



On the origins of tourist urbanisation in Greece: Land speculation and property market (in)efficiency



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ABSTRACT

This paper places issues of land speculation and property market efficiency within the limited geographical context of a tourist-agglomeration development process in the island of Rhodes, Greece. The study is based mainly on the elaboration of diachronic cadastral data, covering the period from the very beginning of the tourism development in what as of a formerly an agricultural area, until its establishment as an international mass tourist destination. The economic and financial dimensions of land speculation on market efficiency are explored, through a socio-economic perspective. Land property ownership structures, state policies and bank financing practices have produced synergies that encouraged land speculation, with ambivalent effects on space, property markets and tourist activities. Finally, it is argued that land speculation may be regarded as a socially embedded rational action, which leads to an overall inefficient land market.

1. Introduction and literature overview

‘Orthodox’ economic literature on property markets usually adopts the neoclassical approach of a perfect and efficient market, although by the start of the twenty-first century, the efficient market hypothesis had become less universal (Malkiel, 2002) and new relativist concepts are now evolving. The concept of market efficiency has been transposed by the financial asset markets, as demonstrated by the application of the well-established neoclassical-economics “zero-profits theorem”, introduced by Louis Bachelier (1900) in his outstanding doctoral thesis entitled “The Theory of Speculation”. Most literature work focuses on the impact of information-processing efficiency within the property investment market on other financial asset markets. However, many researchers consider that, in practice, the property market is imperfect and inefficient, because properties are heterogeneous, information and transaction costs are high, assets are indivisible, the trading quantities in any specific market are low, and there are barriers to entry (Harvey, 1996; Evans, 1995; Gatzlaff and Tirtiroglou, 1995). Gatzlaff and Tirtiroglou (1995) directly relate property market efficiency to price formation, as they point out that market efficiency does not require markets to be frictionless, assets to be infinitely divisible, or assets to be mobile; but it does require that market imperfections are fully and rationally reflected in the market price. Some researchers argue that market efficiency is not an absolute concept and that “even with their potential imperfections, real estate markets can be modelled today in terms of efficient markets” (Gau, 1987, p. 2).

From the neoclassical economics point of view, any market is based

on competition, and the concept of Paretian market efficiency presupposes a perfectly competitive market in Walrasian equilibrium (Dokko and Edelstein, 1992), where the attributes of space, time, uncertainty and externalities do not appear as problems. Ludwig von Mises maintains that every action is economic, and that everybody speculates. He proposes an economic praxeological theory, embracing action in pursuit of the quest for advantage (profit), rationality and uncertainty (Demeulenaere, 1996, p. 209), which are some of the basic ingredients of the market efficiency notion.

From the institutional economics point of view, in their relevant work, Keogh and D’Arcy (1999, p. 2406) suggest that “conventional treatments of efficiency have been inappropriate on three main grounds. Firstly, they fail to capture the essential characteristics of real property as a physical and legal entity. Secondly, they provide an inadequate interpretation of the ‘property market process’ as the means by which trade in property occurs. Thirdly, they largely focus on information efficiency, excluding allocative and operational efficiency”. In an analogy to Simon’s idea of ‘bounded rationality’ (Simon, 1945), they introduce the attractive concept of ‘bounded efficiency’, through which the broad consideration of the institutional environment is proposed, with reference to the ‘efficiency for a person’, in the sense that efficiency may have a different meaning for a single person or a group of actors. The institutional approach to property market efficiency of Keogh and D’Arcy (1999) considerably enriches and advances the economic thought surrounding the property market, by leading to a more partial and contingent judgment around observed levels of achieved efficiency. They interestingly direct and synthesise the

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discussion to a wider approach towards the property market than that of the neoclassical price formation mechanisms approach, which is the essence of the initial efficient market hypothesis, introduced by Fama. They tend to overcome the boundaries of the economic literature, but they do not explicitly connect their approach to the sociological and socio-economic perspectives of efficiency, rationality and market diversity, which were largely discussed following the work of, primarily, Weber (2003/1925); Weber, 2003, Mill (1848) and Braudel (1979), together with many other eminent intellectuals. For Polanyi (2001/1944), markets are rather comprehensive social institutions, reflecting a complex alchemy of politics, culture and ideology (Krippner, 2001), while Beckert (2002, p. 294) argues that “economic sociology joins institutional approaches in economics that have long since moved away from the idea of an actor acting as a universal optimiser”. Maier and Herath observed (Maier and Herath, 2009) that, property market efficiency hypothesis has not been adequately explored at the micro level. Just like mainstream neoclassical approaches to land and property market efficiency, heterodox and institutional approaches have, up to now, remained virtually non-spatial – to the best of our knowledge – and have avoided paying particular attention to the attributes of property as a constituent of space.

