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Zackary Hawley, Juan José Miranda, W. Charles Sawyer



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Land Values, Property Rights, and Home Ownership: Implications for Property Taxation in Peru

Zackary Hawley*
Department of Economics
Texas Christian University
z.hawley@tcu.edu

Juan José Miranda
Environmental & Natural
Resources Global Practice
The World Bank
jjmiranda@worldbank.org

W. Charles Sawyer
Department of Economics
Texas Christian University
w.c.sawyer@tcu.edu

Abstract:

This paper evaluates the effect of property rights on property values in Peru. Previous research on squatting has shed light on how the provision of formal land titles affects a number of socioeconomic outcomes and a subset of this research has provided estimates on how the provision of formal titles affects property values. However, the phenomenon of squatting encompasses a variety of informal property rights distinct from the possession of a legal title. Using an exceptionally rich household data set including geo-location at the community level we study the effects of both formal and informal property rights on property values. Having a title increases property values by almost 7 percent and squatting on the land by invasion reduces values by about 6 percent. Using these estimates, we determine the potential losses of property tax revenue and are able to study the issue of squatting in the context of public finance.

Keywords: Property rights; Squatting; Property taxation; Hedonic price function

JEL Codes: O17; O18; O54; R31; H71

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