



# Urban Land Markets:

Economic concepts and tools for engaging in Africa



**Urban LandMark**  
making urban land markets work for the poor



GLOBAL  
LAND  
TOOL  
NETWORK

**UN HABITAT**  
FOR A BETTER URBAN FUTURE

Urban Land Markets: Economic concepts and tools for engaging in Africa

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HS: HS/143/10E

ISBN: 978-92-1-132258-3

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## Acknowledgements

We would like to thank Rob McGaffin, Szilard Fricska, Joseph Maseland, Remy Sietchiping, Alain Durand-Lasserve, Clement Leduka, Mark Napier, Stephen Berrisford, Abueng Matlapeng, Kecia Rust, Jonathan Diederiks and Lauren Roysten for comments on earlier drafts of this handbook.

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Front cover photos: Jos Maseland, Kevin James, Otmar Dresel, Gret and ULM Database.

Sponsors: UK's Department for International Development (DFID), Swedish International Development Cooperation Agency (SIDA) and Norwegian Government.

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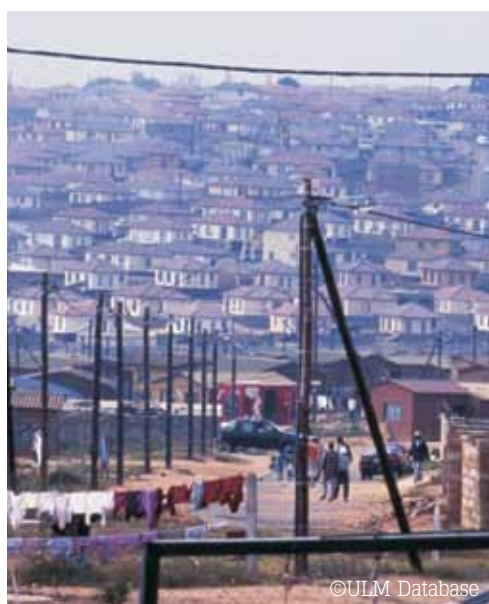
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# KEY TO ICONS



New section



Did you know?



Case studies



Scenarios and examples

# PREFACE

## Putting the puzzle together

This handbook is intended for use by people in government, private firms and non-governmental organisations involved in the fields of housing, urban planning, engineering, architecture and related areas. It provides a basis for strengthening urban policy in ways that enable poorer people in African cities to access well-located living and work spaces.

The reader of this handbook should come away with an understanding of how interventions affect the market, and also how markets affect, enable, constrain and shape interventions by governments, developers, traditional authorities, banks, micro-lenders or any of its actors. It provides a sense of the *dynamics* of the urban land market – how particular decisions in one sector affect other sectors. This understanding provides practitioners in the field with a framework to make more informed decisions when formulating policies or making recommendations.

Understanding the urban land market is like putting together a puzzle. It requires searching for clues and piecing together bits that do not quite seem to fit – like putting together pieces from different jigsaw puzzles without always knowing whether each piece is exactly in its place or what the final puzzle will look like.

Like all markets, the urban land market is a complex phenomenon: even seasoned analysts often disagree about what is happening and arrive at conflicting conclusions, even when working with the same information.

Despite the complexity, there *is* a logic at work, and that logic is something that *can* be understood well enough to grasp the many possible outcomes that markets produce.

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The complex urban land market is made up of many forces, elements and players. Across sub-Saharan Africa, where rapid urbanisation is the norm, it is an arena where governments, private developers, traditional authorities, land owners, slum dwellers, tenants and other urban actors create living and working spaces like housing, schools, hospitals, offices, markets and other business premises.

If all urban dwellers were able to acquire land to live and work on, with adequate infrastructure, at a price they could afford, governments would not have to intervene. The private sector does not typically cater to the shelter and land needs of poor people in urban settings, so interventions are necessary, but they have to be made with caution, and with an understanding of the effects of any move. There are interventions that can harness the power of the market for the benefit of poor people as well as the entire society, reducing the number of losers.

This booklet first outlines the pieces of the urban land market puzzle, explaining how they can be assembled in a variety of ways to form different pictures – and how they are moved and reshaped by a variety of forces.

To help make sense of this complex market place, we also highlight some of the practical problems facing African cities in trying to make land markets work for poor people and the (sometimes conflicting) roles of different actors in this environment.

We begin by introducing the main economic concepts of the urban land market. To show how they are related, each concept refers to other concepts: if a word is highlighted, it means there is a separate entry that explains that concept in more detail. Readers should feel free to jump in at any point, looking only at the entries they want to investigate. However, the puzzle will only make sense when the reader begins to see how the entries are related to one another. Some of the pieces of the puzzle are much larger than others, such as the entries on the market, behaviour, and supply and demand, because they are the most significant. Others are shorter, but nonetheless important in understanding what makes urban land markets work – or not work – for the poorer residents of Africa’s burgeoning cities.

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Cairo, Egypt

# Let's start...

- 1 Economics & the urban land market in Africa
- 2 The actors in the urban land market in Africa
- 3 Challenges facing the urban land market in Africa
- 4 Conclusion

# 1 Economics & the urban land market in Africa



Johannesburg, South Africa



## The pieces of the puzzle



# Defining the market

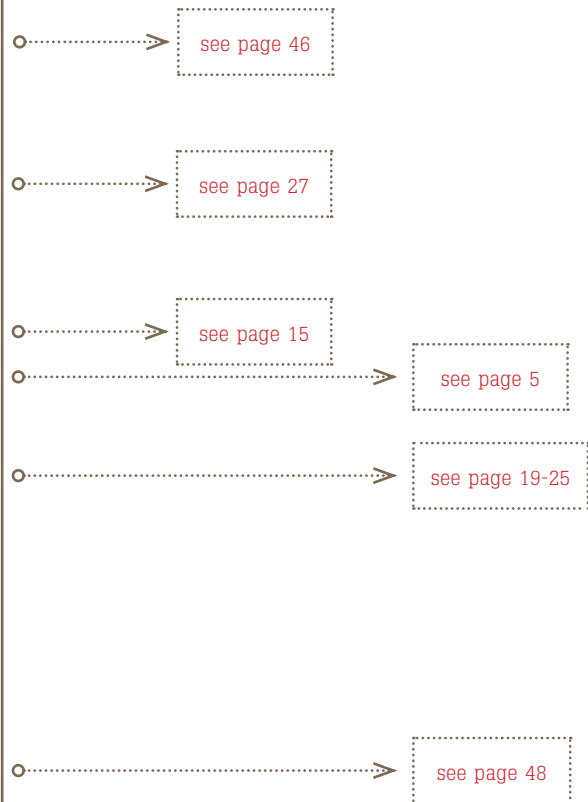
Simply put, a market is a site where buyers and sellers exchange goods, services or information. It consists of a framework of institutions, social practices, relationships, regulations and **actors**, all of whom participate, in one way or another, in the production and exchange process.

There are many types of markets, varying in size, **location**, the types of actors involved and the rules of exchange – from local neighbourhood or municipal markets to large international stock and **commodity** markets. Where a market brings together buyers and sellers to exchange goods for money, the **prices** of these goods are set according to the forces of **supply** and **demand**.

As this handbook demonstrates, land markets in African cities also have their own peculiarities, incorporating both **formal** and **informal** characteristics. Yet in many ways, the market laws of supply and demand do not care whether a market is formal or informal; these principles apply regardless.

Some describe the market itself as a mechanism that regulates trade. But the market is shaped by state regulations, principles of supply and demand, policies and norms. These are enforced by a variety of bodies, including the **state**, consumer rights organisations, international trade organisations, and localised community or social organisations. Depending on how sophisticated the market is, the number of these components and their relationships can vary considerably.

It is important to note that all markets operate within a broader political economy where the power balance between the different actors / institutions is unequal. How these imbalances shape the urban land market in Africa is discussed further in chapter 3.



While we can talk about specific markets – for land, food or car parts – as self-contained, each area of trade is dependent on and conditioned by others: markets in one part of the economy can and do affect other markets. To use the puzzle metaphor, ‘the market’ is itself a large jigsaw that is composed of many small and larger markets, all related to one another and subject to formal and informal rules and regulations. All these are embedded in a national economy that is itself part of a global economy – a market system.

# Supply and demand

## ‘You want; I got’

Supply and demand are the forces that form the foundation for the allocation of resources in a market. Demand is the quantity of a product buyers are willing and able (if demand is **effective**) to purchase at a particular price at which the good is being sold. The supply of a good (or service) is the quantity that producers are willing or able to supply on the market at a particular price.

Beyond this, things start to get complicated. Because the market is an ever-changing set of relationships – in which actors respond to changing circumstances – the higher the price of a particular good, the less the amount buyers are typically willing to purchase. And if the price is too low, the seller is unlikely to sell.

If the price of meat increases, for example, we can expect households to buy less meat and consume it less frequently. On the other hand, when meat prices fall, households will buy more and eat more. Suppliers will often produce more of a good if the price is higher (because it is more profitable for them), and vice versa if prices are low (and less profitable).

When the quantity of goods being supplied in a market is equal to the quantity being demanded by buyers, the market is said to be in **equilibrium** – a balance between the quantity demanded and the quantity supplied. In economics, the market is considered most **efficient** when it responds to changes in demand and supply quickly.

As we shall see later, the property market often **takes time to respond** to changing circumstances, making it an **inefficient** market in the short term.

→ see page 11

### Did you know?



A **commodity** is a good for which there is demand but is supplied without differentiation in terms of quality.

For example, petroleum is a good that is the same no matter who produces it. The petroleum price is universal and fluctuates daily based on global supply and demand. Stereos, on the other hand, have many levels of quality – the better it is or is perceived to be, the more its cost.

Commoditisation occurs as a good loses differentiation across its supply base – often by the diffusion of the intellectual capital necessary to acquire or produce it efficiently. For example, silicon chips that would previously have carried premium margins are now commodities.

Source: [www.wikipedia.org](http://www.wikipedia.org)

→ see page 6, 43 & 51

→ see page 77

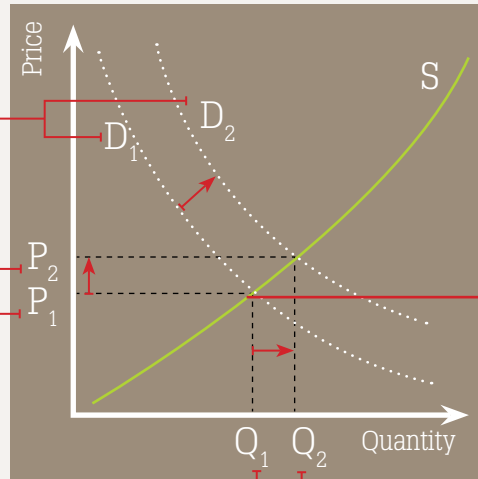
→ see page 6 & 81

→ see page 77

**Figure 1a: Demand curve**

When consumers increase the quantity demanded at a given price – but supply conditions stay unchanged – it results in an increase in demand, which results in the demand curve shifting outwards – from  $D_1$  to  $D_2$ .

This raises the equilibrium price from  $P_1$  to the higher  $P_2$ .



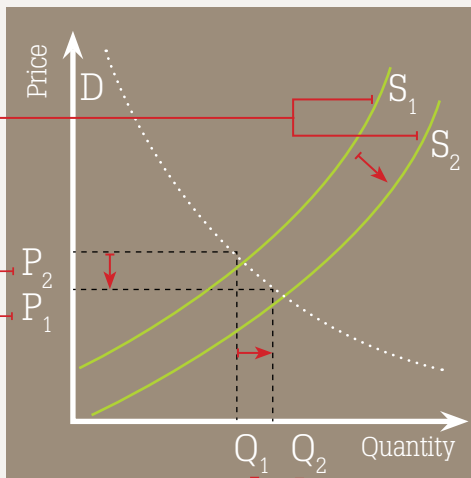
In a competitive market, price functions to equalise the quantity demanded by consumers and the quantity supplied by producers, resulting in an economic equilibrium of price and quantity.

Generally in the land market, if the demand curve shifts out from  $D_1$  to  $D_2$  – consumers demand more land to be available to utilise but the supply side often cannot respond to the increased demand that rapidly – the result will be a shortage – at the new market price, quantity demanded will exceed quantity supplied. Economic equilibrium will therefore not be reached.

**Figure 1b: Supply curve**

When suppliers' cost for a given output changes – so that they are able to supply more of a product at a specific price, the supply curve shifts from  $S_1$  to  $S_2$ : an increase in supply.

This increase in supply causes the equilibrium price to decrease from  $P_1$  to  $P_2$ .



The equilibrium quantity increases from  $Q_1$  to  $Q_2$  as the quantity demanded increases at the new lower prices.

The following story of the informal market in Uganda illustrates the relationship between supply and demand well.

## What price chickens?



Owino is Kampala's largest outdoor market and one of the largest in East Africa. It has 500,000 vendors and attracts over 200,000 visitors everyday. Traders sell almost every product imaginable: from yams, chickens and fresh fruit to clothes, shoes, hats, candles, books, car accessories, toys and electronics.

The traders get their goods from various sources – wholesalers, garage sales or other dealers.

They buy these at a certain price and they sell them to recover their costs (the price of the goods plus **transaction costs** like transport costs, rental for the stall and licensing fees), and they add a little (or a lot) to the price to make a profit.



see page 14,  
25, 32, 45, 74,  
80, 85 & 89-91

If demand for certain products is low and they are not selling well, sellers drop their prices and stop buying more – they reduce the supply.

Unless a seller is offering some secondary benefit – a guarantee, for example – sellers who have higher prices than others will be forced to drop their prices in order to compete.

Even in informal markets there is sometimes a *de facto* regulator – an informal entity responsible for regulating and organising the market.

Sometimes traders recognise these as legitimate; at other times they are exploitative and not widely recognised – and sometimes they are resented.

Whatever the case, these authorities often allocate stalls, collect a tax or fee from stall owners, resolve conflicts between sellers and maintain the market's infrastructure.

Of course, the extent to which regulators are successful in carrying out these tasks varies from one market or situation to another.



©ULM Database

# Stretching the market

## Elasticity of supply and demand

Elasticity refers to how buyers and sellers react to changes in price.

The price elasticity of demand is the change in how much people will buy if the price changes. Demand for luxury items may slow dramatically if prices are raised, because these purchases are not essential, and can be postponed. We typically say demand for these products is highly elastic: it can bounce from high to low depending on the price. On the other hand, demand for necessities such as food, water and shelter are inelastic – their demand remains about the same despite price changes because buyers cannot postpone their purchases without adverse consequences.

On the supply side, we say that supply is elastic if a small rise in price results in a large increase in the amount produced. For most goods, this response may take a while, but they are usually more elastic in the long run than in the short run. In the short term, many goods are relatively inelastic.

Take the example of a cocoa farmer with a fixed number of cocoa trees, all producing at maximum capacity. If world prices of cocoa rise, the farmer will not be able to increase supply in the short run because it takes several years before a cocoa tree reaches maturity and produces fruit. Even if the farmer has extra fruit available, it may not reach the market quickly because of other obstacles related to transport, regulation or the fact that the farmer has not realised the price has gone up on the other side of the world.

The price elasticity of supply and demand of land is a central concept in the land market. First, because land is a finite resource, its supply is relatively inelastic: no matter how high the price of land, one cannot increase its physical acreage.

This has significant consequences for urban development. Increasing demand for urban land can rarely be met by increasing supply, as land is relatively inelastic. As a result, prices are bound to increase disproportionately to supply in ways that negatively affect poorer people in urban areas. By changing the development rights on land, densities can be increased and land can be used in more complex ways. However, this takes some time.

The same is true for housing. It takes a while to build or convert new stock despite increases in price; this lag means that the market is unable to adjust quickly to market signals.



Of course the Dutch did just this by reclaiming parts of their country from the sea, but generally it is very expensive and not really feasible in most contexts.

### Did you know?

The price elasticity of demand for land is important for policy-makers because it provides municipal governments with an indication of the effectiveness of taxation tools as a means of raising revenues.

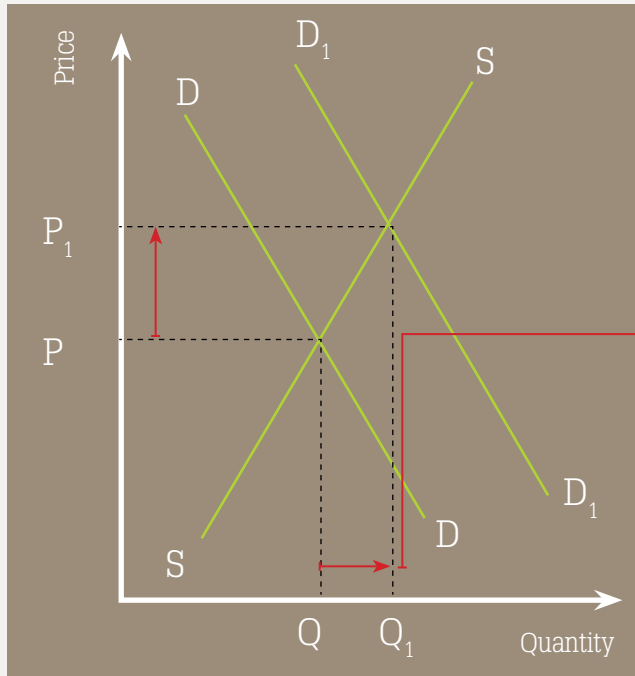


With an understanding of price elasticity, urban land policy-makers are able to determine the degree to which they can increase taxes on land and property without reducing the quantity demanded by urban dwellers.

If it is inelastic, increases in property taxes will have little effect on the quantity of land demanded, implying that it would be an important revenue stream for government.

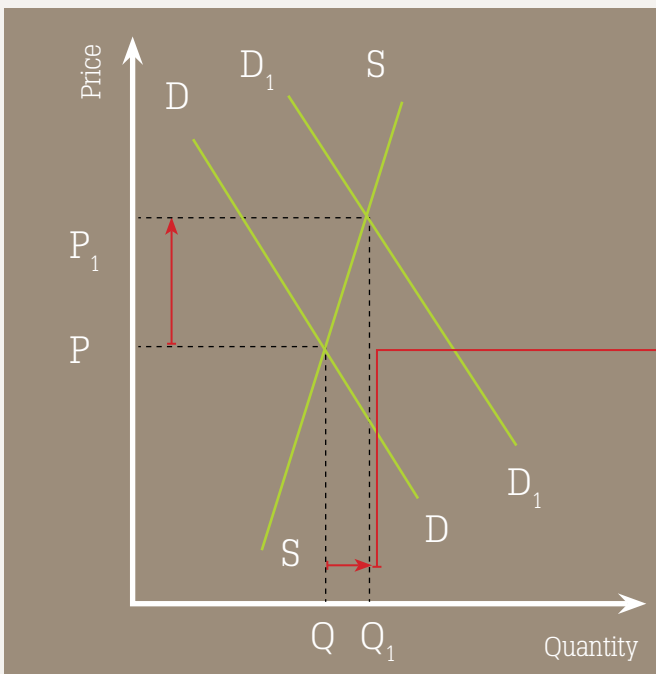
If it is elastic, large increases in property and land tax could result in people demanding less land for commercial and residential use, and/or selling their property and moving to areas with lower tax rates.

**Figure 2a: Price elasticity of supply**



With price elasticity of supply, the quantity of a product supplied can relatively easily respond and increase (from Q to Q<sub>1</sub>) if the price of that product increases (from P to P<sub>1</sub>). This is the conventional demand and supply relationship.

**Figure 2b: Price inelasticity of supply**



With price inelasticity of supply – as witnessed in the land market – the quantity of land that can be supplied is limited. As a result, when the demand curve shifts out, from D to D<sub>1</sub>, representing an increase in demand at all prices, the quantity that can be supplied increases very little (from Q to Q<sub>1</sub>). The price therefore increases disproportionately (from P to P<sub>1</sub>) compared to the increase in the quantity of land supplied.