According to Fisher (1992), land presents its distinctive attributes, differently from those of buildings, which are increasingly becoming a capital and a financial asset, and their markets are different, although closely interrelated. The market for tenant space – in the form of land – and the market for investment capital are two distinct but interrelated markets, and “the use decision is made in the space market, whereas the investment decision is made in the capital market” (Fisher, 1992, p. 161); but as Gaffney (1994) points out, “capital occupies space, land is space”. The neoclassical economic approach to property market efficiency ignores land and its geographical attributes; thus land is explicitly or implicitly welded with capital. If we consider land as a capital asset, the question of land rent and its production, within the systems of production of goods and services, is usually overlooked. From our point of view, this occurs because, in neoclassical economics, the terms of ‘land rent’ and ‘land value’ are equivalent to ‘market value’ or ‘price’. Therefore, capitalised land rent is equal to land price, which contrasts with the social economic and the neo-Marxist tradition, where land value is unrelated to market price. Burgstaller (1994) argues that arbitrage and speculation in capitalist economies is the most fundamental mechanism of price determination and resource allocation, while Evans (1995) underlines that the crucial point of market inefficiency is the fact that the price of a property is not determined by the market. In his theory on the determination of the price of land, Evans incorporates the concept of supply into the classical theories, paying particular attention to the importance of government intervention in land markets, the patterns of ownership, uncertainty and speculation, thus allowing an institutional perspective on price formation. This is in contrast to the approach of neoclassical economists, for whom speculation is somewhat overlooked in their price formation studies (Evans, 1983, 2004).

In the property market, the term “speculation” is commonly used as follows: Firstly, almost as a synonym of “investment”, and thus concerning arbitrage in the equities markets, where investors’ expectations are sometimes shaped in an inaccurate way (Malpezzi and Wachter, 2005). Secondly, the term designates the act of investors who purchase land, but keep it vacant without making any improvements to it, thus realising ‘unearned increment’, or in anticipation of future development opportunities. Or they delay development until the uncertainty about the most profitable use is clear, this option being mostly related to planning regulations (Evans, 1983, 2004; Gaffney, 1994). Alfred Marshall (1977/1890) differentiates speculation in the stock and commodity exchanges, where a speculator renders a public service by pushing forward production where it is needed, while a speculator in land is someone who renders no such public service, because the stock of land is fixed.

In most countries, urban planning is confronted with land speculation, where the agenda for urban infrastructure is geared towards the development or extension of city plans and urban sprawl control (Arrago, 1969; Archer, 1973; Marini and Remond, 1976). “Information asymmetry” on planning locations gives speculators an advantage over the “naïve” players (Alexander, 2014). One comprehensive resource on speculation in planning, speculative practices and their effects on urban development are the classic works of the sociologist Maurice Halbwachs (1909), based on the study of the major works associated with the regeneration of Paris in the 19th century, conducted by Baron Haussmann (Halbwachs, 1909, excerpts in Roncayolo and Paquot, 1992). For Halbwachs, speculation is a method of dealing with the uncertain future. Faced with uncertainty, the speculator adjusts his actions in order to best accomplish his ends, relative to the expected actions of others and of the physical world. This requires every person not to create the future situation, but to speculate about it and try to understand the future, to think and hypothesise about various probabilities and options.

The impact of land speculation on economic progress is a subject for lengthy debate. For George (1997/1879); George, 1997 and other “heterodox” economists, using real estate property not for production use, but in order to earn profit from future anticipated price increases, may be a fundamental cause of both micro-economic and macro-economic disturbances. They identify land speculation as a destructive and destabilising force in progressive economies. They maintain that land speculation, supported by an “elastic” or accommodating banking system, is a major underlying cause of economic depression. For neoclassical economists, the effects of speculative prices on growth and welfare are disputed. For Samuelson (1958), the speculative price increases are wealth-enhancing, because they complete existing markets. For Tirole (1985), they arise only in dynamically inefficient equilibrium, where too much capital has been accumulated. Consequently, as high speculative prices shift savings away from investment in physical capital, they also raise welfare. According to other authors (Grossman and Yanagawa, 1993; King and Ferguson, 1993), the effects of speculative price increases crucially depend on the particular asset that is the subject of the speculation. In equity markets, they can be growth-enhancing. But when the focus is on unproductive assets, both investment and growth decrease, and they have a more nefarious effect on dynamic models with externalities. Thus, as speculative prices turn savings away from physical capital, they lower growth and welfare (Olivier, 2000).

Finally, the appropriation of speculative rent by landowners also raises the problem of “enrichment without reason”, social equity and fair distribution of revenues produced by society as a whole. The ethical foundation of this problem resides in the established wisdom advocated by John Locke, according to which the Earth should be treated as a common property and heritage for all, in terms of universal rights to life, liberty, and “estate”, i.e. land, and private property rights are embodied in one’s own output and the right of appropriation of the product of one’s own activity (Feder, 1996; Beckert, 2002).

The aim of this paper is threefold: (a) to consider land speculation within a limited geographical context, through the diachronic consideration of land ownership structures, the behaviour of all identified agents, the planning regulations and development policies and the taxation system applied, as well as the financial institutions; (b) to demonstrate that land speculation, as a multidimensional phenomenon, is a crucial ingredient of property market (in)efficiency, and that (c) although markets may be inefficient, the speculative actions of the individual actors may be considered as rational and efficient, when they are considered within their geographical and institutional context.

This paper is organised as follows: information on the key study area, the data resources and the methodology is provided in the following section; then, the focus is on the reasons behind the increase in land price; the third section examines evidence of land prices increase, and then, in the following section the role of the tourism sector

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