How to make enabling regulations to increase land supply
Land-use Regulations for inclusionary housing and the realization of the SDG11.1

Why do we care about land use regulation when talking about inclusion?

Prof. Dr. Cynthia Goytia
Torcuato Di Tella University
Argentina
Why LUR matters?

• Land use determine the alternative pattern of serviced land and housing occupation in cities.
  • Planning has not usually paid attention to the impact of LUR, on land prices, housing affordability and, social/spatial exclusion.
  • We need to understand the direct but also the unintended outcomes of LUR
The presentation in one slide

1. Some stylized facts about Land use regulation (and unintended effects)
2. Common mistakes of social housing finance programs and inappropriate supply of land
3. Urban Policy Tools to improve affordability and inclusion
What accounts for the increasing segregation of high- and low income households?

- Local land use regulations play an important role
  - Zoning enacted to correct for negative externalities
  - Separate incompatible land uses
- Positive welfare effects? Not always!
- Not always enacted to be welfare enhancing
The *unintended effects* of (inappropriate) land use environments

2. *Reduces Affordability*:
   - Restricted supply increased land and housing prices

3. *Drives Informality*:
   - Due to minimum consumption (MSP)

3. *Exclusion*:
   - Through land use regulation (banning social housing)
The *unintended effects* of (inappropriate) land use environments

4. **Social Housing Location:**
   ghettos in peripheral areas

5. **Segregation and Inequality of Opportunities:**
   due to location within the city (access to labor markets, education, health)

6. **Dysfunctional urban growth and Infrastructure deficit:**
   ...and the paradox of infrastructure finance
Local economies require income diversity but exclusionary land use regulation prevails

• “Perfect segregation” by income is today the “best result” obtained from zoning in many cities

  • **Homeowners** want to **keep value** of property (reduced supply and scarcity)
  • Maintain **community homogeneity** or eventually **keeping out** particular population groups.
  • **Exclude lower income households** because consume local public services but paying less than average local taxes.

• **Unless inclusionary instruments are explicitly added**
Exclusionary land use regulation

What are the Methods of exclusion?

- Restrict **type of units** to be developed: Exclusion of social housing
- Force “over-consumption”: min. lot size, FAR, set-backs, standards
- **Minimum plot size** in residential areas and **densities**
- Make housing very costly (permitting process)
Density and Plot sizes

Formal and Informal
South Africa

Density and affordability

Variation of the Price of land with distance to center

Typical Land price profile

Land Price ($/m²) vs Distance from city center (km)

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

10/02/2018
Affordable densities for 2 income groups

The affordable density for each group will vary by distance to the center:

- A can afford to live at 3 km from the center -at a minimum density of about 220 inha/ha,
- while at the same distance group B can afford a minimum density of 60 inha/ha.

Two income groups:
- A is able to pay $5000
- B $ 20,000, for land.
A zoning plan exclude group A from most areas of the city except between a distance of 3 and 4 km and beyond 14 km from the center.

In this particular case, group A would be practically relegated to the periphery of the city.

An alternative for group A would be to bypass the effect of regulations by switching to the informal sector in this example, group B will be likely to be a strong supporter of the new zoning as it does not affect its residential mobility and it prevent group A from overcrowding the most desirable parts of the city.
What highest and best uses means, for low income households ....

• Lower income uses, such as low and moderate-income housing will be either

• pushed to the peripheries of cities (where transport costs reduce bids) or

• foster very high-density slums, where residents’ payments (rents) are large enough in the aggregate to overcome other bidders.
Segregation

• **Segregation of the rich**—growing globally (hoarding of resources, amenities, and sometimes disproportionate local power)

• **Segregation of the poor** - creates neighbourhoods besieged by crime and severely limits life opportunities (in schooling, employment, health, intergenerational mobility).
Land Markets and households’ income

Poor households live in areas where land is cheap and affordable –lacking public infrastructure services, bad accessibility to major employment areas and informal land tenure.
Do Strict Land Use Regulations Make Metropolitan Areas More Segregated by Income?

• Although the empirical research is still surprisingly limited.