# Effective demand

It is one thing to want something, but quite another to have the purchasing power to buy it. Demand, in other words, is only effective as a force in the market if conditions allow for people's wants and needs to translate into real transactions. If consumers want something but are unable to buy it, their demand is latent. If consumers have the money to buy the object, demand becomes effective.

For example, importers of DVD players in Harare can be fairly certain that every household in the city wants a machine, but they are not going to import millions of machines unless they are sure enough households have the cash or credit to purchase what they are able to supply.

In an urban setting, if serviced land is available on the market at a certain price, those who can afford it have effective demand.

# Derived demand

## It's not the ground, it's what grows on it that counts

Demand for some products is indirect, because they are means to an end: it is not the thing itself that is desired, but what that thing makes possible.

Demand for transport is a good example of derived demand: riding on a bus is not something ordinary people do for its own sake; they get on because they want to go somewhere – to work, church or home. There may be exceptions, like pleasure cruises or sight-seeing, but for the most part, people need transport because it will enable them to get to work, to trade or to conduct some other transaction.

Derived demand is an important concept for land, since people need land for what the land makes possible – what it yields – and not for the land in itself. But there are exceptions, particularly in the African context, where there is a desire for the land itself because of its **symbolic value**. If land is fertile, there is of course greater demand for it than for infertile land. Similarly, in an urban context it is what you can do on the land which is important. The demand for land is 'derived' from that potential use.



see page 18 & 25

Land is used for various activities: retail shops, factories, housing, public uses such as parks or hospitals, or farming in agricultural areas. Demand for types of land varies depending on what the land is used for and the kinds of activities that will take place on the land. What people are prepared to pay for land is linked to what they are allowed to use that land for, and therefore **what income they are able to derive from that land**. Retail and commercial uses for land in the right place in a city tend to allow land users to extract greater profit.



see 'bid rent theory', page 29

## Market threshold

For a particular economic activity to be viable, a minimum demand for the service is necessary. The market threshold is therefore the minimum demand required to support an economic service.

Thresholds can also be linked to the spending power of customers. This is most obvious in periodic markets in poorer countries where wages are so low that people can buy certain goods or services only once in a while.

We can see how market thresholds would be important for planning in urban areas. They determine when a government can provide infrastructure – roads, clinics, schools, water and sewerage systems. For example, it is unlikely that a government will build a reticulated sewer system for one farm house; however, in a densely populated urban area, it becomes financially viable and (indeed environmentally desirable) for a government to build a sewer system, as there is enough demand to support it.

One should keep in mind, however, that a government would not necessarily make such decisions based purely on **economic considerations**; other issues such as social and political concerns may introduce a trade-off between government's implementation of different urban priorities – whether a market threshold exists or not.



see page 28 - 32

## Externalities

Externalities are 'side effects' of economic activities that impact on third parties – whether they like it or not – and are not considered in the price of the transaction. We usually talk about them as positive or negative.

Positive externalities benefit third parties without them incurring the costs of securing the benefit. Conversely, a factory that dumps chemical waste into a river creates negative externalities that manifest in health costs or the cost of cleaning the river. The effect of greenhouse gases on the environment is another example of a negative externality. The impact of these are so vast that they

are virtually impossible to calculate and they require systemic changes that impose costs on current and future generations.

Property is particularly prone to the impact of externalities because it is fixed in space. A landowner or tenant cannot move their land if a neighbour opens a noisy bar or brothel next door or because the city decides to build a highway over their house. However, a landowner may incur positive externalities from being located close to public transport, schools, employment or other social amenities.

## Transaction costs

Transaction costs are incurred by individuals or firms when they make an economic exchange. When buyers make purchases, they incur certain transaction costs that may not be directly included in the price of what they are buying.

For example, when parents spend a day queueing to get their child into school, the time, energy and inconvenience spent doing so is a transaction cost. Even finding out which schools are good or when registration will take place levies costs. So, in addition to paying school fees, they have to pay with their time and energy.

As we will see later, land markets are subject to numerous transaction costs – an aspect that makes property markets inefficient. The time, effort and money spent accessing land (for example, getting to meetings and negotiating with the owners, securing and registering the land with the deeds office and obtaining building permits from local government offices) are transaction costs that must be paid along with the land's market value.

# Price/cost/value

## What is the difference?

The terms price, cost and value are often used interchangeably but have different meanings in economics. Understanding these concepts is especially useful in Africa where a history of **customary** and **neo-customary** practices means that land is often not treated purely as a commodity that can be bought or sold on the open market.

see page 18-19, 21, 25-26, 49, 58, 69, 83 & 98

see page 21

When a clan or family is allocated land by a traditional leader, they will typically offer him a gift. But this cannot be equated to the price of the land or its market value because it is not intended as 'payment' and is often much less than the price one would pay in the market. They may, however, 'pay' in other ways – through loyalty, through political support or through taxes over time.

## Price

The price of a good or service is the amount that is paid for it in a transaction. The price may or may not be the same as the value.

## Cost

The amount paid to build/replace or reproduce a structure is its cost. This cost may or may not be the same as the value.

## Value

In economics, the concept of open market value has a specific and universally accepted definition. The International Valuations Standards Committee defines it as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length

transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion" ([www.wikipedia.org](http://www.wikipedia.org)). As we shall see in chapter 3, each of these elements are essential in the determination of the open market value.

When dealing with land, market value is not the only form of value that exists. Indeed, land markets illustrate just how many different types of value there are and provide good examples of non-monetary / non-market ways of deriving value.

Because land is a resource that has social, cultural and political value to which a material value cannot always be attached, the value of land is also subjective, based on emotions, personal preferences and beliefs. Understanding the complexities of urban land markets helps us to explain why they work the way they do in African cities.

## Did you know?

The willing buyer / willing seller concept means:

- The buyer is financially able
- The seller is legally able
- Both negotiate on equal terms
- Both are equally informed
- Both act rationally
- Neither party is under pressure to buy or sell.



## Not so different?

### The stock exchange and an informal market

The stock market, where traders buy and sell shares on behalf of individuals and companies all over the world, is often seen as beyond the realm of ordinary people. Here traders deal in complex financial goods, as well as in commodities such as oil, gold, coffee or cocoa. The prices of the commodities on offer sometimes fluctuate in a wide band in response to demand and supply. Unlike many markets where the prices are hidden, the price of a share is immediately shown on monitors and computer screens across the world.

Ironically an 'informal' market and a stock exchange are both seen as rather efficient markets because they can 'clear' quite quickly. Clearing is the process by which any excess supply and demand can be mopped up by changing the price.

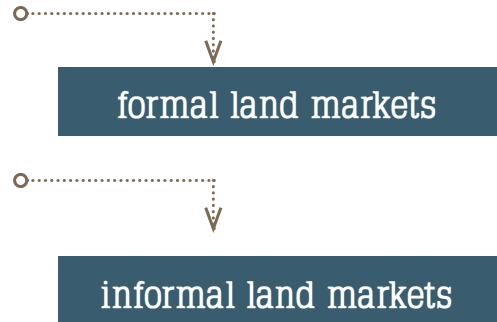
For example, if a street seller needs to sell her tomatoes at the end of the day, she can do so by dropping the price, and passers-by will be likely to buy more.

This is not the case with property, however. If there is an increase in demand for housing because of lower interest rates or rapid in-migration, it is very difficult to suddenly and rapidly build more houses.





## Deep attachments – the urban land market in Africa



Having explained some basic economic concepts, we can now begin applying them to Africa's urban land markets.

Market principles help us to understand how land is traded, but we must keep in mind that when land is traded as a commodity, it is in some ways unlike other commodities. While sellers can buy more maize and move it to where the price is best, land is both immovable and finite (although, by viewing land differently, one can allow it to become a complex commodity which increases the supply of land).

In addition, people do not tend to treat land like tyres, radios, or grain. Instead, it is often revered for cultural, historical and political reasons in a manner that makes its value difficult to translate into a monetary price. In areas where land was expropriated from indigenous peoples, the demand for land has an immense symbolic value, denoting ancestral and national belonging, but also freedom and self-sufficiency. In some instances, people will be unwilling to trade no matter what the price.

Although there is a growing urban land market in many African cities, particularly in peri-urban areas, urban land markets are relatively small compared to other parts of the world. This is in part due to the history of customary forms of land ownership which do not treat land as a resource for trade or sale. Moreover, colonialism initially restricted the supply of land in urban areas to certain types of people, often excluding the majority from ownership or even trade.

In South Africa, the apartheid government did not allow black populations to own land in the city. In Tanzania and Mozambique, the nationalisation policies of independent governments make it illegal for individuals to own or sell land. While individuals, families or businesses might own the property, the land it stands on belongs to the state and cannot be passed on to someone else. This can get rather complicated because owners can sell the property or any improvements on the land, but they cannot sell the land itself.

Generally, for an active land market to exist, land has to be alienable – there has to be an owner or owners with rights to own, use and sell the land. People may trade the rights to use the land or buy and sell what is built on the land, but unless they can own it, they are not trading the land itself.

However, land that is state-owned does not presuppose an inferior system – or that only privatised land denotes an effective market. In this situation, long-term secure leases on land effectively mean that the use of the land is guaranteed, and a functional market does operate in these conditions – which means land markets and poorer people's access to such land can still work.

# Formal land markets

Most analyses of land markets in African cities recognise the co-existence of formal and informal land markets. But defining formal and informal markets is difficult, as they are often inter-related. While they have different rules, regulations and processes, they also share similarities, actors and logics. Broadly speaking, formal land markets are those whose transactions are legally recognised, whereas informal land market transactions are not recognised by law or are not officially registered in the government's systems.

Many African countries recognise dual legal systems of land ownership – **common law** or **civil code law** (inherited from colonial governments) and customary law.

see page 25, 49, 83 & 98  
see page 21 & 49

Common law tenure could include both **freehold** and **leasehold** tenure systems. In both these systems land is alienable, which means that land owners can transact, sell and transfer the land. If these tenure systems are well managed and administered, and secure the rights of land owners and users, they provide the basis for a robust urban land market. However, in customary tenure options, land is not alienable. Instead, it is collectively owned by a community, clan or family and is not treated as a resource to be sold or transacted in the open market. Communal tenure practices thus typically discourage the existence of an active urban land market, although they may help some people gain access to urban land.

see page 26, 50, 52 & 98  
see page 26, 52-53, 58 & 98

Many African cities have a thriving commercial and retail property market, located in city centres and surrounding areas. In the majority of African markets, there is a scarcity of high-quality business space, and there is intense competition where it does exist (Knight Frank, 2009). Much of the demand for office space comes from foreign missions, international corporates, the financial sector, telecommunications and other highly capitalised industries.

## Did you know?



African countries have inherited colonial legal systems.

Anglophone countries generally apply the Common Law system, where the courts play an important role in defining the 'law'. The Common Law system thus places weight on court decisions and precedence.

In the Civil Code System, the 'law' is determined by the legislature: courts merely apply what is written in the statutes.

Common Law systems are considered more dynamic because the courts have leeway to reinterpret and revise the law without legislative intervention. The law is based on practice and actual events and is thus able to adapt to existing social contexts.

Civil Law systems, which rely on the legislature to change law, are more static, responding less quickly to social change.

The shopping centre concept is also becoming popular in African cities. Its success in Lusaka, for example, has seen its development in regional towns like the Copperbelt, Ndola and Chipata as developers cash in on the spending power of a growing middle class which is attracting international retailers (Knight Frank, 2009).

But the spatial location of offices is changing. In cities like Lusaka and Kampala, increasing traffic congestion is leading to the relocation of large business to stand-alone, single-tenant buildings (Knight Frank, 2009:15).

Like other markets, the urban land market is a framework that constitutes a variety of institutions, individuals, rules and regulations. A legal framework supports the land market, determining and enforcing the rights of land users. When the law is followed, it is usually the state that enforces and adjudicates these rights through the courts or special government departments.

see page 25-26, 45, 48, 52-53, 80 & 84

The state may also be involved in regulating land and its exchange through its **land administration** and management functions. In a robust market, there are buyers and sellers, financial institutions that provide debt financing or the funding needed to purchase and improve land, and developers (we come back to these actors later on in chapter 2). Most importantly, there is a regular supply of land to be exchanged.

Cairo, Egypt



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# Informal land markets

“... it is now accepted that, due to a variety of factors, informality is the predominant characteristic of urban growth and that a majority of urban residents, especially the poor, access property rights through transactions occurring outside state regulation and formal land markets” (Rakodi & Leduka, 2003).

The concept ‘informal’ is an umbrella term, used to capture a variety of practices which vary from one context to another. Some people refer to these practices as neo-customary, others call them quasi-customary practices, still others call them ‘living law’.

The term ‘informal’ land market is used to talk about a variety of urban land transactions, exchanges and transfers that are not recognised by the state as legal, but which are nevertheless socially accepted as legitimate by a variety of urban actors.

Informal land markets are a hybrid of a variety of practices and contain elements of customary/civil code law and social practices adapted to suit existing urban conditions. Although this market is, according to the law, illegal, the state (or some of its agents) is often complicit in its functioning.

For example, government land surveyors are sometimes involved in demarcating land for sale in the informal market. Similarly, local government councillors or government officials are often called upon to witness transactions in this sector. In some cases, these local state actors also keep informal records of ownership in their areas of jurisdiction.



This excludes practices that are violent, anti-social and not widely acceptable as legitimate by local actors, although these are also informal. The informal practices we refer to result in what would be deemed to be ‘fair’.

Like the formal urban land market, informal markets consist of a variety of institutions which support, facilitate, regulate and arbitrate informal land transactions. These include state officials, such as local government councillors, traditional leaders, chiefs, community leaders, and community and family networks.

Like formal markets, these regulatory bodies can be effective in facilitating exchange or can be overly restrictive and make it more difficult for (some) poor people to access land. Moreover, like formal regulations and structures, they can collapse in on themselves.

Within the informal land market, there are varying degrees to which land is commodified. The degree of commodification has a significant impact on how the price of land is determined.

The informal land market has a large number of **socially dominated** land market transactions, where the supply and demand of land are mediated more by social relationships than by a financial logic. A study in South Africa has shown that although price or cost is still an issue, it is of secondary importance in the way people transact (Marx and Royston, 2007: 5).

For example, where the right to land is conferred by a chief, the beneficiaries will offer the leader a gift as a gesture, which is often less than the market value.

But research shows that peri-urban land practices are increasingly becoming commodified and transactions are, like in the formal sector, becoming more and more driven by a financial logic. (Kironde, 2001; Syagga et al, 2002).

In fact, the sale of peri-urban land in the informal market is fast becoming a thriving trade, where sellers are able to fetch market-related prices. Indeed, as demand for urban land increases as a result of urbanisation, more and more customary land is traded through the market.

## Did you know?



The majority of urban dwellers in Africa, particularly poor people, gain access to land through informal supply mechanisms.

For example, a study done in South Africa – a country with one of the most extensive formal land systems on the continent – shows that a large number of land transactions in urban areas take place outside of officially recognised systems of land management and property ownership.

Source: Marx & Royston, 2007:3

The same is true for other African cities. Research in six African cities – Gabarone in Botswana, Kampala in Uganda, Enugu in Nigeria, Lusaka in Zambia and Maseru in Lesotho – shows that 50% to 70% of land for housing is accessed informally.

Source: Rakodi & Leduka, 2004

## Did you know?



A study conducted in Tanzania shows that in 1994, over 70% of peri-urban households acquired land through allocation by the village government or inheritance, while only 27% purchased land.

By 2001, 78.9% of households were purchasing land in peri-urban areas and only a minority were accessing it through inheritance or village government allocation.

Source: Kironde, 2001

see page 66

## Transactions in three informal settlements in Kampala



Around 70% of Kampala's residents live in slums. A study done in three slums – Kamwokya, Mbuya and Busega – showed that:

- Land buyers rely heavily on family networks and neighbours to gain information about plots for sale.
- Most land negotiations are conducted between landholders and prospective buyers, although land agents (brokers) sometimes act as a link between the two parties.
- The key factors influencing the price of land is the plot size, location and whether the land has access to water, the existence or absence of a registered certificate of title, neighbourhood characteristics and the quality of available infrastructure and social services.
- Clan identity is less influential than it used to be in the control of land.
- Some of the informal settlements use professional surveyors to demarcate plots, although many are demarcated by sellers.
- Most land transfers have a 'letter of agreement' between the seller and buyer or a certificate of title, which acts as an informal means of proving ownership.

Source: Nkurunziza, E (2007)

The increasing demand for urban land is resulting in its commodification in areas that have historically had communal tenure. Despite this, the informal market is generally considered a risky investment because of the fact that the transactions are not legal.

For example, in Ghana, disputes over land ownership have arisen when some family members have sold communal land without the authority of the clan or other family members (Gbaguidi & Spellenberg, 2004). In these cases, buyers risk losing their money and the land.

Informal land owners are not typically registered by governments as the legal owners of the land – this tends to discourage investment in land because of fear of losing their land and property.

Moreover, without a centralised and reliable system for registering land and owners' rights, urban land transactions are vulnerable to illegal sales such as the sale of one piece of land to more than one buyer. These problems increase the risk that potential buyers have

to take, discouraging investment in land and dampening activity in the urban land market.

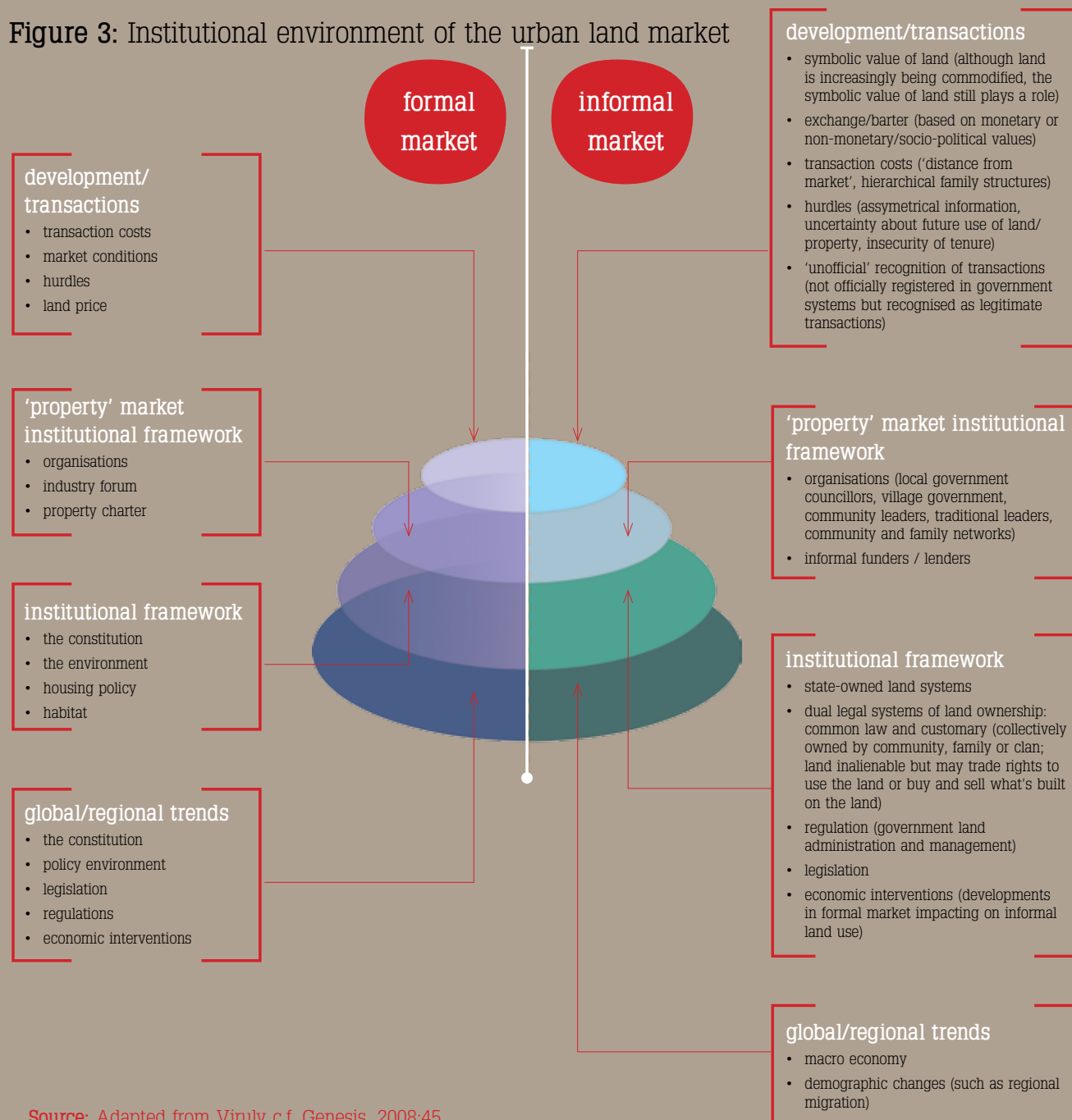
To overcome these problems, the informal sector is developing systematic mechanisms of recognising tenure and rights. These methods adopt formal processes, such as the issuance of agreements and certificates that have been witnessed by recognised leaders in the community. While these forms of registration may not be legally recognised, they are considered socially legitimate by the actors involved, and in some cases help to reduce land fraud.

