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Making urban real estate markets work for the poor: Theory, policy and practice

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ABSTRACT

This paper explores the relationship between theory, policy and practice, linking urban real estate markets and poverty alleviation. The paper argues that the contribution of urban real estate markets to poverty alleviation has not been optimised due, in part, to inadequate or inappropriate policy. The article attributes this to conceptual and methodological problems arising from the traditional neoclassical analysis of urban real estate markets, ambivalence to the idea that freer markets in real estate are a good thing for the urban poor and insufficient regard to lessons of experience from years of implementing urban anti-poverty land projects. Based on new analytical perspectives provided by institutional economics, this paper proposes specific policy interventions more likely to facilitate pro-poor outcomes in urban real estate markets.

Introduction

It is understood that poverty is the result of economic, political and social processes that interact with and reinforce each other in ways that promote impoverishment (World Bank, 2001). The World Bank (ibid.) points to meagre assets, inaccessible markets, and scarce job opportunities as key explanatory variables. Assets – human, social, physical and natural – play a central role in the contemporary discourse on poverty. Lack of assets is argued to be both a cause and an outcome of poverty. And more importantly, these assets are also seen to lie at the core of whether individuals, households or groups live in poverty or escape it. As the World Bank (ibid.) puts it, these assets interact with market and social opportunities to generate income, a better quality of life, and a sense of psychological well being. In addition, assets are also central to coping with shocks and reducing the vulnerability that is a constant feature of poverty.

Markets clearly play a prominent role in the World Bank's current thinking about fighting poverty. Thus 'making markets work for the poor' ('MMW4P') is the cornerstone of the new anti-poverty strategy, a mantra around which much contemporary discussion and action revolves. In this context, this paper addresses the question; what does 'making markets work for the poor' mean in the case of urban real estate? While the majority tend to be tenants, land is frequently the single most valuable asset held by the urban poor (Alston, Libecap, & Mueller, 1999). Thus urban real estate markets have potentially a pivotal contribution to make in the struggle to better the lives of millions of people in the world currently living in poverty.

This paper explores the relationships between theory, policy and practice linking urban real estate markets and poverty alleviation. The paper concludes that the potential contribution of urban real estate markets to poverty alleviation has not been optimised so far. The paper argues for a fundamental change in policy, one which takes into account thinking reflected in the wider development literature, the lessons of experience obtained in the last few years and emerging thinking based on recent theoretical developments in economics.

This paper is organised into six sections. The next section briefly reviews salient conceptual and theoretical perspectives on (urban) poverty. "Urban real estate markets and poverty alleviation: theory, policy and evidence" examines how the link between urban *land* and poverty alleviation is theorised and the resulting policy prescriptions and empirical evidence arising from policy implementation. Drawing on the previous section, "Making urban land markets work for the poor: accounting for policy failures" is a critical examination of the policy and practical response by leading international development agencies, with a view of accounting for failures. "Making urban land markets work for the poor post de soto: new directions" attempts to chart a way forward by considering what it would require, in policy terms, to make urban real estate markets work for the poor. Conclusions follow in the penultimate section.

In this paper, 'real estate' is used interchangeably with 'land' and 'property' and refers to both vacant land and land with improvements on it. Ownership of this real estate may be formal or informal.

Poverty: some conceptual and theoretical issues

There has been a shift from conceptualising poverty in quantitative terms, based either on income or expenditure thresholds,

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towards contemporary multidimensional perspectives which put household assets at centre stage (Baud, Sridharan, & Pfeffer, 2008; Moser, 2007; Shaffer, 2008). Thus, in its landmark *2001 World Development Report*, the World Bank argues that people may be poor not just because of low incomes but their poverty may derive from an inadequate, unstable or risky asset base needed as a cushion to carry them through hard times (World Bank, 2001). These assets are conventionally described as household capital, leading to what has been called 'the Capital Assets Framework' for conceptualisation of poverty.

The Capital Asset Framework and its taxonomic variants represent current best practice in the conceptualisation of both the causes of poverty and how it may be alleviated. The framework is an attempt to overcome the limitations of income/consumption based definitions of poverty (Moser, 2007). The framework takes a dynamic view of poverty, drawing attention to how households respond to the condition of poverty and the processes and mechanisms by which improved well being is effected. It is noted that while the poor are often deprived in many respects, they are not merely passive victims of impoverishment (Baud et al., 2008; Rakodi, 1995). Attempts to understand the response of poor people to their deprivation have been conceptualised in terms of household strategies (ibid.). The Capital Asset Framework is, therefore, a conceptual framework that seeks to explain both the condition of poverty and the strategies that poor households employ in response.