1. Density restrictions are associated with the segregation of the wealthy and middle income
   • minimum lot sizes—and densities, exclude low-income households from wealthier neighbourhoods,

2. Social housing location is associated to segregation of the poor
Informal Settlements in BAMR
Accessibility: Labor market and employment

Reduced accessibility may limit opportunities (the poverty trap)
Buenos Aires (Villa 31)

2.798.000 Jobs by public transport in 1 hour
Minimum plot sizes - LAC

- Kingston: 372
- Montevideo: 300
- Buenos Aires: 300
- Tijuana: 180
- San Salvador: 125
- Jequie: 125
- Ilheus: 125
- Ribeirao Preto: 125
- Guarujá: 125
- São Paulo: 125
- Santaívo: 120
- Guayaquil: 100
- Guadalajara: 90
- Ciudad de México: 75
- Valledupar: 45

10/02/2018  WUF 9 - Training Course
% Households that can not afford to buy a minimum plot

- Low income and high land price, minimum plot size
- Low income
Share of developable land for a plot (%)

- Guadalajara: 85%
- Tijuana: 79%
- Ribeirao Preto: 75%
- Montevideo: 70%
- Kingston: 70%
- Guayaquil: 70%
- San Salvador: 67%
- Jequie: 65%
- Ilheus: 65%
- Guaruja: 65%
- Sao Paulo: 65%
- Buenos Aires: 60%
- Santaigo: 59%
- Valledupar: 50%
- Ciudad de México: 12%
Costs and approval times

• Number of processes to obtain a construction permit

Figure 6
Procedures to deal with construction permits
Subsidies and credit programs... are they the solution?

when land use regulation is tight

Who benefits?
Winners and losers....
Changes in the demand curve (i.e., rises in disposable income due to credits)

Demand curve is a line with negative slope that relates price and quantity demanded. Price rises = demand is reduced.

Movements in the demand curve
What happens with supply?
Short run: Supply curve is fixed

- It depends on:
  - the stock and new production
  - the amount that is retained
  - the intensity of use of the stock of land

Source: Varian, 2006:1-18
The equilibrium price of land and housing increases from $P_1$ to $P_2$
So….what is the net effect of a credit program?

• Does it improves housing access or affordability?

• It increases land (housing) prices - in cities where LUR is more restrictive-

• thus reducing housing access
Winners and loosers ....
Who are more benefited?

• **Existing homeowners!**
  • Not the new homeowners (to be), neither renters
  • In case public finance is being used...
    • how is it expended and who is benefiting from it?

• In case taxation is not updated, effects are reinforcing inequalities
Expand Supply....where?

• **Urban infill**: vacant, underdeveloped or low density central areas:

• Benefits:
  • Short-term availability of land
  • Availability of trunk infrastructure and urban services
  • Promotion of a compact city

10/02/2018
Expand Supply....how?

• **Vacant land taxation**
  
  • In some countries vacant land is *under-taxed*, particularly Anglo-African and Islamic countries, because the land appears not to yield any income and not to use public services.

• **However, vacant land capitalizes (future) income and increases the cost of infrastructure to other lots.**

• In other countries vacant land is *taxed more heavily*, particularly Latin America, to reduce speculation and to induce development.

• Taxation should accelerate development
Promote multiple sub-centers and mixed uses

• Dense transit networks and sub-centers
• reduce the length of trips to well-accessible central locations (e.g. a long BRT corridors)

• reduce land prices and promotes equity.
Capture unearned income from urbanization

• Land value capture tools:
  • Betterment contributions
  • Land Pooling & Readjustment
  • Exactions
  • Donation of land for public facilities
  • Charges/auctions for building rights

Understanding windfalls: Without land value capture, inclusive urbanization may not be possible.
Takeaway for practice:

• Density restrictions do drive urban income segregation of the rich, not the poor, but should be addressed because rich enclaves create significant metropolitan problems.

• LUR have a greater potential to reduce income segregation
Monitoring and evaluation

• Finally, comprehensive and **consistent data on the impacts** of local land use regulations should be collected **to inform future research** and **planning practice**.

• **Monitoring**: Land use evaluation and monitoring frameworks for the following-up of the NUA.
  - Exchange of ideas about providing a sustainable way to monitor progress of NUA on urban inclusion and affordability.
  - Brief land use **regulation assessment** toolkit:
  - **Land prices and affordability** for different **income groups**
Thank you
cgoytia@utdt.edu