Both the formal and informal urban land markets are an integral part of urban land dynamics on the continent. Although they may have differing regimes of authority, the institutions and actors overlap, and the mechanisms employed are being increasingly institutionalised.

Figure 3 illustrates the institutional environment within which the urban land market as a whole operates.

Johannesburg, South Africa



**Figure 3:** Institutional environment of the urban land market

Source: Adapted from Viruly c.f. Genesis, 2008:45

Figure 4: Characteristics of different tenure forms

|                                                                                     |                                                                                         | Freehold/<br>leasehold   | Customary          | Informal  |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|--------------------------|--------------------|-----------|
|    | Court protection                                                                        | ✓                        | ✓                  | ✗         |
|    | Exchange based on monetary value                                                        | ✓                        | ✗                  | Sometimes |
|    | Exchange based on socio-political values                                                | Sometimes                | ✓                  | ✓         |
|    | Accessibility to all                                                                    | Depends on affordability | Only group members | All       |
|   | State authority responsible for management and administration                           | ✓                        | ✗                  | Sometimes |
|  | Other regimes of authority (traditional, community leaders, etc.) administer and manage | ✗                        | ✓                  | ✓         |



Just when you  
thought we were  
through – some  
more puzzle pieces



## Location, location, location!

### The market, space and the built environment

Have you ever wondered why your city is structured the way it is?

Why there is a Central Business District (CBD) with high-rise office buildings, an industrial area and residential quarters where people live?

Why are slums mostly (but not always) located on the periphery of the city or on relatively low-value land?

The following economic ideas help to explain why.

# Highest and best use

One often hears economists speak about the 'highest and best use' of a plot of land. This refers to the legal and probable land use that results in the highest property value. In other words, it is the activity that produces the highest economic returns.

Of course, the activities have to be legal, physically possible and financially feasible. This means that a business selling illicit drugs would not be seen as its highest and best use, because there would be a limited number of people in the market willing to purchase the shop for selling drugs – and it would not be a sustainable business as the authorities could close it down.

Strictly speaking then, slums are not considered the highest and best use of the land where they are situated if they are not legally recognised by the state. But there are alternative forms of social recognition and means of acquiring land which a strict economic definition does not recognise.

## Opportunity cost

In a pure economic sense, the highest and best use generates the highest price for a piece of land or for a property. But there is always an opportunity cost of choosing one land use over another. Opportunity cost is the value of the next best alternative that is foregone by making a decision.

For example, the opportunity cost of building social housing on a piece of land is the benefit that could have been received – for example through higher taxes or employment opportunities – if a factory had been built instead.

Similarly, by making a decision to allocate money for social housing, a government incurs an opportunity cost because it could have allocated that money to education or health. In allocating the money to social housing, the government gave up the opportunity to use that money for other purposes.

Cosmo City, Johannesburg



# Bid rent theory

One of the most powerful principles of the property market and the basis of investment decisions in cities everywhere is the bid rent theory. If markets were left to compete without regulation, the land use which can yield the greatest financial benefit or return from any particular piece of land should be in a position to 'outbid' other potential users.

In practice, the level of competition between different land uses is constrained by town planning and environmental legislation, as well as the overall institutional environment in which the market functions. In the city centre, developers in the retail sector typically 'out-bid' the price or land value – in turn a reflection of the expected return – which players in the office or residential sector are willing to pay for that land.

As one moves further away from the city centre, the value of land for, say, retail users declines, and developers in this market are 'out-bid' by other contenders, for example office and residential users. This is based on the fact that as users move away from the optimal location (the CBD for the retail user), the value they are willing to pay for property declines.

So it is clear that some sectors and users are more sensitive to location than others – a retailer would place little value on a property that is not well located from a market perspective, but an office space user tends to have more flexibility in the location chosen.

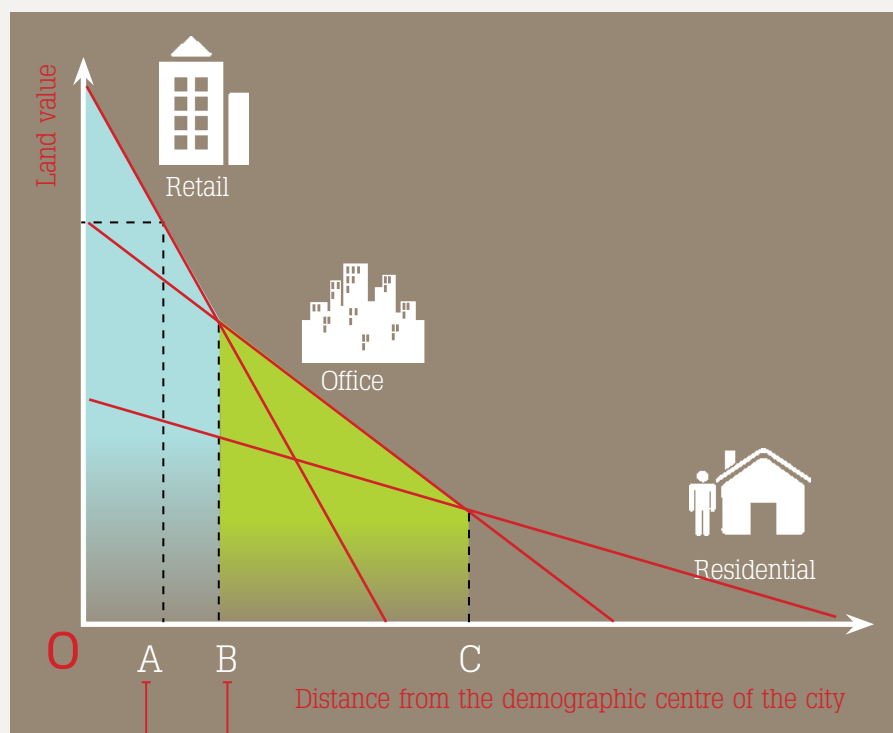
The bid rent principle partially explains why slums are often located on urban peripheries where land values are low. Where they are centrally located, close to infrastructure and economic opportunities, they are vulnerable to eviction because other land uses (for example, office blocks, or middle-class housing) potentially offer higher returns than slum developments.

But as discussed in the section on highest and best use (see page 31 and 32) political and social dimensions also influence land use.

Of course, the bid rent principle explains why South Africa's ambitious housing programme delivered the majority of Recon-

struction and Development Programme (RDP) houses on that country's urban periphery. For the government to afford to provide free housing to poor households, it had to locate the houses where land was relatively cheap.

**Figure 5: The bid-rent curve (the competitive allocation of land between sectors)**



If left to market forces, the property market tends to allocate land according to the highest and best use of each land parcel, which may not necessarily serve the needs of lower-income households who will find it difficult to 'bid' against commercial users and high-income households.

At point B, the office sector is able to 'out-bid' the retail sector

At point A, the retail sector can pay a higher value for land located closer to the city centre than the office sector can.

This shading shows that land between point O and B will tend to be used for retail developments.

The market will tend to allocate land between points B and C to the office sector.

# Agglomeration economics

Another concept that explains why certain urban land activities and economic sectors tend to be located in close proximity to one another is agglomeration.

That industries tend to cluster together in specific locations is no accident. They 'agglomerate' because they can gain certain efficiencies from networks and concentrations. Since production of any good depends on the input of raw material, information and public services such as water and electricity, as well as labour, the production site should ideally contribute positively to the production process. Firms in related industries gather together because this makes production easier, faster and cheaper.

The approved land uses which municipalities place on areas of land in cities can either support or block agglomeration and so affect the choices that businesses have of grouping together or deciding not to (if they want to corner a local market).

Marrakech, Morocco



© Loren B. Landau

# Revisiting neo-classical economics: embedded land markets

## Best according to whom? Other forms of land value

The notion of 'highest and best use' is a contentious one. It sees the allocation of resources purely in financial terms and does not necessarily consider the full range of social, political and environmental rationalities for making land allocation decisions. In other words, what a market may consider highest and best use, a government may consider otherwise because of the high socio-political or environmental costs associated with that use.

A strictly financial interpretation of best use ignores those aspects that relate to social questions and issues of justice and equity. A market-driven allocation of land in most instances does not serve the needs of lower-income households who cannot 'out-bid' commercial users and high-income households. Gentrification of suburbs may, for instance, push low-income households out of particular suburbs and generally make inner-city living unaffordable. On top of being moved, poor people may then have additional transaction costs associated with working or trade as they travel to the inner city each day.

Similarly, calculated financially, the 'highest and best use' of a parcel of land could be building a manufacturing plant. If the environmental costs (externalities) of locating the manufacturing plant are high, a government could opt to dictate a land use that may have a lower financial return, but higher environmental benefits.

Government's role in the market is therefore an important one, and one that is – at least in theory – able to consider decisions on the basis of the broader social good.

Governments which understand both the land market and social needs are able to govern land with confidence. With clear land policies, municipalities are able to balance the needs of all people living in a city or town, and also stimulate the private sector to make its contribution to building the city.

The role of the state is often to protect land uses which may be of lower value in the market but which perform for the public good. The trick is getting the balance between land on the market and land kept aside for the public good.

However, in many cases this does not reflect the reality in African urban land markets. Political influence, corruption, and a lack of resources and capacity often impact negatively upon the state's role in the urban land market, to the detriment of poor people.

## Did you know?



What is 'best' financially may not be so politically.

Having a slum in the city might not make financial sense from a macroeconomic perspective, but it can still serve an important political purpose, making the settlement valuable in political terms.

Slum areas are important organisational bases for political mobilisation, and many are support bases for leaders in power.

For example, Mathare, a slum in Nairobi, was an important political constituency and organisational base for the late president Jomo Kenyatta. As a result, the slum enjoyed political protection from Kenyatta's regime and was not subject to destruction.

Source: Gatabaki, 1995 c.f. Syaaga et al, 2002

This example illustrates that urban land markets cannot be separated from the political and social contexts within which they occur; indeed, that the practices of urban land markets are embedded in social and institutional relations.

According to Mark Granovetter, an influential sociologist, "actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at a purposive action are instead embedded in concrete, ongoing systems of social relations."

Source: Granovetter, 1985: 487

## Big business in slums\*: Rental markets in informal settlements in Nairobi



"It would seem quite possible that, as is often suggested, unauthorised housing and *matatus* [minibuses] are the most lucrative investments in modern Kenya",

*Amis, c.f. Syagaa et al. 2002*

People often think of slum settlements as places of squalor and poverty, home only to the poorest of poor people. While in many cases this may be true, slums also fill a gap in the market, providing a range of housing options to millions of urban dwellers excluded from the formal residential market.

Conditions in slum settlements vary. While some are located close to roads and job opportunities and have basic amenities, others are poorly located, and lack services such as water and sanitation. Within the informal market, perceptions of safety and community also affect decisions made about where to live. All these factors in turn affect the amounts owners are able to charge for a unit.

Research on rentals in slum areas in Nairobi reveals that the informal housing market performs better in economic terms than the formal market. The owner of a structure in a slum can expect higher returns than the owner of a house in a formal residential area. In some slum areas like Kibera, structure owners are able to recover their capital investment in less than one year. In other 'less lucrative' slums, the pay-back period is less than two years. Figure 11 illustrates this.

### Lessons



- Commodification of slum land
- Financial logic in informal land sector
- Land security linked to political power and patronage
- Very poor people remain exploited, vulnerable and marginalised
- Very high returns accrued by land 'owners'.

\* This case study has been drawn from Syagga, P., Mitullah, W. & Karirah-Gitau, S. (2002) Nairobi situation analysis supplementary study: A rapid economic appraisal of rents in slums and informal settlements. A report prepared for the Government of Kenya and UN-HABITAT, August.

**Figure 6:** Investment returns in informal settlements in Nairobi (September 2001)

Source: Syagga et al (2002)

Compared to the repayment periods in formal housing markets of between 13 and 18 years, the informal sector clearly has quick returns. Part of this is attributable to the insecure nature of investments – because of the lack of secure tenure and the high risks involved in investing in an informal settlement, investors often charge high rents to recoup their investments faster.

Nevertheless, in places like Kibera, tenure insecurity may be more of a perception than a reality for those landlords who are among the politically connected local elite. In the case of Kibera, the majority of landlords are either public officials or politicians, and have enough influence to ensure that they are not displaced.

From an economic point of view, one might expect this relative security to result in lower rents in informal settlements. However, the rents remain high in proportion to the cost of the building structure. Depending on the location of the slum, acquiring land is costly and often out of the reach of very poor urban dwellers – a well-located plot of 0.125 acres could cost up to Kshs18,000 (or US\$257 at Kshs70 / US\$1).

In some settlements, owners must also pay a fee to the chief for permission to build. These amounts are not paid to the government, but are often not considered bribes by those involved. They constitute about 24% of the cost of the structure and are often passed on to the tenant. Obtaining a Temporary Occupation Licence through legal channels would be far cheaper (about Kshs200 per year) than the price paid in bribes and ‘gifts’ to chiefs and others.

In addition to socially recognised forms of tenure, political patronage and protection and links with the powerful elite provide slum inhabitants some modicum of security – at least for as long as the political benefactor remains powerful. As shown earlier, slums are often seen as important organisational bases for political campaigns.

## What is in it for poor people?



What is the effect of the slum market on very poor people?

- Informal settlements are not the same. They vary depending on their location, patterns of ownership, service and infrastructure levels.
- Those who live and own a structure in an informal settlement are not the same either – they come from different class and political backgrounds and are able to draw on varied forms of power. The poorest of poor people within these settlements remain particularly susceptible to evictions and often have little access to basic services.
- The rental business has become very lucrative in some of the settlements for those with political connections and financial means to buy plots and build housing structures.
- Those who hold land or are tenants in informal settlements without political connections or financial resources remain vulnerable to evictions and are marginalised from the urban economy.
- The marketisation of the informal market and the high rents charged often mean that very poor people live in crowded conditions of squalor and in locations without adequate basic infrastructure, far away from job opportunities. The prices paid in relation to the dwelling type and the services they get are also high.

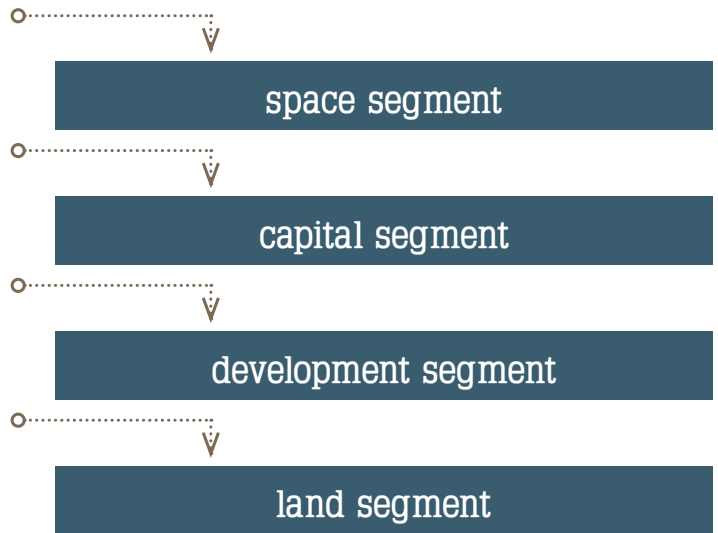
Duncan Village, East London



## SECTION D



## The four segments of the urban land market



The land market, its dynamics and the choices actors make within it can be described by dividing it into four segments. Circumstances and actions occurring in each of these segments influence other segments and have an impact on the land market as a whole. This of course means that interventions in a particular land market segment do not only affect that segment but send market signals to other segments which affect the decisions made in those segments – and so could have positive effects or compromise initiatives that have been introduced there.

# Space segment

Numerous individuals, households and companies each day try to make the most advantageous decisions about the living or work space they require. These decisions are of course influenced by a complex but dynamic set of economic and social considerations – as well as the information available in the market – which determine the accessibility players have to the space market and the opportunities available to them.

Of course, decision-makers within the space segment also influence the outcomes of the land market by attempting to determine the optimal amount, quality and location of space that are required to meet broader social, political and economic objectives.

Broadly, the space segment is divided between residential and non-residential properties. Properties are in turn categorised by the income/business groups they serve, and the kinds of activity that occur on them (Genesis, 2008). These divisions are not always clear-cut, particularly in the African context where multiple activities can occur in a particular space. For example, residential spaces are in many instances also sites of entrepreneurial activity.

Different types of urban dwellers demand different kinds of urban space. For instance, a commercial business will demand space in an area where there are high volumes of people passing through, while this may not be an important criteria for a household seeking residential space. For new immigrants in a city, affordable housing may be an important criteria, and they may therefore be drawn to slums or peri-urban areas where housing is cheap. Similarly, space to trade in the informal sector is a significant criteria for the majority of urban dwellers in African cities.

For these urban actors, informal markets, city streets and even residential homes become important spaces for economic activity. The supply of new space to the urban market is a function of the property values, building costs, land availability and expected returns that investors and developers are able to secure (Genesis, 2008). In many African cities, the high demand of space in peri-urban areas for residential purposes and informal trade has resulted in high development activity in these areas.

# Capital segment

For the land and property market to function effectively, equity, debt financing or other types of funding must be available in the capital segment of the market.

For example, in the residential sector, the need for and accessibility of land or housing can only be translated into effective demand if mortgage finance or micro finance is available to serve both higher-income and lower-end clients.

Where the commercial sector is concerned, the capital segment influences how property values are determined, as commercial sector clients mainly acquire these properties for their income-generating potential – they are therefore valued and finance made available for their acquisition in terms of their potential yield.

Of course, the workings of the capital segment are informed by local and global economic conditions, including rising or falling interest rates, which influence potential income streams in the commercial sector and the availability of debt financing in the residential sector. This has an effect on the degree of access players in the land and property market will have to the capital segment. Finally, as in the space segment, users' access to the capital segment varies considerably, influenced by the type of debt financing available and the types of land or property the capital market is prepared or able to fund.

Urban construction site



# Development segment

The dynamics at play in the space and capital markets determine the type and level of development activity. Actors in the development segment carefully consider supply and demand conditions in the space market, as well as the property values derived from the capital segment of the market.

Thus, where future supply will be located in the space segment, which types of development will occur and who will undertake such developments are decided within the development segment of the land market. How decisions are made in the development segment is influenced by the reigning demand and supply conditions in the space and capital segments.

see page 81-82

## Did you know?



The linkages and interactions between the different segments of the land market generally occur on a lagged basis.

As we have seen earlier, when demand for space rises, the price of property or rentals increases.

But the supply of additional space will only occur once the development segment is able/willing to react to the higher demand conditions.