Under the Capital Asset Framework, poverty is seen as vulnerability to insecurity, impoverishment and reduced self-respect of households that lack assets that they can mobilise and manage in the face of hardship (Moser, 1998; Rakodi, 1999). Poor households are seen as managers of portfolios of assets, which constitute a stock of capital which can be stored, accumulated, exchanged or depleted and put to work to generate a flow of income or other benefits (Rakodi, 1999).

While there are differences in taxonomy and emphasis between different authors, it is possible to identify a core set of assets available to the urban poor. Rakodi (1999, p. 316) for example identifies the following types: natural capital (including land), physical or produced capital (including housing), financial capital, human capital, social capital and political capital.

The Capital Asset Framework focuses attention on what assets poor household have and sees the returns to those assets as key in explaining their poverty. As Rakodi (1999) puts it, the crucial determinants of households' ability to achieve increased well being are access to capital assets and the effects of external conditioning variables which constrain or encourage the productive use and accumulation of such assets. These variables include institutional arrangements (such as property rights) and transaction costs in various markets.

The policy implications of the Capital Asset Framework are that poverty alleviation efforts must seek to enhance the assets of the poor, as well as increasing the returns to these assets. Operationally, this means interventions to promote opportunities, as well as removing obstacles, to ensure the urban poor use their assets productively (Moser, 1998). Interventions may focus on enabling households to take advantage of opportunities by increasing their capabilities, removing constraints and assisting them to accumulate assets (Rakodi, 1999). This is the context in which the World Bank (2001) sees the building of assets and increasing returns to those assets as key to fighting poverty.

Urban real estate markets and poverty alleviation: theory, policy and evidence

In considering issues at the interface of real estate and urban poverty, there are at least three distinct conceptual points of entry. The first is property rights theory, whose central tenet is that secure property rights, especially individual rights, are a prerequisite for land development and economic growth (Miceli, Sirmans, & Kieyah, 2001). The gains from secure property rights are conventionally seen as arising from three things. Firstly, it is held that secure property rights create conditions that encourage investment, by making long term planning possible, as well as ensuring that rewards from the investment will be appropriated by the investor. Secondly, it is postulated that property rights make possible the functioning of credit markets, and the use of real estate as collateral. Credit does not only leverage the use of land as an asset but provides resources for increased investment as well. Finally, it is theorised that secure proper rights makes commerce between strangers easier, expanding opportunities and thereby increasing gains from trade.

The second point of entry arises from 'asset based' approaches underlying the capital assets framework discussed above. As has been noted before, out of the portfolio of assets that the urban poor have at their disposal, land or real estate is often the most significant (Alston et al., 1999; Moser, 1998). The final conceptual entry point is encapsulated in the 'making markets for the poor (MMW4P)' approach. This approach to fighting poverty seeks to leverage the power of land markets to meet the needs of the poor. The underlying theory is that well-functioning real estate markets provide incentives for trade and investment, thereby promoting growth and poverty reduction (DfID, 2005).

The common thread in all three approaches is the concept of property rights, linking, as it does, the first one to the rest. With regard to asset based approaches, property rights represent a key part of the conditioning variables referred to by Rakodi (Rakodi, 1999) directly determining the ownership structure of these assets, as well as the household strategies that are permissible, legitimate or feasible when employing these assets to generate benefits. The MMW4P approach, for its part, turns on notions of market efficiency, or more formally, low(er) transaction costs. Clear and enforceable property rights, by clarifying, among other things, ownership, boundaries and enforcement mechanisms, lower the cost of exchange in the market place, making them a necessary adjunct to the MMW4P framework. Ultimately, it is the form of property rights which determines who gets the benefits arising either from the employment of assets or the operation of markets.

The centrality of property rights in the conceptualisation of the nexus between land and urban poverty is evident in the extensive promotion, over the last two decades, by many international donors and national governments of land titling programmes as the most appropriate policy option to achieve the important objectives of social and economic development and reducing urban poverty. Land titling has increasingly been considered as an effective form of government intervention for targeting the poor and encouraging economic growth in urban areas (Field, 2003). It is seen as the main instrument for increasing land tenure security, stimulating land markets and facilitating the use of land as collateral in credit markets (Deininger & Binswanger, 1999; Deininger & Chamorro, 2004; Lanjouw & Levy, 2002). The conventional argument is that lack of security of tenure creates 'an extreme sense of vulnerability' for poor households. As Rakodi (1999) puts it, tenure security and legal title give households the incentive to invest in upgrading their homes and the security to use this asset productively. Thus Rakodi (ibid.) argues that a strategy centred on housing as an asset helps some move out of poverty and prevents others from slipping deeper into poverty. Moser (1998) sums up the argument succinctly thus

> In those urban contexts where the poor are systematically excluded from formal sector jobs, and the capacity of macroeconomic growth strategies to generate additional jobs is limited,