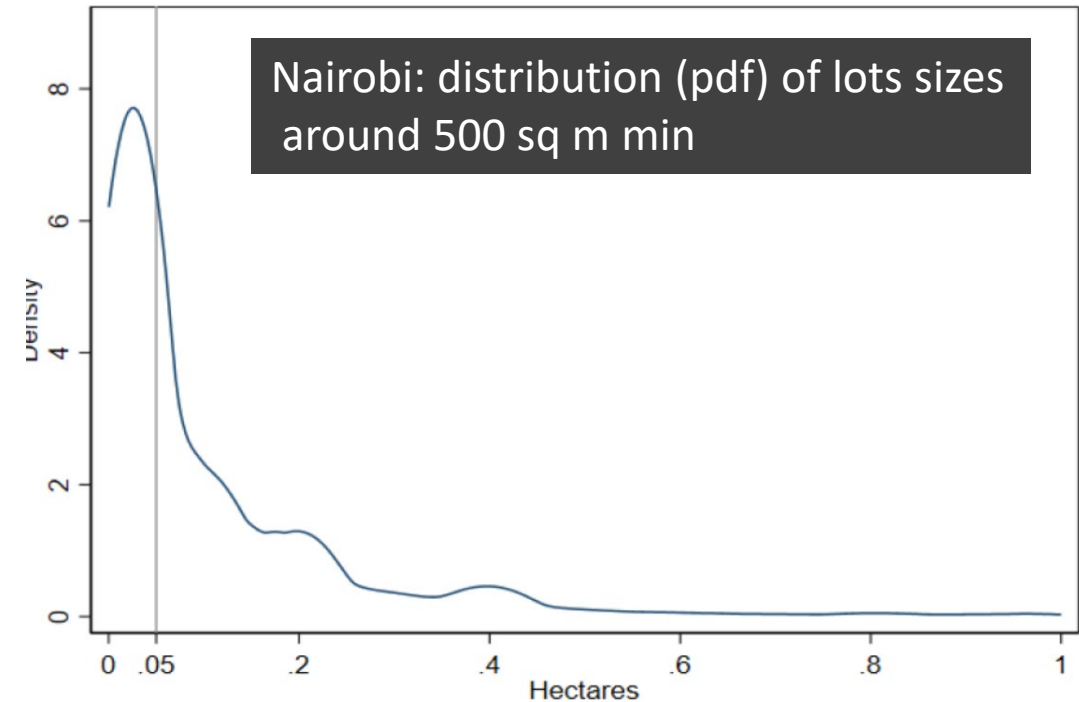


- Regulation: Excessive lot and building footprint minimums
- Set for much richer countries.
 - E.g., mimic English town planning acts
- Lack of compliance:
 - Not matter? Versus creates *quasi-(il)legality* (and rent-seeking)
 - Also means: no effective planning

Regulation



Distribution of plot sizes: formal sector



Financing the local public sector: Taxes on land and housing



- 15 OECD countries: Property tax collections are 2.65% of GDP
- Sub-Saharan Africa: 0.38%
- Why: failure to assess and collect
 - Assess all properties:
 - Need registry where all properties and their characteristics are recorded.
 - Implies formality
 - Need values assessed (hedonic regressions; comparables)
 - Need billing (mail/text)
 - Collection problem
 - Typical numbers in East Africa. 8-10% of assessed properties pay; amounts to about 15% of assessed taxes (bigger entities)

Property taxes

- How to collect?
 - Real threat of property seizure. State seizes and auctions
 - Requires formal ownership assignment
 - Issue of state corruption to grab property.
 - Chicago: tear down seized units
 - Political issues of enforcement
 - Alternatives:
 - Lock-out from property
 - Kampala: does it work?
 - In general, is cost of tax > bribe to unlock
 - Nagging, campaigns to link to benefits, shaming



Conclusion



- Problems of urban institutions and governance at low income and education levels.
 - *Reform historically a slow process*
 - *But today urbanization is rapid*
- How incentivize reforms?
 - Public and private sector resistance
 - But can be a big push towards urban redevelopment
- In the right environment, intensive investment in urban capital stocks, mainly housing and public infrastructure



Shanghai

An aside: Do cities compete on a level playing field?

- National and local public decisions

Dongguan



The challenges in harnessing urbanization



- Needs effective structural transformation in classic sense
 - Technological improvement in agriculture
 - Africa with low yields (but improving)
 - Move to cities because of **better opportunities**, not because of **lack of services** and infrastructure in rural areas
 - Big issue in Africa; rural sector is almost entirely agricultural (vs China or India)
- Development of urban economic bases for participation in world markets
 - Manufacturing?