The reasons for this lag include the fact that it takes time for information to flow from one segment to the next – and the quality of such information and how it is used by different actors operating in the different segments, could vary substantially.

Moreover, information around an increase in demand for space should assure decision-makers in the capital and development segments of balanced risks and returns – only then will development be undertaken and supply increase.

Property cycles are a consequence of this delay in the response of a particular land market segment to changing conditions in other segments.



# Land segment

Development activity translates into a demand for land in the land segment – the final result of the interactions which take place in the space, capital and development segments of the land market.

Peri-urban Khartoum, Sudan

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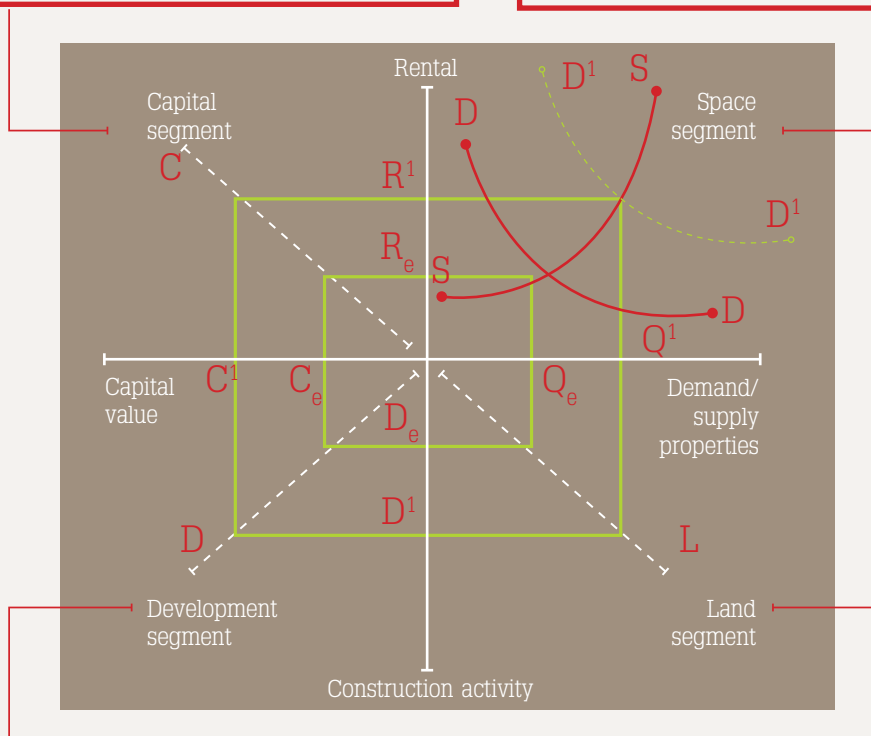
**Figure 7: Segments of the urban land market: the four-quadrant model**

**Capital segment:** Line C indicates the yields investors can expect in the capital segment of the land market when rental values derived in the space segment are converted into capital values. As discussed, these yields are influenced by various circumstances – including rising or falling interest rates, financial policies and regulations, and a positive or negative outlook about market prospects.

For example, in the office sector, rental value  $R_e$  is converted into capital value  $C_e$ . If rental values go up to  $R^1$ , capital values go up to  $C^1$  – which means the market value of the property increases when the rentals generated by such a property rise.

Where the residential sector is concerned, when circumstances in the capital segment change for the better – interest rates fall, resulting in lower bond repayment costs – the demand for housing increases and residential house prices rise.

**Space segment:** An increase in the demand for space caused, for example, by improvements in market access, household income or general economic conditions, shifts the demand curve outwards – from  $D$  to  $D^1$ . The demand for space therefore rises from  $Q_e$  to  $Q^1$  and rentals (or the price of properties) from  $R_e$  to  $R^1$ . The supply curve does not shift, however; the development segment first has to react to the new demand and supply conditions in the space segment.]



**Development segment:** Changing conditions in the space and capital segments of the land market influence the development segment – rising land and property values encourage increased development activity. A capital value of  $C_e$  means the amount developed will be at  $D_e$ . But as capital values rise to  $C^1$ , the level of development increases to  $D^1$ . The line  $D$  reflects such activity and is influenced by whether, for example, when property values rise, building costs remain stable and town planning regulations do not become more onerous – which means the prospects for development look to be more viable and lucrative for developers and investors.

**Land segment:** The land segment links the development and space segments in the land market and reflects the outcome of development activity. In the longer term, as development activity increases, supply will rise, moving the supply curve,  $S$ , in the space segment, outwards. When supply increases, rentals will over time decrease, resulting in dropping capital values of land and property and an ultimate slow-down in development activity – which moves the land market closer to equilibrium again.

We say 'closer' because the complexities of – and delays in – the interactions between the different segments of the land market mean that adjustments in this market do not happen according to strict theoretical principles. This makes it even more difficult for both actors and decision-makers in the land market to ascertain when, where and how development or interventions should take place – and what the outcomes of such activity would be.

## Land market segment dynamics

In the space segment, the market can further be divided into residential and non-residential (commercial) property types; the latter includes office, retail and industrial space.

We discussed the concepts of highest and best use, bid rent theory, market thresholds and agglomeration earlier – we now see how these concepts come together where the characteristics and locational requirements of different land market users are concerned. For example, for an office development, the closer it can be located to the CBD, the better; on the other hand, industrial developments are not that dependent on CBD proximity, but do need public sector activity such as infrastructure and services provision to have occurred – not only for themselves, but also for supply chain providers to their industry environment – to be able to locate and manage their business optimally.

The same goes for the residential sector: although household income and workplace location largely influence demand in the space segment, both public and private sector activities also have a bearing on individuals' and households' access to the space segment and the type of locational decisions they are able to

make. Public sector policies should therefore be devised carefully to ensure physical and social infrastructure implemented have the desired effects in the space segment – but also in the capital and development segment to encourage additional – and the right type of – private sector activity.

It has been shown in various developing countries around the world that improvements in the accessibility and effective use of land by a larger segment of the population – whether urban, peri-urban or rural – have a direct bearing on economic growth in those countries. Of course, strengthening economic performance in an urban land market setting should in turn lead to an increase in the demand for both residential and commercial space.

Where the capital segment is concerned, without the availability of effective financial resources – and a variety of different types of financial resources catering for the needs of different segments of the population – as well as a regulatory framework that is not too onerous, investors in the land and property market would find it difficult to raise money to fund their property investments, developers would be unable to increase building activity and households would be unable to fulfil (and expand) their land and housing requirements. Because the land and property market relies

Nairobi's CBD



©Anthony Kaminju

heavily on debt financing, access to funds in the capital market in turn influences the type, location and value of developments in other segments of the land market.

Similarly, the development segment is not only influenced by demand in the space segment and availability of financial resources in the capital segment, but is also dependent on the state and the efficacy of land market administration, allocation and regulatory frameworks – which could increase or ease developers' transaction costs. These frameworks to a large degree support decisions made in the development segment on whether and which sections of the land market should be targeted for development activity – if the institutional mechanisms are overly cumbersome, unpredictable, time-consuming and therefore expensive, development activity will be curtailed.

As seen earlier, the land segment is the manifestation of the nature of demand in the space segment, the availability of debt financing in the capital segment and the development decisions having been made in the development segment. The supply of land in the land segment can be divided into land that has already been zoned for development and land that has not been brought into the market yet. This means that actors in the different segments of the land and property market compete for a limited supply of land – and as we have seen, this supply does not expand in the short term – even if demand and capital conditions improve. But it gets more complicated than this; even developed parcels of land, as we have seen earlier, might not be used to their highest and best use because alternative uses are not available or reasonable, or effective access to such land is skewed because of market or government inefficiencies.

## 2

# The actors in the urban land market in Africa

We have now introduced some of the basic economic concepts in the urban land market.

In this chapter we focus on introducing other parts of the puzzle – the actors who participate in the market and their roles in it.

Urban actors' strategies are shaped by a variety of factors. Their financial resources, social capital, access to government institutions, short to long-term economic objectives (from survival to capital accumulation goals).

As seen in figure 7, the roles of such actors span numerous areas, relations and contexts of activity and often overlap, rendering decision-making in the land market a complex and constantly changing undertaking.

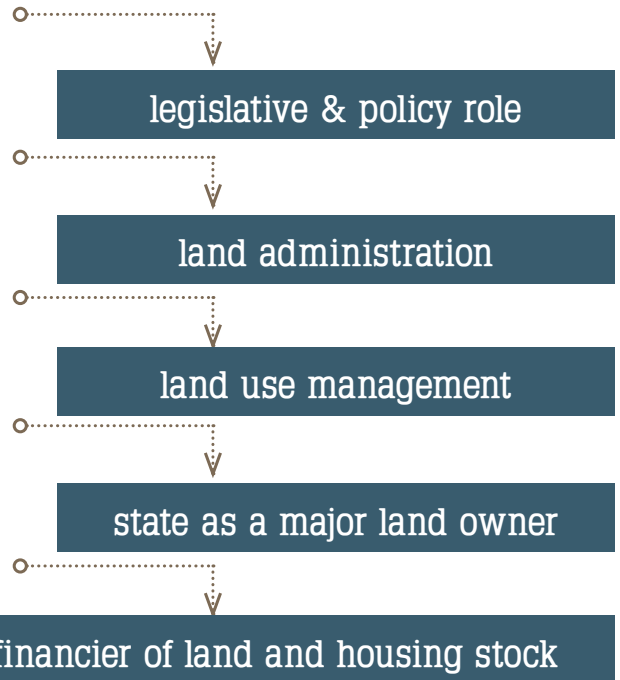
Figure 8: Typology of urban land actors

|                                                                        | Public | Private | Formal | Informal | Foreign | Domestic | Individual | Corporate | Supply-side | Demand-side |
|------------------------------------------------------------------------|--------|---------|--------|----------|---------|----------|------------|-----------|-------------|-------------|
| Government                                                             | ✓      |         | ✓      |          |         | ✓        |            |           | ✓           | ✓           |
| Regulators                                                             | ✓      |         | ✓      | ✓        |         | ✓        |            |           | ✓           |             |
| Investors                                                              |        | ✓       | ✓      | ✓        | ✓       | ✓        | ✓          | ✓         | ✓           |             |
| Financiers (development finance / mortgage finance / emerging finance) |        | ✓       | ✓      | ✓        | ✓       | ✓        | ✓          | ✓         | ✓           |             |
| Developers                                                             |        | ✓       | ✓      | ✓        | ✓       | ✓        | ✓          | ✓         | ✓           |             |
| Property professionals                                                 |        | ✓       | ✓      |          |         | ✓        |            |           | ✓           |             |
| Landowners / leaseholders                                              | ✓      | ✓       | ✓      | ✓        | ✓       | ✓        | ✓          | ✓         | ✓           |             |
| Buyers                                                                 | ✓      | ✓       | ✓      | ✓        | ✓       | ✓        | ✓          | ✓         |             | ✓           |
| Tenants                                                                | ✓      | ✓       | ✓      | ✓        |         | ✓        | ✓          | ✓         |             | ✓           |

## SECTION A



## The government: judge, janitor, executor

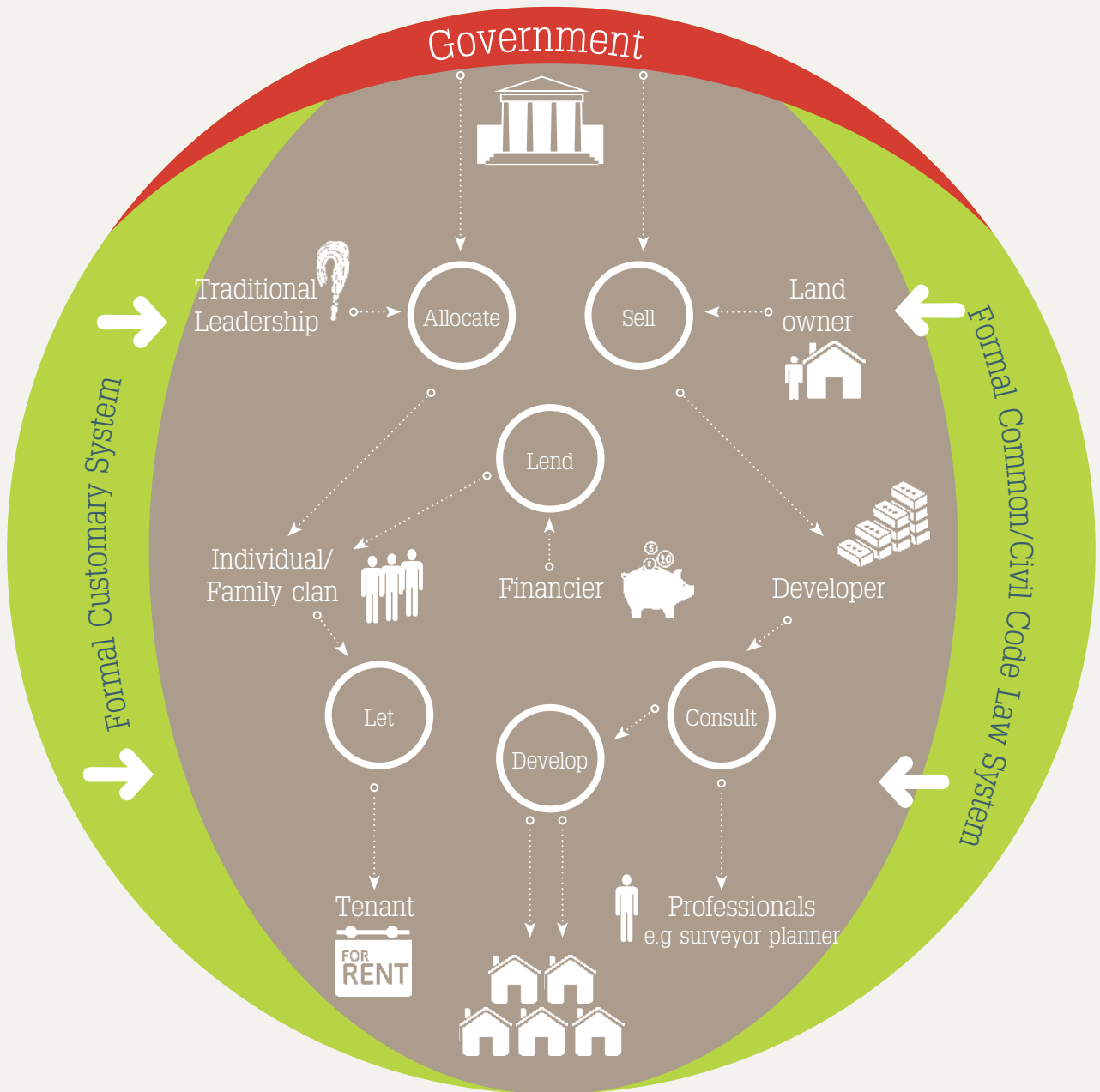


In trying to understand government's role in the urban land market, it is important to note that there is often a gap between government policy and practice, between what government ought to do and what it actually does. This section looks at the roles that governments typically ought to play in the land market in Africa. However, because of weak land administration, corruption, rent-seeking behaviour, social and political conflicts, the realities and consequences of government actions differ from their policy and legislative obligations. This is discussed further in chapter 3.

Government's role in urban land markets is extensive. It is the foremost authority presiding over national territory, and its functions are many and complex.

In its administration of the state, government is in theory responsible for ensuring social, political and economic stability. At a macroeconomic level, government aims to achieve economic stability by, amongst other things, determining interest rates – which impact on the availability of finance sought by both individual households and developers. Government is also responsible for tax collection and developing a national budget that outlines its infrastructure and development expenditure.

The government plays a number of key roles in the land market – as **policy- and law- maker**, **administrator**, **land use manager**, **major land holder** and as a **direct provider and financier** of land (and housing) stock.

**Figure 9:** Schematic representation of players in the land market in Africa

Informal systems operating within a land market contain practices that draw from both the customary and common law systems. The main difference between the activities of players in the informal land market and those operating in the formal land market is that informal land market transactions are not recognised by law or not officially registered in government systems.

# Legislative and policy role

Governments are responsible for setting legislative and policy direction in relation to land in their countries. There are many examples of policy and legislative decisions around land that have had profound influences on the urban land market in African cities.

Key is the land nationalisation policies pursued by many African countries in the past. In its more radical form, land nationalisation policies embody the forceful taking of land from colonial settlers.

The meaning used in this text, however, is the notion of all land being owned by the state, which then apports rights to use that land to individuals. Accompanying this is the concept that unimproved land has no value.

Rent control legislation is another influential policy and legislative decision pursued in African land markets.

If enforced, rent controls hinder the supply of rental accommodation, particularly if suppliers are unable to recoup their costs. The requirements of rent control reduce suppliers' willingness to provide rental accommodation, as the risk of providing it is prohibitively high.

The following illustrations show how rent control effects the market.

## Did you know?

### African land nationalisation policies



Land in Tanzania and Mozambique remains nationalised, which means individuals cannot buy or sell it. Although market transactions do occur, these are typically transactions for the property or improvements on the land, not the land itself.

In Zambia, freehold tenure was abolished in exchange for 100-year leases, which require government consent to transact or mortgage the land.

In Zimbabwe, all freehold title was converted into 99-year leaseholds.

In Lesotho, all land vests in the King.

And in Angola, urban land has been nationalised and – by law at least – has ‘no monetary value’.

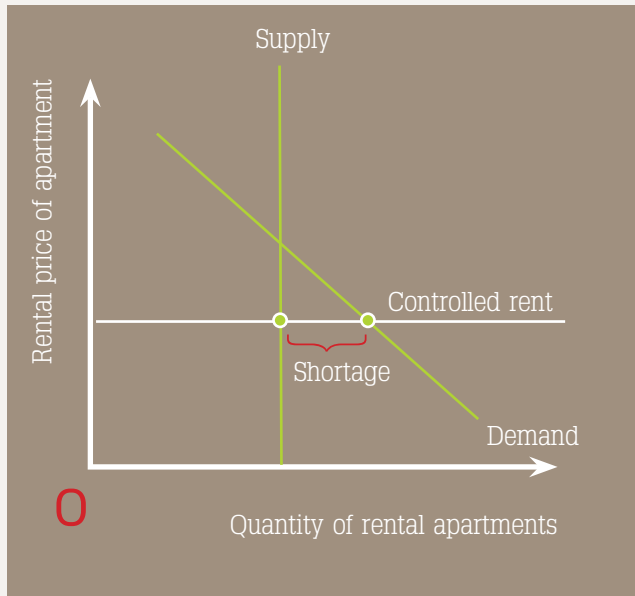
### Rent control legislation in Africa

In Zambia, the Landlord and Tenant (Business Premises) Act regulates business rental relationships.

In Kenya, the Rent Restriction Act, Chapter 296, regulates residential rental relationships. It assesses and sets the rent payable as a percentage of the cost of development. However, this Act is rarely used in poorer areas because of its insistence on formally owned land and a general lack of education on its application.

In South Africa, the Prevention of Illegal Eviction from Unlawful Occupation of Land Act 1998 makes it difficult for land and property owners to evict unlawful occupants. As a result of the rigorous legal procedure required to evict tenants, the policy has met with heavy opposition from the private sector.

**Figure 10a:** Rent control in the short run (supply and demand are inelastic)



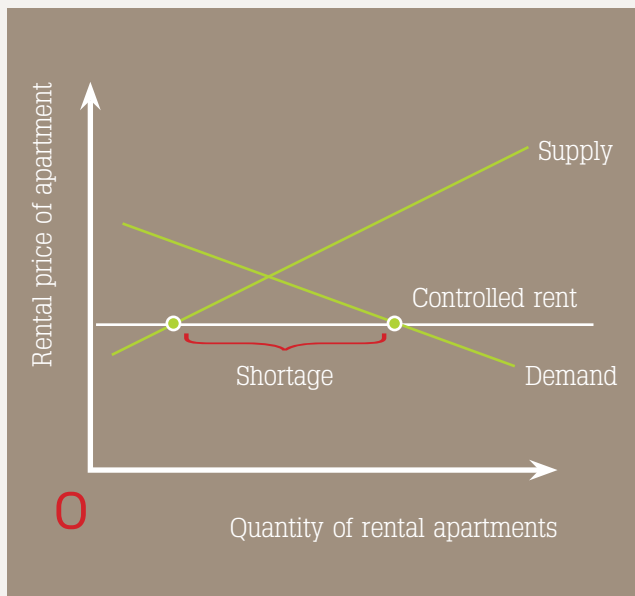
As with any binding price ceiling, rent control causes a shortage in rental accommodation.

In the short run, landlords have a fixed number of housing units to rent, and they cannot adjust this number as market conditions change.

But because supply and demand in the rental market is inelastic in the short run, the initial shortage caused by rent control is small.

The primary effect in the short run is to reduce rents – which benefits poorer 'buyers' of rental accommodation.

**Figure 10b:** Rent control in the long run (supply and demand are elastic)



However, in the long run, the story looks very different, because the 'buyers' and 'sellers' of rental accommodation respond more to market conditions as time passes.

On the supply side, landlords respond to low rents by not building new housing and by failing to maintain existing housing.

So when rent control depresses rents below the equilibrium level, the quantity of housing units supplied falls substantially and the quantity of housing units demanded rises substantially.

The result is a large shortage of housing. The long-term losers in terms of rent control are both landlords and poorer 'buyers' of rental accommodation.

However, because landlords can ration the rental accommodation they have available – by keeping long waiting lists; discriminating, for example, on the basis of race or against families with children; or by taking bribes from those who can afford it – rent control's long-term losers are in effect poor people whom the policy of rent control was supposed to help in the first place by making housing more affordable by placing a ceiling on the rents landlords may charge their tenants.

## *How do national policies affect land markets?*



There are various sides to the debate on the effects of national policies on land markets. Many argue that a lack of freehold tenure and the provision of derived rights such as leaseholds by some African governments have stifled private, particularly foreign, investment in land.

Moreover, leases are tied to certain conditions of ownership – which may be deemed onerous to land owners as they create a climate of insecure tenure. This happens because they feel they may be dispossessed if they do not meet such conditions or the political leadership changes.

Further, leaseholds often come with additional red tape and bureaucracy, especially when transacting, as they often need consent. This hampers the development of mortgage markets and often subjects private transactions to political whim.

Critics also point out that the aim of land nationalisation – to create greater land access for poorer people – is not often achieved.

Nevertheless, derived rights such as leaseholds are standard practice in many leading world economies such as Singapore, the Netherlands and Sweden.

If the state administration of land is predictable and even-handed, a market can be as functional as any other land governance system.

# Land administration

“Land administration is the processes of regulating land and property development and the use and conservation of land, the gathering of revenues from the land through sales, leasing and taxation, and the resolving of conflicts concerning the ownership and use of land”

(Dale and McLaughlin, 1999).

Governments play an important role in land administration, in particular in terms of record- and inventory-keeping of land tenure rights of various land owners at any given point in time.

A well-functioning land administration system provides the basis for the determination of land rights, assists in the resolution of boundary and ownership disputes, and leads to a more functional market because buyers and sellers are able to set prices more effectively.

Land registration is important to record real rights in and over immovable property, provide security of tenure, ensure complete and accurate records, provide access to information and ensure speedy registration of lodged documents.

A well-functioning land administration system is an important pillar for a robust land market. However, as discussed in chapter 3, these systems do not always work and in many cases can have negative consequences on market development.

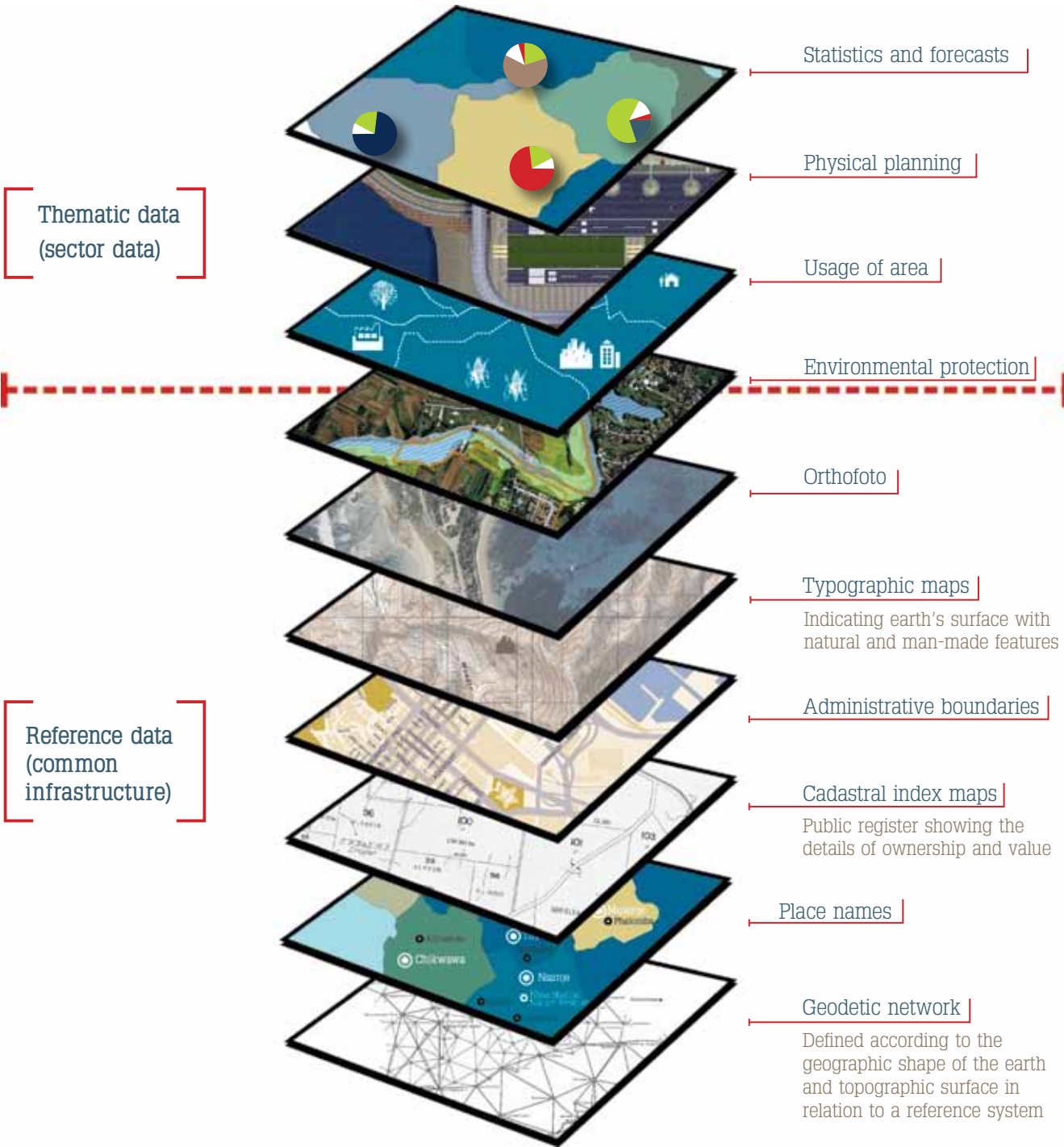
## Did you know?



Government's land administration function includes:

- Legal registration of title deeds, leaseholds, permissions, certificates and other documents of ownership
- Cadastre registration, including surveying and mapping
- Maintaining geographic and cartographic information systems.

**Figure 11:** Typical layered information required to be maintained by a cadastre, surveying, mapping and geographic department



# Land use management

Land use management is another function of government in land markets. This is often carried out by local governments, but there is frequently a national or provincial body with oversight, creating standards and parameters to be followed by local authorities.

In Zambia, for example, the Department of Physical Planning and Housing works with councils to develop district strategic development plans.

South Africa also has an overarching role for national and provincial governments in guiding and setting standards for local land use planning.

Land use management is often justified in terms of the externalities associated with property. Because land cannot be moved, there is an argument that government needs to regulate what can occur on it.

For example, land use management is often justified in terms of health and safety, like prohibiting the presence of a polluting factory near houses and schools.

The type of land use planning regulations used in African urban areas has emerged as a major challenge to urban development. Regulations are often outmoded, rigid and inflexible – and in stark contrast to the reality on the ground. Their effects on poor people are significant, since they often result in tenure insecurity and evictions, as their land and housing do not meet the standards set in these regulations.

The time delay and costs of meeting the exacting requirements of these regulations also make land more costly and reduce the likelihood that it will be openly and frequently traded.

In addition, there are significant consequences to land use separation. Separating land uses forces people to travel further to get to work or school, which is expensive and time-consuming, generates congestion and increases pollution.

# The state as a major land-owner

The state is often a major land-owner. Many local governments, for example, maintain (or once maintained) substantial stocks of land and council-owned housing, the latter often rented out to individuals.

In Namibia, local authorities own most of the urban land, while across Africa, parastatals and other government institutions often own substantial tracts of urban land.

By releasing land onto the market – or keeping it out of the market – the state can substantially change the supply of land, and as a result, change its price. In theory, increasing the supply of land can have the positive effect of reducing the land price, thus making it affordable for poorer people. But because of market failures and corrupt practises, this does not necessarily reflect the reality in African urban land markets.

The state is not a neutral actor. Government actions are often driven by political agendas which may or may not be in the interest of poor urban dwellers.



see page 75

# The state as a provider and taker of land and housing stock

In the late 1970s and early 1980s, many African states intervened in the land market through direct provision and financing of land (and housing) stock. These interventions often included site-and-service schemes financed through parastatals and government-funded building societies.

Generally, these efforts were unable to meet expectations or demand. Site-and-service schemes were often introduced in poorly located land because of high land prices. Moreover, the schemes by-passed the very poor, and tended to benefit middle-income rather than the low-income households at whom they were aimed.

State eviction from urban land, particularly in areas occupied by the poor, have significant consequences on excluding marginalised populations from the urban land market.

## Operation Murambatsvina

On 17 May 2009, Zimbabwean police confiscated goods in central Harare and destroyed informal trading structures as part of Operation Murambatsvina – a Shona word for "getting rid of the filth".

According to a special envoy on Human Settlements, 700,000 people were displaced by Operation Murambatsvina, which the government justified as part of a 'clean-up' to rid urban areas of the ills of crime, grime and informal traders, whom they saw as economic saboteurs – "the skewed neo-economic performance of our economy".

Human rights groups decried the inhumane manner in which peoples' livelihoods and homes were destroyed.



## SECTION B



## Traditional authorities

Much of the land in Africa is still held under customary tenure – and complex and inefficient formal tenure processes have ensured that traditional leaders still play an important role in the land market.

But the role of the traditional leader is not only as a player in a purely 'traditional or customary land system', especially in urban and peri-urban areas. Such figures may also be legally recognised and part and parcel of the formal land system.

There have been various attempts at exerting some form of democratic (often interpreted as executive) control over traditional leaders. This sometimes takes the form of broadly constituted 'land boards' where traditional leaders may be represented. However, it has often led to tension expressed towards government, as traditional leaders view such control as attempts to usurp their powers.

### Did you know?



In Lesotho, the basis of the land allocation system is the 'Form C', which is signed by the chief and is evidence of ownership.

From this primary evidence, a recipient and holder can then convert the landholding into leasehold.

However, in Lesotho, formal legislation such as the 1979 Land Act – which considerably reduced chiefs' land allocation powers by incorporating them into representative structures – has seen historic tension develop between elected institutions and chiefs.

In Zambia, to obtain a title deed in customary areas, one has to identify the land and obtain consent through the local chief.

In Mozambique, informal systems are the most important means of accessing urban land for housing. They include chiefs and local levels of city administrations.

In Accra, Ghana, obtaining land is tied to the traditional land tenure system according to which much of the land belongs to tribes overseen by chiefs or family elders.

However, in Namibia, traditional leaders are legally recognised and form part of the formal land system. They are designated by the President and their details published in the government gazette.

Apart from being part of the formal system, the role of traditional authorities often intermingles with the informal system – as well as illegal practices – to create mixed and hybridised systems of tenure. This is especially true in peri-urban land areas where the interface between the traditional and more modern (formal) systems frequently occurs.



## Formal & 'informal' actors in the private sector

Broadly speaking, the private sector refers to all formal private sector players involved in the land delivery value chain, including land owners, developers and financiers.

Typically, formal private sector players deliver land for the middle-income to upper-income segment of the market – which include only a small minority of urban inhabitants in Africa.

But various 'informal' actors also operate in the private sector, increasingly influencing the dynamics of the urban land market in Africa.



# Developers

Developers come in all shapes and sizes – from small-scale individual builders to large-scale construction companies or their development arms. All play a critical role in the property market as they assemble land and raise capital to develop property.

Developers make decisions about whether to develop land based on the demand for the type of property, land availability as well as expected returns that a property might generate.

Depending on their size, developers work with a number of different players, including architects, town planners, banks, property brokers and investors (Genesis Analytics, 2008). Small-scale developers often work on their own without the skills of architects or planners, or access to bank financing.

# Investors

Investors play an important role in the urban land market. They are individuals or groups of people – for example property companies, pension funds and building societies – who buy property to obtain an income or realise a return. Investors can buy a property in order to rent it and obtain a regular income stream. Other investors buy shares or bonds in property companies who provide their shareholders with dividends. Investors play a critical role in providing much-needed financing for the supply of various kinds of property – commercial, residential and industrial.

The role of international investors is also important if a country wants to attract foreign investment. The way that governments regulate domestic and foreign investment and accompanying land development rights can often determine whether investors are willing to do business in a particular city or not.

## Did you know?

### Emerging financiers: diaspora remittances



One of the important emerging financiers of urban land development in Africa is the diaspora. Through their remittances, the African diaspora in other parts of the world contribute significantly to gross domestic product (GDP) and the property market.

Various governments, including those of Kenya, Nigeria and Uganda, have mounted campaigns to convince expatriates to invest in their homelands. But even before these campaigns, many invested in property back home. 30% of Senegal's recent housing boom is reported to be funded by remittances.

The World Bank estimates that in 2005, remittances amounted to about:

- US\$4.6-billion to Morocco (9% of GDP)
- US\$5-billion to Egypt (5% of GDP)
- US\$3.3-billion to Nigeria (4% of GDP)
- US\$524-million to Kenya (3% of GDP).

# Formal financiers: the banking sector

Large property transactions require some level of debt financing and the banking sector plays a critical role in determining issues such as:

- What type of developments will occur
- Where developments will occur
- Who receives financing
- The level of development transaction activity that will occur. (*Genesis Analytics, 2008: 53*)

Financing is often critical to land acquisition, but in many African countries, obtaining finance for land and housing acquisition is out of reach for most people. As a result, formal financiers play a relatively limited role in Africa's urban development. Part of this is due to a generally low penetration of formal finance and bank activities among the population. Even in South Africa, which has a relatively developed market, only 50% of the population has bank accounts.

There are also challenges to how the formal banking sector offers finance, as borrowing to buy land or housing (through mortgages) often requires collateral. And the most common form of collateral – land title – is in many cases difficult to obtain. Moreover, even where titles exist, they are often inaccurate because of the poor state of record-keeping in most land registries. Together with the overlap of various forms of traditional and modern tenure systems, these factors diminish the ability of people to offer land title as collateral. On top of this, financiers have historically adopted lower risk lending strategies, preferring to lend to governments rather than provide mortgage finance to individuals.

Given the risks banks associate with lending to individuals living in Africa's urban areas, the cost of finance is also prohibitive. African countries have historically been characterised by high

real interest rates over extended periods, which makes traditional mortgage finance unaffordable to the majority. This, together with the fact that land itself is difficult to obtain and generally unaffordable to the majority of urban inhabitants, means that few can own land through formal means.

# Housing micro-financiers

Housing microfinance (HMF) is emerging as an important financing option for the land and housing sector in Africa. Rather than lending a large sum of money for 20 or 30 years, as in traditional mortgage finance, micro-financing lends small, short-term, serialised loans. These finance the incremental phases of land acquisition and home building such as the acquisition of the land, securing tenure to it, installing supplementary services, construction and subsequent incremental housing improvement.

HMF is especially suited to the needs of poor people and lower income clients because the loaning methodology works around their constraints – including affordability, irregular incomes and the lack of collateral. While there is high demand for this method of financing, its practice in Africa remains limited and there are few large-scale examples of HMF.

Swaziland

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# Property professionals

Property professionals can largely be divided into two categories. The first category includes town planners, quantity surveyors and architects who are primarily involved with the development process. The second category, which includes brokers, property management and asset management, focuses primarily on the facilitation of property investments and the management of these assets.

Property professionals sometimes work in both the formal and informal sector. Property and land sellers in the urban periphery typically secure the skills of a land surveyor who will assist in demarcating land. Informal land transactions sometimes use brokers to bring sellers and buyers together.

# Landlords

Rental markets in many African countries are large, highly commercialised and profitable. There is the more formal rental market which rents out formal housing units, or units attached to formal units.

But informal backyard rental is also very much a part of the landscape in many African countries. South African and Namibian townships are good examples where formal landholders build informal structures in their backyards and rent them out. In Nairobi, Kenya, landowners erect illegal 'extensions' to formal plots, which are then let out to tenants. In Maseru, Lesotho, the term *malaene* refers to rooms specially constructed by private individuals in row formation and then rented out.

Rental in illegal areas and informal settlements and slums is likewise very common. Here, landlords of informal or illegal structures may not own the land but instead build structures on government or private land. Kibera in Nairobi, Kenya (see case study 2), one of the largest slums in Africa, is situated on government land.

Renting out structures in informal settlements and slums can be a lucrative business. Studies have shown that in the informal settlements of Nairobi, the annual capital returns can be as high as 142% (Syagga et al, 2002).

Despite their apparent profitability, thriving rental markets do not predominate in all African cities. In many informal settlements, structures are occupied by their owners. In a survey of informal households in parts of Mbabane, Swaziland, some owners were occupying up to 74.5% of structures in some settlements (Mbabane City Council, 2006). In Mozambique, less than 10% of housing units in urban areas are rented (Jenkins, 2000).

# Private individuals

The majority of poor people in urban areas in Africa access land through informal networks of friends and family, or socially dominated markets. Thus typically, a person moving into an urban area and needing to find land to occupy or a structure to rent activates informal networks to obtain information, meet the owner, enter and finalise the transaction, as well as access additional urban services and jobs.

The importance of these networks emerges at different points in the transaction life cycle. In South Africa, over 30% of respondents in one study stated that family and friendship networks were critical for them to access land in urban areas (Marx, 2007). These social relations dominate the less formal land markets and do not necessarily conform to the rules of supply and demand.

Since land in urban areas in Africa is costly and generally unaffordable to the majority, and formal financing is difficult to obtain, the majority of poor people opt for self-help methods. This can be through land invasions or illegal occupation of public land, which may then be followed by incremental improvement to tenure security and obtaining of services, and ultimately house construction.

Advocacy and campaigns to improve the tenure of inhabitants who have sought to acquire land through such techniques are a priority given the Millennium Development Goals adopted by African countries. Despite such campaigns, the majority of urban inhabitants hold insecure tenure to land and have limited and poor services availed to them.

For poor people in urban settings, savings, borrowing from friends and family, Rotating Savings and Credit associations and informal loan providers, as well as income from businesses, are often used

to finance these progressive steps of land acquisition, tenure and services improvement – and ultimately house construction.

Co-operatives and Savings and Credit Societies are also often involved in assisting urban inhabitants to obtain and finance land and make improvements to it. They do this by harnessing the savings of their members and leveraging them to obtain further funding from donors and private financiers. They then offer loans, often on concessionary terms or through microfinance. Importantly, obtaining land through these methods often entails close interaction with urban-based land and housing NGOs in a lobbying role directed at the state to assist in obtaining such land.

# Tenants

A tenant occupies the space which is put onto the market by the property owner or investor. This includes both households who rent residential space, and businesses and industrial firms that rent commercial space. Residential tenants choose to rent according to location, need and affordability. Commercial tenants are motivated by the demands of their business activities and whether they think renting a given property will generate adequate income to cover costs and make a profit.

While tenants form a large percentage of poor people in urban settings in Africa, we must not presume that every renter is poor. Indeed, even those in the smallest rooms may hold jobs and earn a

steady income. This is an indication of both the lack of affordable housing in these cities and people's desire to minimise the amount they spend on accommodation.

Lack of tenure security in many informal areas – whether the structure owner lives there or rents out the structure – is the main inhibitor to improvements to the structure and the progressive creation of decent housing.

Tripoli, Libya

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## Actors involved in dispute resolution & advocacy



judiciary and quasi-judicial organs



land & housing-based NGO movements

# Judiciary and quasi-judicial organs

The judiciary has a role to play in dispute resolution, which is an important element in any land market. Formal courts often have jurisdiction to apply formal state law and customary law. However, many African countries have courts and tribunals created to deal specifically with land matters. This is because the formal court system often has backlogs and long delays and – as we shall see in chapter 3 – few people trust the courts. Tribunals are therefore seen as being more efficient and trusted systems of addressing land issues.

Bamako

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# Land and housing-based NGO movements

Local movements have a critical role to play in mobilising poor people and their savings, reaching out to professionals and policy-makers, advocating for the rights of women and other vulnerable populations, training poor people on various aspects of land acquisition and housing, and creating learning networks with other countries and communities. They intervene in the informal sector where they assist poor communities by protecting them against forced evictions, tenure regularisation, slum upgrading etc.

By developing a platform upon which poor people in urban settings can make demands, they can be vehicles for partnership with governments and other stakeholders that facilitate the delivery of land, tenure security, and infrastructure and services.

As an expansion of their activities, many of these movements are also venturing into the realm of financing – either through community funds, general microfinance or housing microfinance. Their ability to harness external financial resources – including from governments, international donors and even from commercial sources – helps to increase their capital base for lending.

Traditionally, such movements and associations have been stronger in rural Africa. Given their potential value for poor people in urban areas, there is a need to strengthen these organisations in many countries' urban areas.

In addition to community-based organisations, land- and housing-based NGOs may operate locally, or be internationally based with pan-African presence. Like their local counterparts, international NGOs such as Habitat for Humanity (HFH) and the Co-operative Housing Foundation (CHF), which deal with land and housing provision, have an important lobbying as well as financing role.

Cosmo City, Johannesburg

©Kevin James



## 3

# Challenges facing the urban land market in Africa

**Market failure, efficiencies and inefficiencies: Why some are more equal than others in the urban land market in Africa**

As some of the pieces of the puzzle we have discussed are beginning to reveal, urban land markets in Africa are far from operating efficiently and in a manner that benefits all, and not just a few, in society.

This chapter discusses market failure and inefficiencies present in the urban land market in Africa, and the factors that cause these.

But before we discuss the urban land market inefficiencies, we will first introduce the qualities of a 'perfect' market, and then illustrate how the actual urban land market functions, and where its inefficiencies and failures lie.



## Market characteristics

a 'perfect' market: level playing fields

market failure in urban land markets

market limits: the inability of the market to cater for the poorest of the poor

Nairobi's CBD

©Anthony Kaminju



# A 'perfect' market: level playing fields

A 'perfect' market is an abstraction, but it is an instrument classical economists use to theorise the ideal conditions for an efficient market. For a 'perfect' market to exist, there has to be 'perfect' competition – which necessitates several conditions:

- There must be many buyers and sellers of the same (homogenous) product, so that sellers have a market, and buyers have alternatives.
- It must be relatively easy for buyers and sellers to enter and exit the industry so that no single buyer or seller can influence the price of the good or service.
- There must be transparency, so that all information pertaining to the product is available, including price. Buyers must be able to access information about alternative sellers of the same product.
- Transaction costs must be absent or minimal.
- 'Perfect' competition would preclude unfair advantage, undue influence and unjust, unfair exchange.

But no markets are 'perfect', and urban land markets in Africa are no exception. There are nevertheless some actions that can ameliorate market inefficiencies and allow more actors to actively participate in it.

Some of our previous discussions have started to point to the fact that the playing fields in urban land markets are not level. The following sections discuss the causes of these inefficiencies and inequalities by exploring the concepts of market failure and market inefficiencies.

## What would a 'perfect' land market look like?



In addition to the qualities described here, a 'perfect' land and property market would have to ensure that:

- The land and property are advertised for a reasonable period.
- The land and property are on the market for a reasonable time.
- The land and property are not sold under unusual circumstances, for example during liquidation.
- Everyone has the right and opportunity to make an offer.

# Market failure in urban land markets

Market failure occurs when a market, left to itself, does not allocate resources efficiently. Market failure is often used to justify the need for government intervention in markets. There are several causes of market failure. Here are four that relate to the urban land market.

## 1 Monopolistic behaviour

When monopolies, cartels and other market players are able to use their power to set prices or output in the market.

## 2 Externalities

Externalities occur when the land market does not take into account the impact of an economic activity on outsiders. For example, the market may ignore the costs incurred by a society as a result of a factory polluting the environment.

## 3 Few public goods produced in competitive markets

One of the significant causes of market failure in urban land markets is the inability of the market to produce public goods. These are goods that can be consumed by everybody in a society, and where nobody can be excluded from consuming them. Because of this, it is difficult to get people to pay for them.

In the course of designing a city, planners have to set aside spaces for public facilities which are enjoyed by all consumers at no cost – no-one is excluded from their use. The public good has an essential function in every society, and in modern states it is provided by governments and paid for by tax revenues.

Clinics, parks, streets (when they have not been turned into toll roads), policing, national defence, the judiciary and even some research fall within the category of public goods, even if privatisation policies have tried to reduce their number and scope – healthcare, for example, is a terrain fiercely contested by free marketers and anti-privatisation activists.

Of course, the benefits of public goods are difficult to calculate in terms of a cost-benefit analysis – for example, how does one assess the cost of a life saved by army helicopters during a flood?

#### 4 Asymmetrical information

Another source of market failure in urban land markets is asymmetrical or incomplete information available in the market place. If not everyone in the urban land market has access to (adequate) information – or the same quality of information – about land, property availability and price, it can distort the incentives, resulting in the market not functioning in an effective manner.

Of course, what makes access to 'complete' information even more complex is that every transaction in the land market is unique because each one's location is different. Although some products offered in land and property markets are close substitutes – for example, one newly completed office block in the city centre available to let may only be marginally different from another – such substitutability also diminishes with age, location and tenure.

### Social housing as a public good



Some housing activists and researchers argue that social housing – housing subsidised by the state – is a public good.

They argue that, especially in the case of post-colonial societies, where inequalities are rife and large sectors of the population are often restive because they have not benefited from post-independence economies, the provision of housing makes for social stability, the eradication of poverty and development.

### Did you know?



The question is whether the redistribution of land is only an imperative in the short run – if once parity is achieved the rest can be left to the market – or whether the right to occupy land is an ongoing right in perpetuity.

In this regard it is important for public authorities to know how to strike a balance between when and which land should be commodified and which land should be kept out of the market on purpose.

# Market limits

## The inability of the market to cater for the poorest of poor people in society

Because the free market has inherent flaws and is unable to provide some goods efficiently, government interventions, such as subsidies, taxes, quantity controls and the provision of public goods are essential to correct market failures – but also to compensate for market limitations – and achieve more efficient markets.

For example, antitrust policies are used to keep the power of monopolies in check, while pollution taxes are used to limit pollution from production processes.

### Access frontier

A concept that enables a greater understanding of balanced market development, and where the state should be operating in different ways – whether they should be regulating or involved in direct provision – is that of the access frontier.

The access frontier is defined as the “current maximum proportion of people in a society who could access a product or service, given the current configuration of costs and market structure” (Porteous, 2004). It is affected by regulatory and technological considerations, which influence what is supplied at what price, and to which consumers.

The access frontier approach aims to “identify the potential of market-based solutions to serve unserved people” (Porteous, 2004), and distinguishes between users of a good or service and those who do not use it but may have access to it under certain

### Did you know?



Some would argue that the market is not meant to, or should not be expected to, cater for the poorest of the poor because they have no effective demand – and that this is a limit to the market, rather than a market failure.

Government intervention where market failure occurs – at the point of where the market is limited or ends – is to be promoted to ensure markets work efficiently

But the question is really when should government cater to the needs of people who do not have effective demand. This is not a question with a static solution, since the market limit is dynamic – wherever it is possible for the land market, its actors should be urged down-market to increase the proportion of the eligible population who can access a product such as land.

conditions. The focus of the approach requires defining effective access to a product, so that non-users may be segmented into different groups:

- Those who are able to use the product but choose not to – they define the limit of the market as they have placed themselves beyond it by choice, and therefore are not a policy concern.
- Those who can access the product as presently defined although they have not yet – these lie within the access frontier.
- Those who should be able to access the product in the next three to five years, based on expected changes in product or market features – these lie within the future access frontier.
- Those beyond the reach of market solutions in the next three to five years – these lie outside the reach of market solutions. (*Porteous*, 2005)

However, the reality is that land near economic opportunities is usually the most costly. Therefore the market tends to work against providing such land to low-income people, unless the government intervenes, or poor people themselves adopt strategies such as land invasions to access well-located land. Urban infrastructure investment is most often drawn towards developing the wealthier sides of the city.

## Why we need the state

This section has shown how markets fail, and are unable to produce goods that are essential in a society. State interventions are particularly justified when markets fail to provide for the needs of poorer people. From a development perspective, formal urban land markets are unable to cater effectively for the needs of poor people in urban settings, and government interventions are needed to provide basic goods such as housing, water and essential services. To ameliorate social inequalities, the state can:

- Harness the power of the private sector to provide goods and services to poor people on a sustainable basis.
- Mitigate asymmetries in the market by providing reasonable access to options for land and housing to all income groups.
- Lower legal, administrative, operational and financial barriers to entry for marginalised populations.

### Did you know?

There is another side to this coin, though.

It could be that the state is failing to govern the economy in ways which allow people to earn enough income to engage in the market.

We therefore need to balance the role of the state with what can reasonably be expected from the market.

Market failure is only one aspect in this regard.



*For state interventions to be successful, it needs to:*

**1** Deliver the good more efficiently than the poorly performing market.

If the state delivers the good inefficiently, a lose/lose situation is created – society still does not receive the optimal level of the good and the ability of the market to do so has been undermined.

**2** Recognise why the failure is taking place.

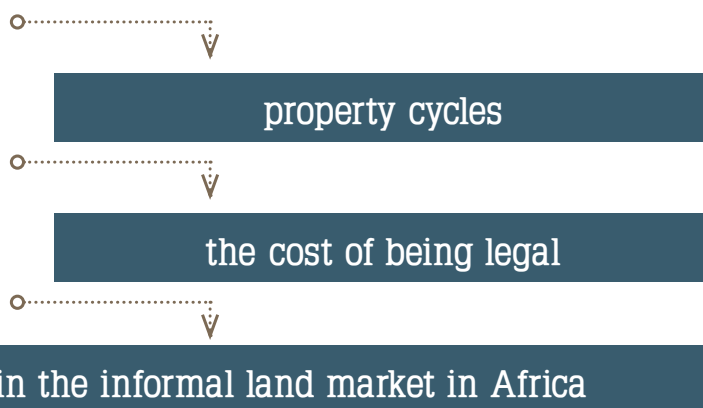
If it is because of knowledge asymmetries, the state should not try to take over the role of producing the particular product (for example, housing) but should rather deal with the knowledge asymmetry issue so that the market can produce the good efficiently.

**3** Measure how its interventions will 'distort' the market.

Distortion can be justified when the intervention causing the distortion leads to societal returns greater than those lost as a result of the distortion. However, to do this one has to be able to recognise and measure the impact of the distortion. If the state's interventions distort the market to the degree that exchange, input and economic efficiency are not attained, this results in 'market failure'.



## Urban land market inefficiencies in Africa



The previous section has discussed how the market, when left on its own without any intervention, fails to efficiently allocate resources. In this section we turn to how the actions of various actors in the urban land market, including the state, cause market inefficiencies that affect all market players, including poor people in urban areas.

The market – at least the formal urban land market – is subject to significant transaction costs, and poor land management and administration systems contribute to inefficiencies in the market. These inefficiencies impact upon everybody in the market, particularly poor people who are excluded and continue to be marginalised.

Let us see how.

# Property cycles

One of the causes of inefficiency in the land and property market is its inability to respond quickly to shifts in demand. We briefly discussed this in chapter 1, but here we need to explain it a little further.

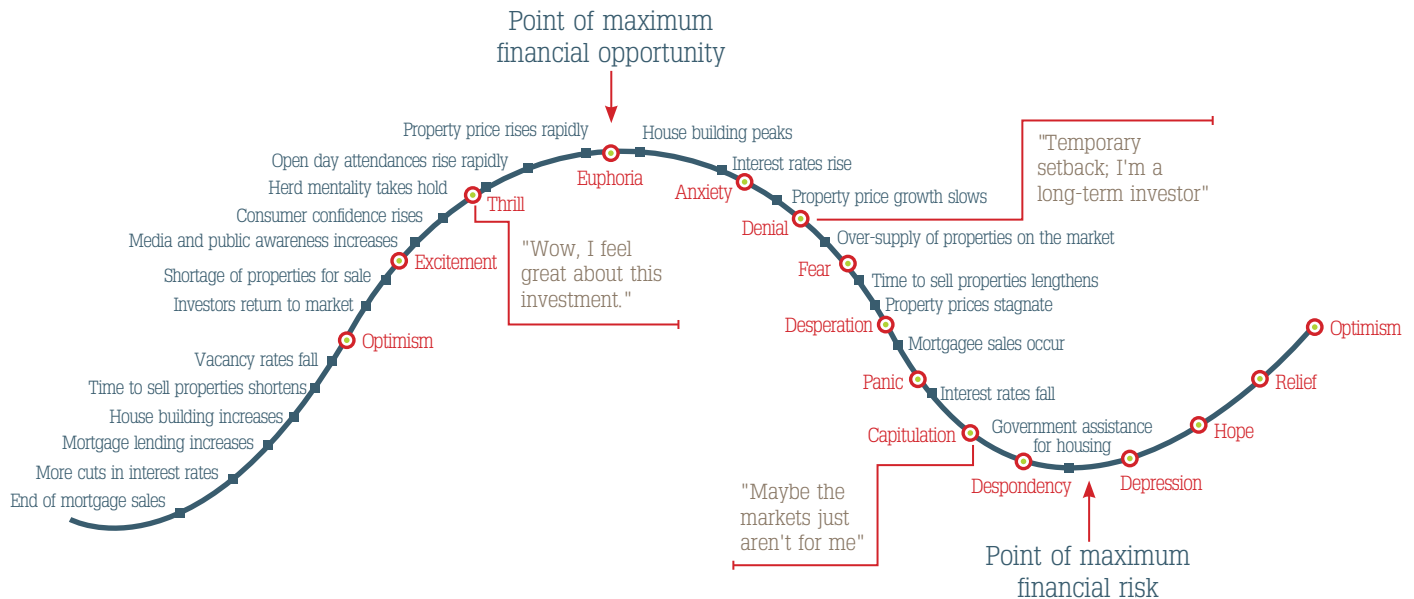
Property markets work in cycles, which respond to various factors – interest rates, inflation or deflation, economic growth or slump, effective demand, political stability or instability, and people's general optimism or pessimism.

If the economy is doing well, people find work and wages increase, and they are generally optimistic – which may prompt people to invest in property. The increase in demand for property pushes its price up and sends a signal to property developers to build more stock. But building takes time – and a lag occurs between the time when the demand is high and when the houses finally come onto the market.

In the time that it takes to build more stock in the market, inflation could increase, and the economy could slow down, reducing people's ability to spend. Demand for houses may drop because people do not have enough spending money, but it is at this time that the construction industry has finally completed the building of extra stock – which now enters the market during a downturn, causing a glut in supply and the lowering of prices.

The inability of the property market to respond quickly to forces of demand and supply is one of the causes of its inefficiency. Developers are often accused of 'short-termism' because they assume that current conditions, good or bad, are not going to change, and they make decisions based on these conditions.

**Figure 12: The property cycle – and the cycle of market emotions**



Source: Adapted from [http://www.vivid-construction.co.uk/smenews/uploads/image/property\\_cycle.gif](http://www.vivid-construction.co.uk/smenews/uploads/image/property_cycle.gif) and <http://network.nationalpost.com/np/blogs/wealthyboomer/archive/2009/02/27/the-cycle-of-market-emotions-revisited.aspx>

## Economic behaviour

The trajectory of the property market is fundamentally affected by the way players perceive conditions in the property market and how they interpret and respond to opportunities and constraints presented to them.

Behavioural considerations have an important influence on the pattern of market performance. Property investors typically ignore the reality of property cycles during the expansion phase of the property market because high profits, commissions and financing fees are being made. In these circumstances, it is in no-one's interest to suggest that the boom could come to an end. Because of such behavioural factors, the upward phase of the property

cycle often leads to an overpricing of assets, while the downward phase of the market cycle goes down faster and further than is expected or warranted in terms of market fundamentals, resulting in the under-pricing of assets.

Behavioural explanations also focus on the reluctance of owners to adjust occupancy and rent levels when demand changes. Research suggests that such behaviour is rational considering the flawed information/forecasting techniques that the market has at its disposal, the inherent uncertainty of demand, and the long planning and development processes that exist before new supply reaches the market.

## Land delivery: from land to stand

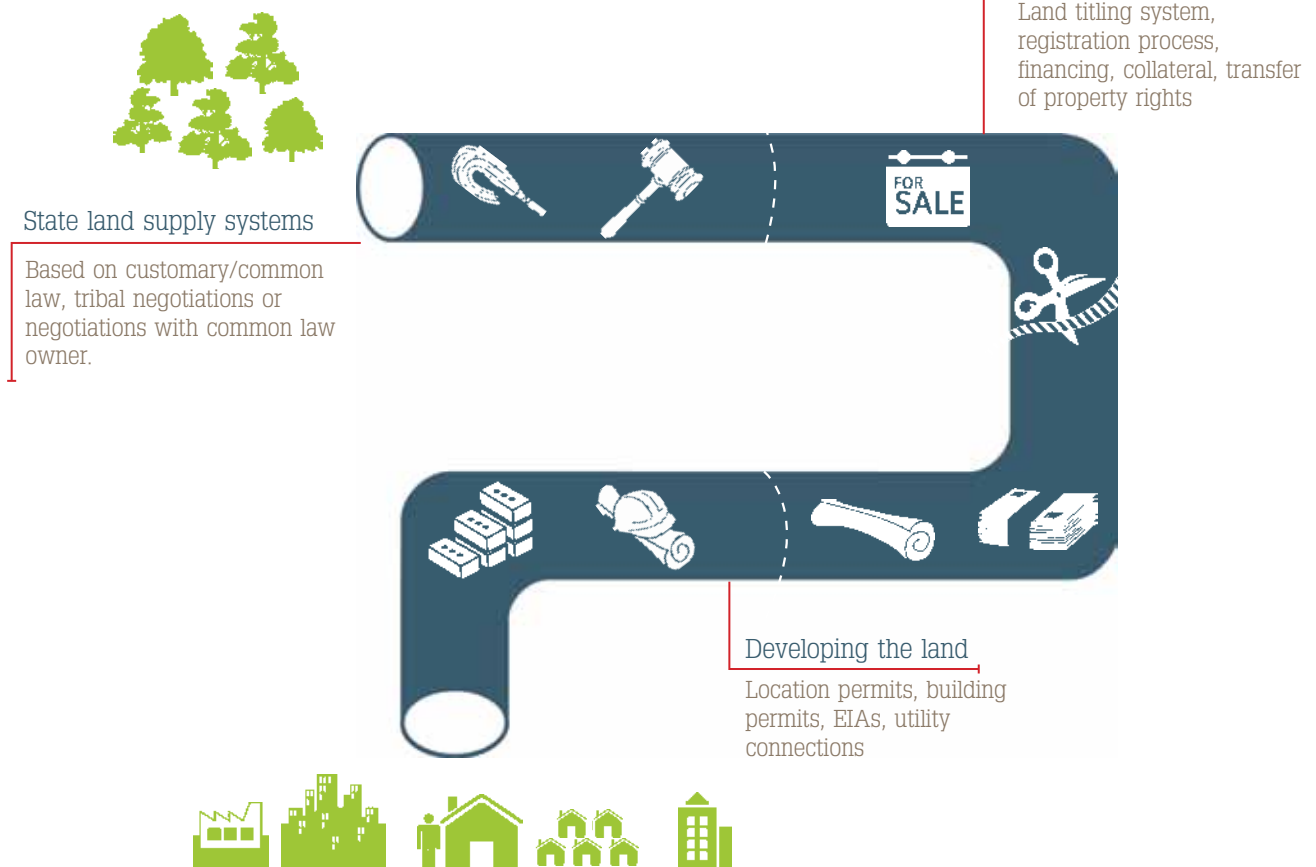


What is the process of formal land access in African cities? Generally, in the formal system, there are three main processes required when accessing land for residential or commercial purposes:

- **State land supply system** – based on customary, common or Sharia law; tribal negotiations or negotiations with common law owner; issues of information scarcity present.
- **Securing land** – titling system; registration process; financing collateral; transfer of property rights.
- **Developing land** – location permits; building permits; environmental impact assessments (EIAs); utility connections.

Source: Shen, X. 2008

Figure 13: Land delivery



Source: Adapted from Genesis Analytics, 2008:59

# The cost of being legal

## The challenges facing formal urban land supply

### Poor land administration and registration systems

One of the factors that undermine urban land markets in Africa is poor land administration and registration systems. Within the context of limited capacity and highly constrained resources, many African countries struggle with outdated land recording systems, a lack of modern technology and highly bureaucratic, inefficient and inaccurate registries. This, of course, makes the system of urban land market administration vulnerable to corrupt practices.

Further, registries are often maintained at national, highly centralised locations.

Even in urban areas, the poor reach of the national cadastre often presents a significant problem in African countries. In Rwanda, for example, out of 7.7-million plots only 80,000 have formal title (Oyier et al, 2008). Where they do exist, they lack accurate basic mapping, geographic or ownership information.

Registration systems form the basis for land valuation, taxation, development planning and administration by a local authority. Accurate cadastral and title systems are essential for a well-functioning urban land market because they locate the land in space and to an owner.

These systems also form the basis upon which capital can be raised for land development and investment. When the registration systems do not function adequately, investment in land is considered risky, and financial institutions are often reluctant to lend for the development and improvement of land.

### Did you know?

Zambia has a single land registry based in Lusaka, and attempts at decentralisation have largely failed.

Since only the Registrar in Lusaka can sign documents, this centralisation creates major backlogs and logistical problems for landowners.

In Lesotho, which also has a highly centralised system, getting a land lease registered is a similarly protracted and complex process.



To make matters even more complex, these registries often have to deal with the challenge of a myriad of tenure systems and types, and how to define and represent them in the records. In Namibia, for example, the complex legacy of different tenure systems has presented a major challenge to the deeds registry system.

## Land application and allocation processes

Land application and allocation procedures for urban land are often protracted and time-consuming – and poor people are often left out of the land allocation process.

## Mistrust in the courts

Not only are the systems of accessing and securing land inadequate, a World Bank study has shown that businesses do not trust the state to arbitrate fairly in land disputes.

A 2007 study showed that over 50% of companies in Angola, the Democratic Republic of Congo, Guinea and Swaziland did not trust the courts to uphold property rights. Of course, high levels of mistrust in the judiciary system to uphold land rights compromise investment in land.

## High transaction costs

The high transaction costs involved in the formal registration system – which include lengthy bureaucratic processes and fees – mean that formal access to land is almost impossible for most urban dwellers in Africa.

These high transaction costs not only limit entry into the market, but also act as obstacles to business investment and land development.

### Did you know?



In urban Mozambique, individuals may apply for concession of a plot of land from the relevant municipal directorate or municipal cadastre services.

But the process requires as many as 103 administrative steps and frequently takes several years.

Double allocations are also common, and poorly maintained land records often create disputes.

UN Habitat, 2005b

Also in Mozambique, with a new national housing policy stressing the role of the private sector, previously nationalised housing stock has been transferred to Mozambican tenants at highly subsidised levels.

However, this preferentially benefited the middle class.

And rather than spur on private sector construction as projected in the housing policy, it fuelled land speculation in well-located land and severe shortages of formal land provision for lower-income groups.

Source: Jenkins, 2000

### Did you know?



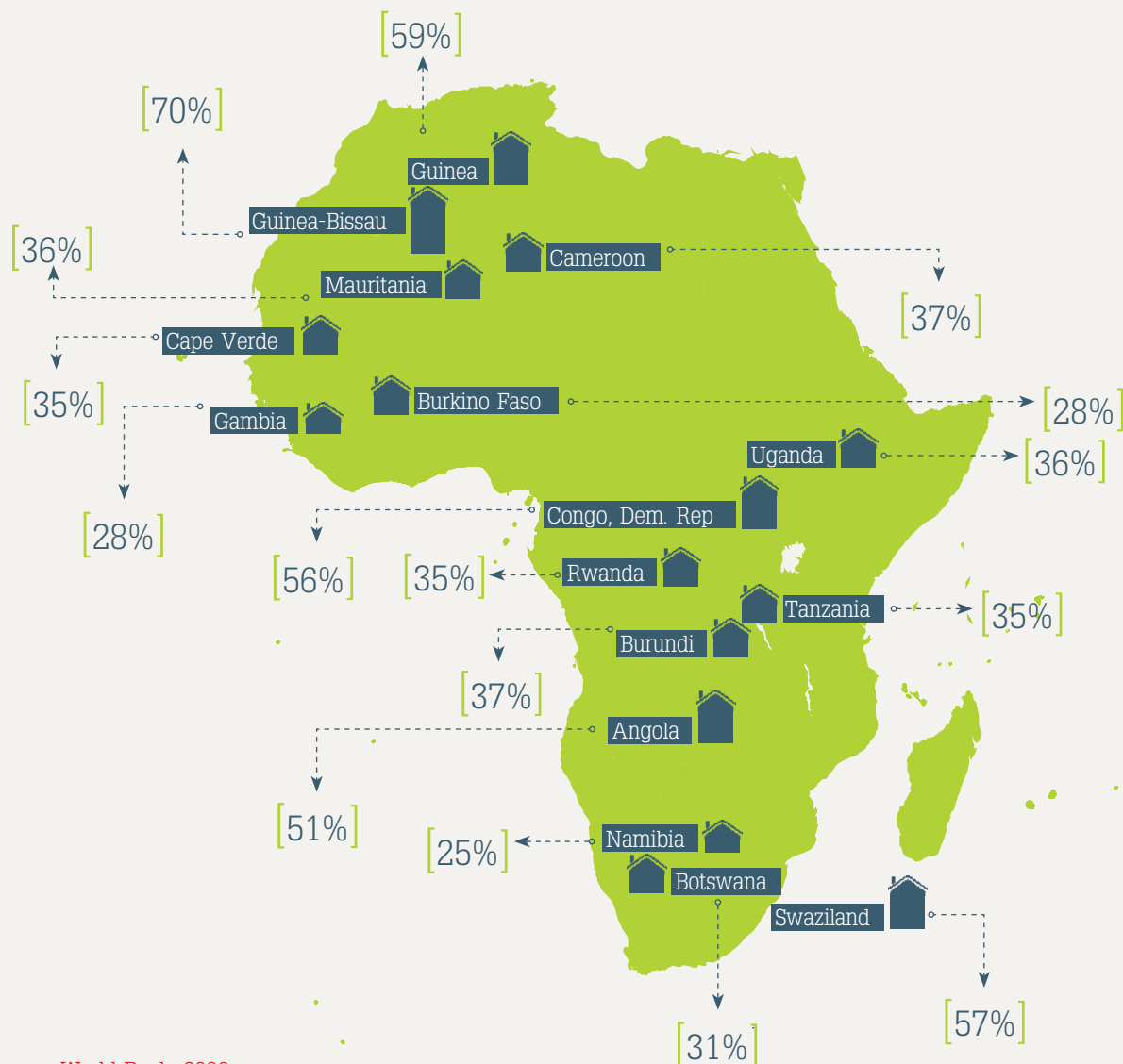
A study done by the International Finance Corporation showed that the cost of registering property in sub-Saharan Africa is the highest in the world.

It takes an average of 95.6 days to register land legally – the third highest time globally.

In extreme cases like Angola, it takes 334 days and costs 11.6% of the total cost of the land to register property legally.

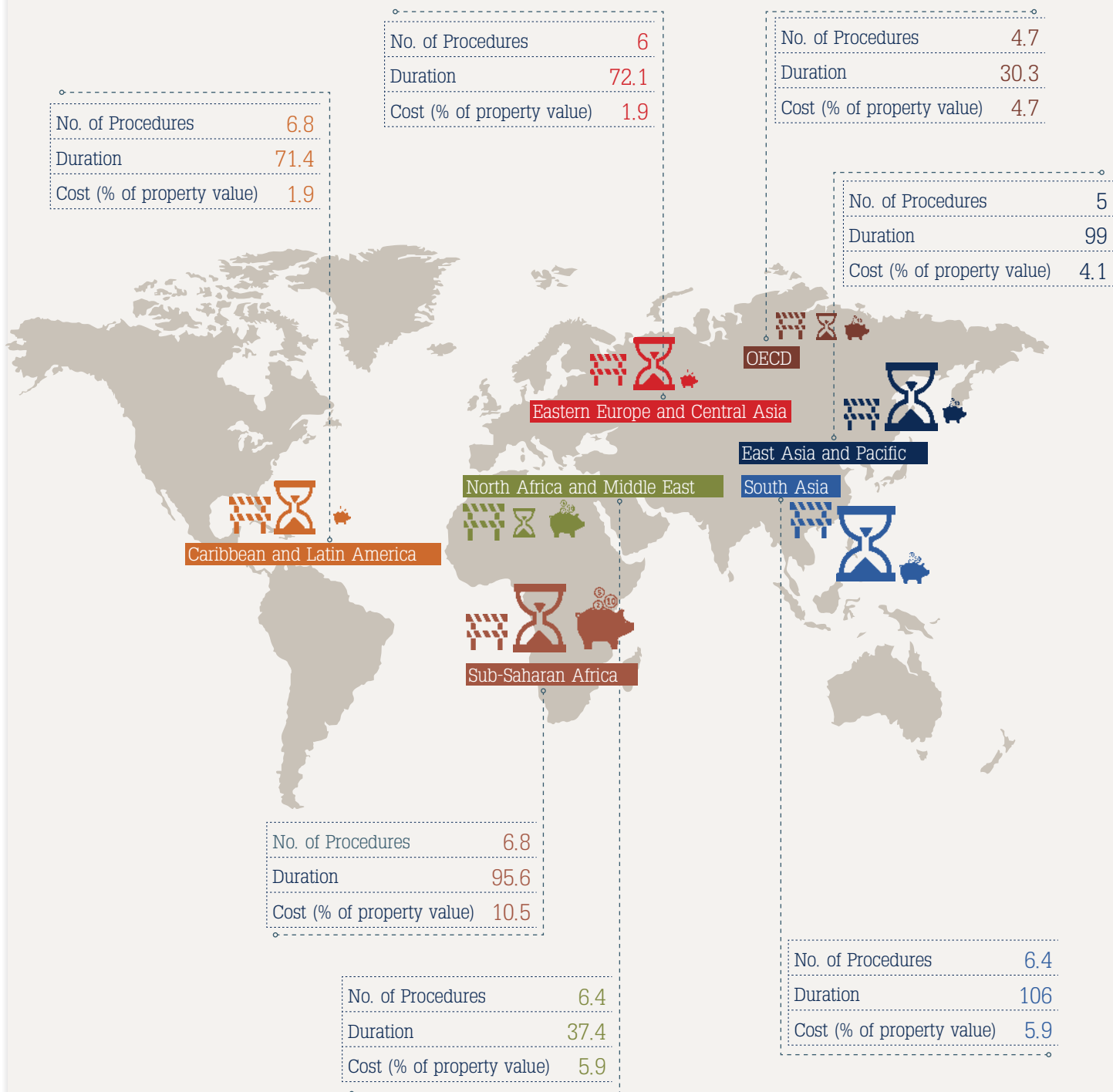
IFC, 2009

**Figure 14:** Percentage of managers surveyed lacking confidence in courts to uphold property rights in a number of selected African countries

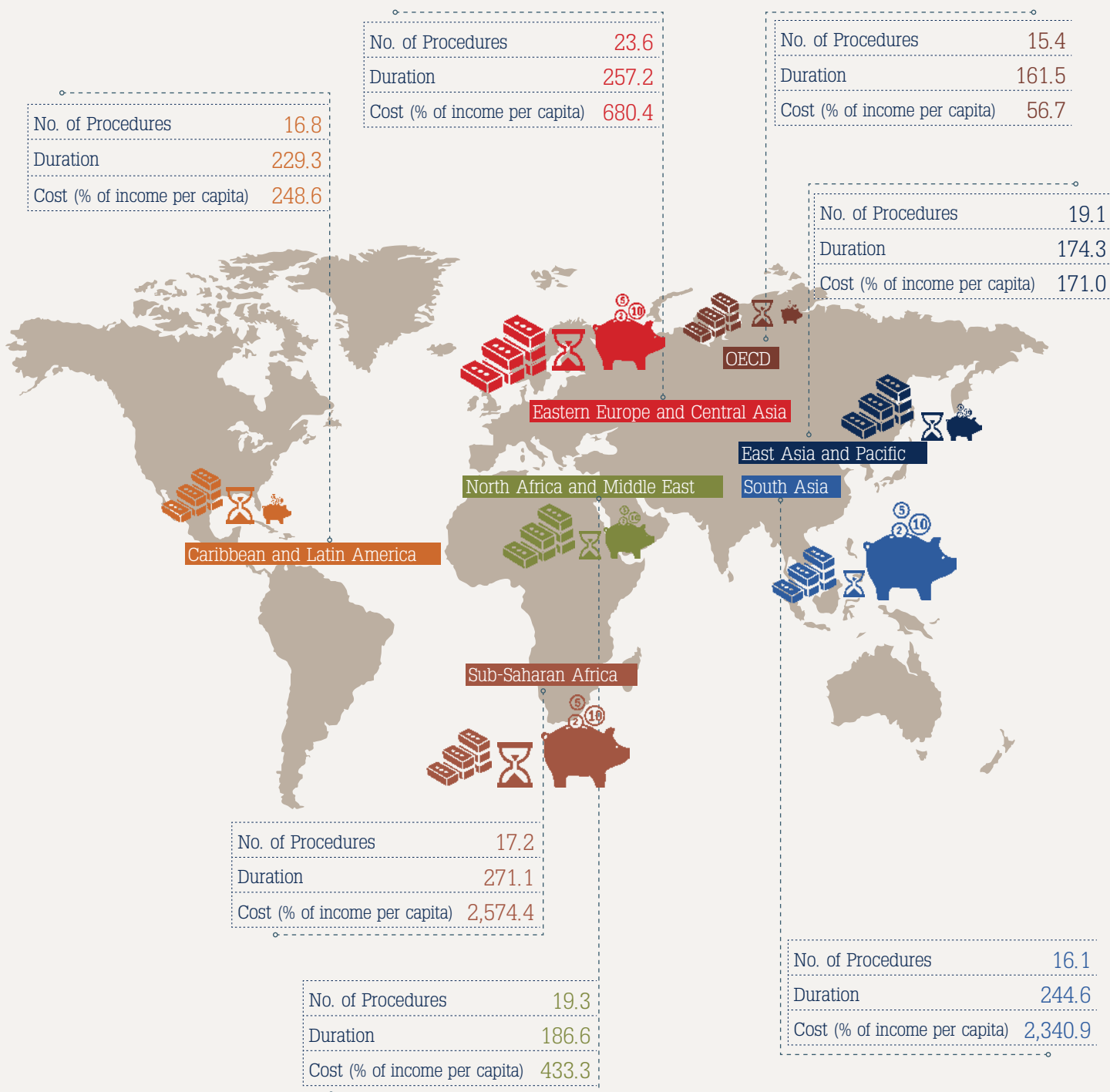


Source: World Bank, 2006

**Figure 15:** Steps, time and cost involved in registering property (assuming a standardised case of an entrepreneur who wants to purchase land and a building that is already registered and free of title dispute)



**Figure 16:** Procedures, time and costs of building a warehouse, including obtaining the necessary licences and permits, completing required notifications and inspections, and obtaining utility connections



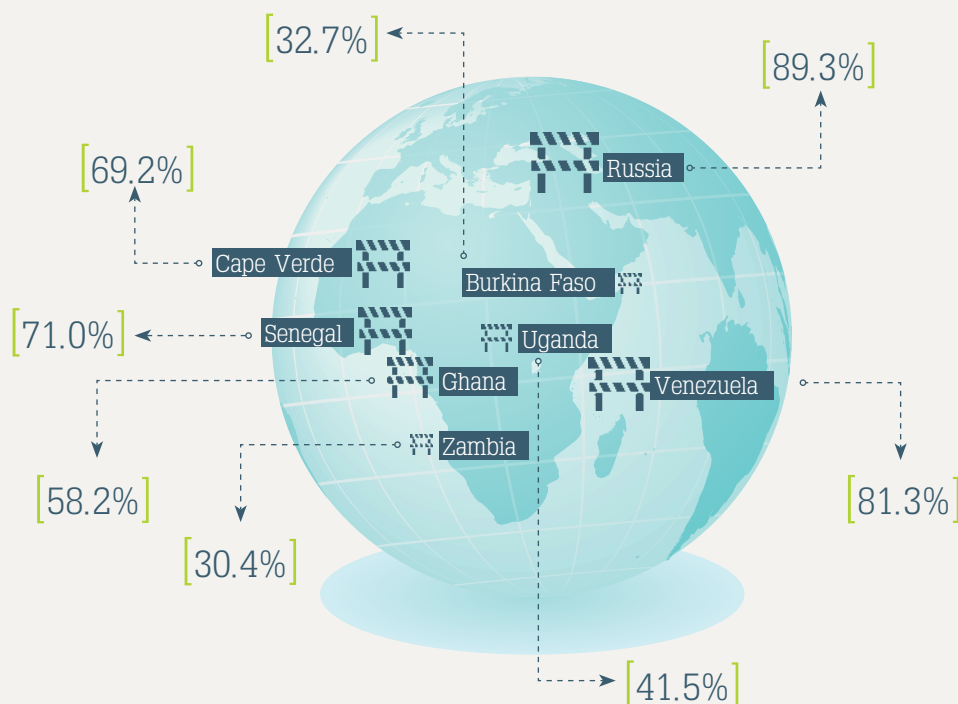
Entrepreneurs in sub-Saharan Africa often pay prohibitively high costs – incurred in fees, commissions, etc. – to set up businesses. These high costs discourage the growth of industry and businesses.

These high costs explain why there is a growing supply of housing in the informal market – it is a cheaper, more accessible option for the majority of urban dwellers.

Although Figure 16 illustrates the cost of building a warehouse, we can assume that the cost of building a house according to the required standard and procedures is also high as a proportion of per capita income.

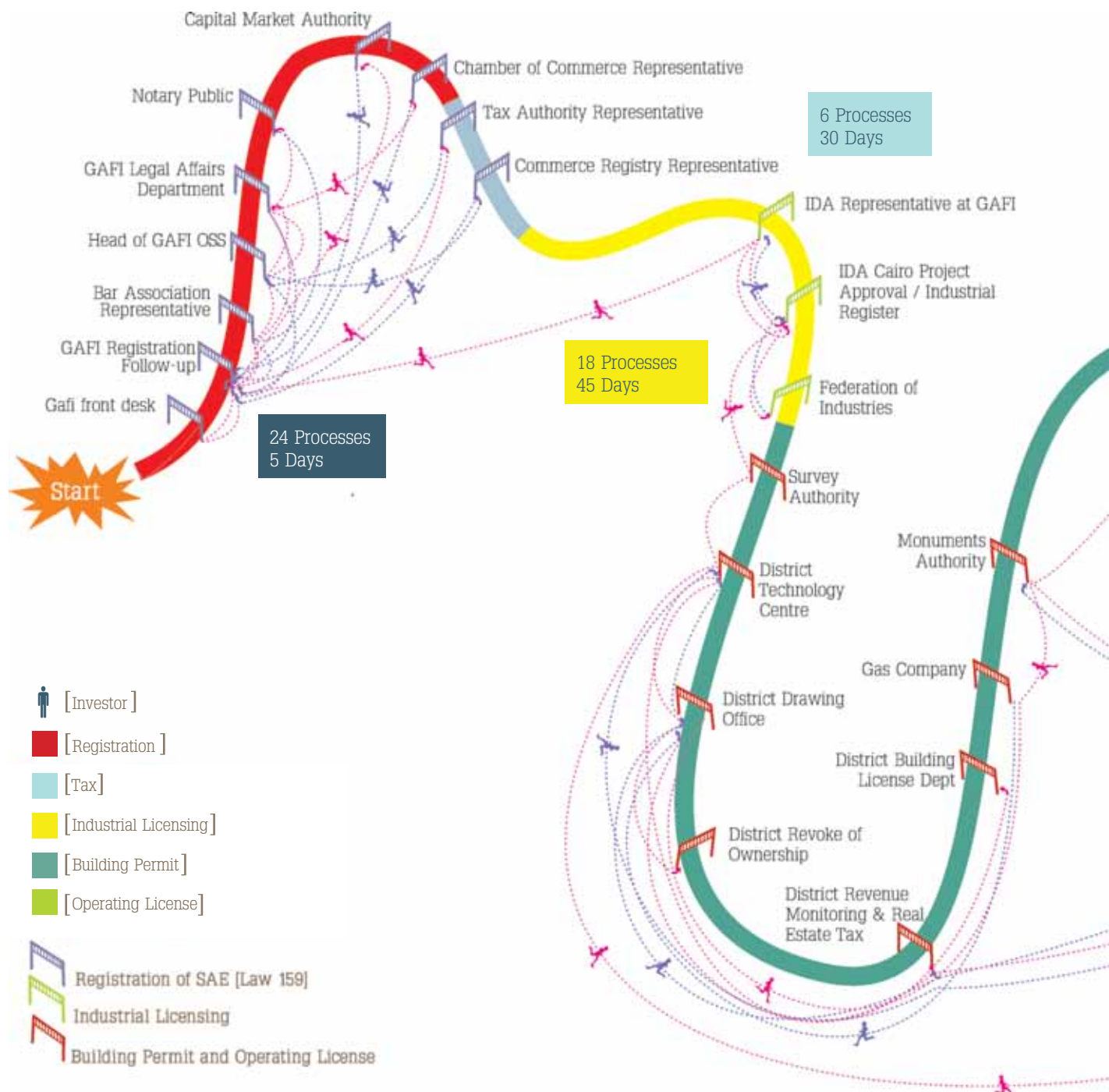
Transaction costs impact upon business creation and growth – as Figure 17 shows, a significant number of respondents claim that procedures for accessing land are an obstacle to business opportunity and growth.

**Figure 17:** Percentage of respondents claiming that procedures for accessing land are an obstacle to their business opportunity and growth

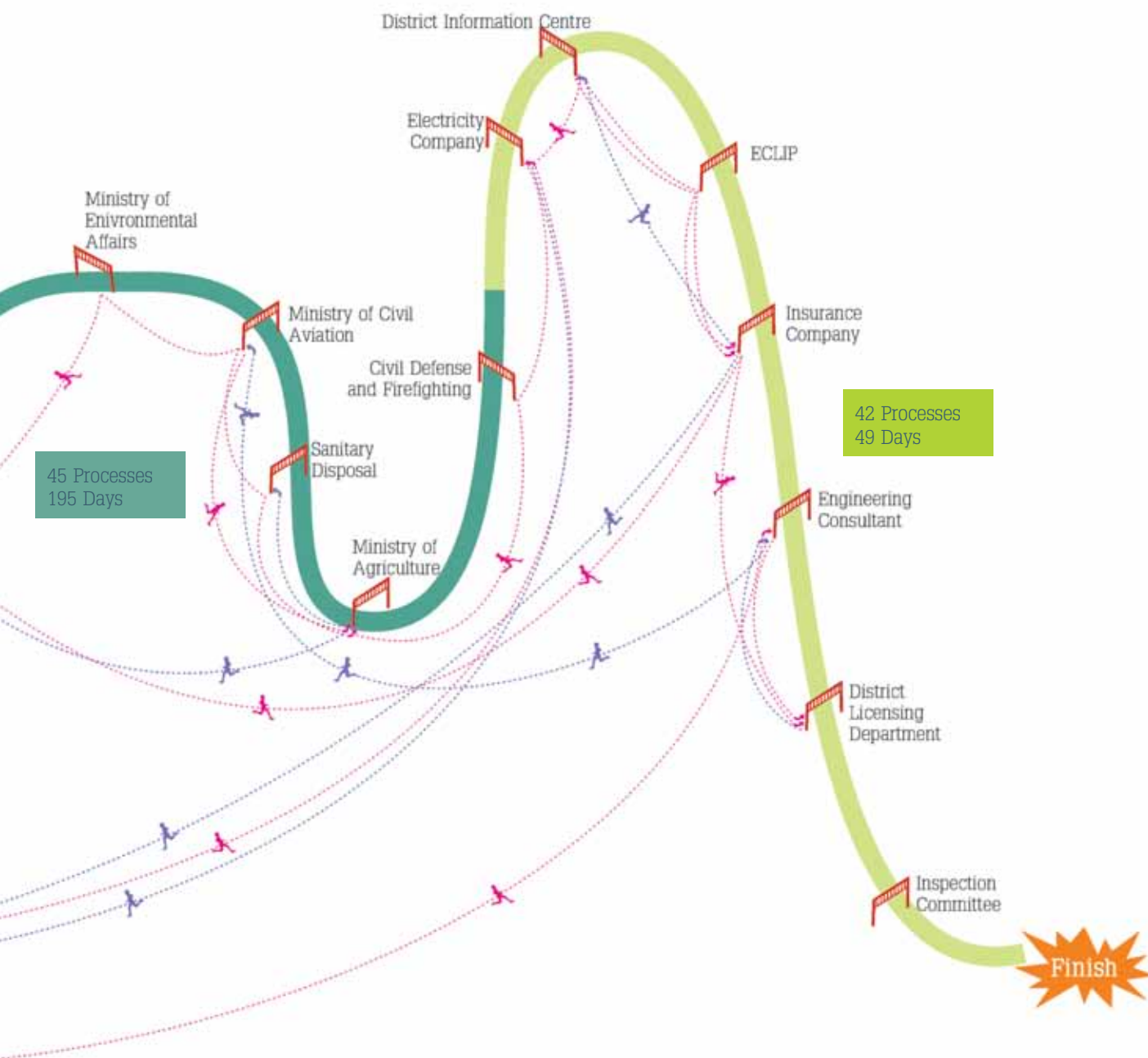


Source: Shen, X, 2008

**Figure 18:** Transaction costs: business start-up process in Egypt:  
133 processes, 324 days, US\$15,260



Source: Shen, X. 2008. 'Making Land Market Work for Investors – A FIAS/IFC approach. Presentation to DFID Denham Grove, UK, 26 June.





## Barriers to a vibrant market in black townships in South Africa

The residential property market in South Africa's formerly black townships is dysfunctional as a result of the titling, transactional and financing problems experienced by potential buyers and sellers. These three dimensions are critical to making property markets work effectively, and as the South African experience shows, the delays, lack of financing and cost of security of tenure hinder the growth of a vibrant township market. This is because owners are unable to raise capital with their asset, or realise the growth in value of their asset.

### 1 Titling problems relate to delays in titling and the inaccuracy of some title deeds:

- The titling backlog extends to 53% of Old Township Stock, and about 11% of state-subsidised (RDP and site-and-service) stock.
- In 2004, the Surveyor General found that 36% of title deeds across South Africa were rejected as unregistrable due to conveyancing errors, attachments, interdicts or other legal constraints.

### 2 Transactional problems relate to legislation, clearance certificates, costs and the lack of information:

- The Housing Act (1997) prohibits the sale of government-subsidised housing for a period of eight years following occupation, making it impossible for households to trade unless they do so informally.
- The requirement that the transfer of a property cannot occur unless the property is valued and the seller receives a Clearance Certificate indicating that all rates and service charges to the municipality are fully paid, acts as a significant stumbling block. Municipalities struggle to find valuers qualified to work in the townships and most face backlogs in valuations. A large number of households are in arrears and this constrains their ability to trade their property.
- There are few service providers (estate agents and conveyancers) operating in former black townships. Most households buy or sell property by word of mouth.
- Properties over R500,000 attract transfer fees which are due to the government.

### 3 Despite having a well-developed financial sector, the lack of availability of appropriate financial products to purchase existing stock further inhibits the development of a robust township market in South Africa:

- Mortgage finance is generally not available to the informal, site-and-service and Old Township markets.
- The majority of households (77% of site-and-service and government-subsidised housing) use their own money to purchase a dwelling because of the lack of user finance.

Source: Shisaka, 2003



## *Summary: Inefficiencies in the formal urban land market in Africa*

- High transaction costs.
- The existence of different systems of rights and practices with varied degrees of legitimacy, which lead to land insecurity and conflict.
- The lack of basic information on land, for example, mapping, geographic, ownership and registration information. Existing information is often incomplete, inaccurate and not centralised in one location.
- Poor administrative systems located in different state departments and levels and not well co-ordinated.
- Incoherent and ambivalent policy.
- Fragmented, outdated and only partially enforceable legislation.
- The failure to register many types of land occupancy, which reduces the state's ability to raise revenue from taxation and investors' appetite for investing in urban land.

Source: Rakodi, 1997: 337

# Inefficiencies in the informal land market in Africa

Formal land delivery systems supply only limited land, and such land is rarely accessible to very poor people. As we mentioned earlier, in some cities, only 30% to 50% of land is supplied through formal systems.

With the legal means of land access unavailable to the majority, many urban dwellers use informal systems of supply. While the transaction costs may be lower, the informal market also has its inefficiencies:

- Its operations are often opaque, information is not readily available to everyone and the procedures are unclear.
- As case study 2 describing informal markets in Nairobi shows, the costs and payments involved do not necessarily go into public coffers where they could be used to raise revenues for the provision of public goods. Conditions are often poor, without basic infrastructure and services.
- Because informal transactions are not legally recognised, the rights of owners and tenants remain precarious. This has two main consequences – it limits investment in improving the land and it increases the vulnerability of land users to eviction.
- Although this is the sector which provides the very poor with shelter, they remain highly vulnerable to evictions, homelessness and landlessness. As in the example of rental markets in Kenyan slums, it is the politically connected that benefit from slums.

Lesotho

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## 4

## Conclusion

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The focus of this handbook has been to explain basic economic theory relating to urban land markets in Africa and, by using examples, to show how land markets actually work in African cities.

Our premise is that it is essential that policy-makers, non-governmental and private actors in the urban domain understand how land and development interventions shape market outcomes. Understanding land market dynamics thus requires a basic knowledge of land economic theory, as this reveals both its relevance and limits to land markets on the continent. It also provides a sound basis for developing mechanisms that allow policy-makers to make urban land markets work better for poor urban dwellers.

#### Bamako



The specificity of the urban land market context in Africa raises critical questions around the state, its role, relevance and potential in shaping urban land markets. While the state and its actors are significant players in urban land markets, their roles are not always effective.

First, the state is often complicit in irregular and corrupt practices around land in ways that benefit an elite minority. Secondly, as the handbook shows, much of the growth in urban markets on the continent occurs in peri-urban areas, where state regulation and management are limited. In these areas, the handbook points out that the urban land market has multiple regimes of authority that regulate, shape and determine market outcomes.

Thus, to develop effective urban land policies in which poor people can participate, interventions will need to recognise the multiple actors in the urban land sector. This implies a shift in how policy-makers conceptualise the management of urban land markets. There is a need to move from traditional mechanisms – which see the state as the sole authority in charge of regulating land markets – to involving alternative regimes of authority, both recognised (for example, traditional authorities) and not recognised by the law. The critical challenge remains how to develop the appropriate mechanisms to do this in ways that will benefit the majority of urban dwellers.

This handbook is the beginning of a series of publications that addresses the urban land question on the African continent, and we hope that subsequent publications will begin to suggest alternative models for understanding and shaping urban land markets in Africa in ways that are more inclusionary.

# GLOSSARY OF TERMS

**Common law:** Common law rights are property or other legal rights that do not absolutely require formal registration in order to enforce them.

**Communal:** (as in communal system, tenure, land) is used to reflect the broadest possible interpretation of community land settlement arrangements, where land access and allocation are based on membership of a particular group or community in contrast to market-based private land transactions. The communal system refers to multiple levels of community decision-making around local land issues (i.e. land rights and access, spatial arrangements, land use management and governance practices).

**Customary law:** Traditional common rule or practice that has become an intrinsic part of the accepted and expected conduct in a community, profession or trade, and is treated as a legal requirement.

**Customary:** (as in customary system, tenure, principles). Used in a fairly loose sense to reflect local governance practices in relation to land access, rights and use that are well understood by a local community and that are regulated by customary principles. These include layered and shared rights of land access and use, institutional nestedness of family, clan and tribe, and normative values that inform the basis of resource entitlement. The principles governing land access, rights and use are well understood by a local community, but may not conform to the country's legal procedures.

**Freehold tenure:** The term is understood by most land practitioners to mean a title that confers ownership in land, which is recorded and registered in a central Deeds Registry, having been formally surveyed by registered land surveyors and transferred by registered property conveyancers. Freehold tenure is the most complete interest in land, allowing the owner full and absolute ownership of the land during the course of their life.

**Leasehold tenure:** The right to hold or use property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract. A leasehold is a fixed asset.

**Informal settlements versus slums:** According to the OECD, informal settlements are –

- Areas where groups of housing units have been constructed on land that the occupants have no legal claim to, or occupy illegally.
- Unplanned settlements and areas where housing is not in compliance with current planning and building regulations (unauthorised housing).

A slum, as defined by UN-HABITAT, is a run-down area of a city characterised by substandard housing and squalor and lacking in tenure security. Many shack dwellers vigorously oppose the description of their communities as 'slums', arguing that this results in them being pathologised and then, often, subjected to threats of evictions. Although their characteristics vary between geographic regions, they are usually inhabited by very poor people

or the socially disadvantaged. Slum buildings vary from simple shacks to permanent and well-maintained structures. Most slums lack clean water, electricity, sanitation and other basic services.

**Land delivery value chain:** A value chain describes the sequence of business activities by which – from the perspective of the end-user – value is added to products or services produced by an organisation. Michael Porter in 1985 first suggested the concept of the value chain to demonstrate how value for the customer accumulates along the chain of organisational activities that make up the final customer product or service – design, production, marketing, delivery and support. In the land market, as in any other market form, to stay competitive and able to supply what customers want to buy, players have to ensure that all value chain activities link together, even if some of the activities take place outside a specific sphere or player's traditional function.

The land delivery value chain refers to the chain of activities that improves land and adds value to it with time.

**Cadastre:** A public record, survey or map of the value, dimensions, extent, location and ownership of individual parcels of land.

**Orthofoto:** An aerial photograph that has been geometrically corrected ('orthorectified') such that the scale of the photograph is uniform, meaning that the photo can be considered equivalent to a map. Unlike an uncorrected aerial photograph, an orthophotograph can be used to measure true distances, because it is an accurate representation of the earth's surface, having been adjusted for topographic relief, lens distortion and camera tilt.

**Public goods:** Public goods can be consumed by everybody in a society, or nobody at all. Public goods have three characteristics:

- Non-rival – one person consuming them does not stop another person from consuming them.
- Non-excludable – if one person can consume them, it is impossible to stop another person from consuming them.
- Non-rejectable – people cannot choose not to consume them even if they wanted to.

Examples include clean air, a national defence system and the judiciary. The combination of non-rivalry and non-excludability means that it can be hard to get people to pay to consume them, so they might not be provided at all if left to market forces ([www.economist.com](http://www.economist.com))

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# NOTES...





## Urban LandMark

Urban LandMark was established in May 2006 with funding from the UK's Department for International Development (DFID). The programme aims to shift policies and practice to improve poorer people's access to well-located urban land, by making markets and land governance work better. In doing so it gives effect and meaning to the concept of the 'right to land'. It plays a catalytic role by using research to inform policy and by promoting dialogue between key stakeholders in urban land markets. Urban LandMark works in South Africa and has a Southern African regional programme.

## UN-HABITAT

The United Nations Human Settlements Programme, UN-HABITAT, is mandated by the UN General Assembly to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all. The main documents outlining the mandate of the organisation are the Vancouver Declaration on Human Settlements, the Habitat Agenda, the Istanbul Declaration on Human Settlements, the Declaration on Cities and Other Human Settlements in the New Millennium and UN General Assembly Resolution A/56/206.

## Global Land Tool Network

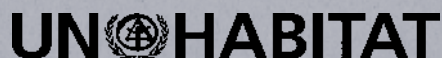
The main objective of the Global Land Tool Network (GLTN) is to contribute to poverty alleviation and the Millennium Development Goals through land reform, improved land management and security of tenure. The Network has developed a global land partnership. Its members include international civil society organizations, international finance institutions, international research and training institutions, donors and professional bodies. It aims to take a more holistic approach to land issues and improve global land coordination in various ways. These include the establishment of a continuum of land rights, rather than a narrow focus on individual land titling, the improvement and development of pro-poor land management, as well as land tenure tools. The new approach also entails unblocking existing initiatives, helping strengthen existing land networks, assisting in the development of affordable gendered land tools useful to poverty stricken communities, and spreading knowledge on how to implement security of tenure. The GLTN partners, in their quest to attain the goals of poverty alleviation, better land management and security of tenure through land reform, have identified and agreed on 18 key land tools to deal with poverty and land issues at the country level across all regions. The Network partners argue that the existing lack of these tools, as well as land governance problems, are the main cause of failed implementation at scale of land policies world wide. The GLTN is a demand driven network where many individuals and groups have come together to address this global problem. For further information, and registration, visit the GLTN web site at [www.glt.net](http://www.glt.net).

## About this handbook

This Handbook introduces key economic and related concepts explaining the functioning of urban land markets. You will find in this Handbook tools for engaging in a critical analysis of conventional economics, particularly in the understanding of how African urban land markets work. Of great importance is the understanding of how land use, supply and demand unfold in African context. It provides a basis for strengthening urban policy in ways that enable poorer people in African cities to access well-located living and work spaces.

This Handbook equips you with a better understanding of how interventions affect the market, and also how markets affect, enable, constrain and shape interventions by governments, developers, traditional authorities, banks, micro-lenders or any of its actors. It provides a sense of the dynamics of the urban land market – how particular decisions in one sector affect other sectors. This understanding provides practitioners in the field with a framework and tools to make informed decisions when formulating policies or making recommendations.

The Handbook is intended for be used by people in government, donors, development agencies, private firms and non-governmental organisations involved in the fields of land, housing, urban planning, infrastructure, urban renewal, engineering, architecture and related areas.



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