



# Clean money, dirty system: Connected landowners capture beneficial land rezoning



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## ABSTRACT

We use a unique regulatory event that occurred in Queensland, Australia, from 2007 to 2012, to examine the predictive power of landowner relationship networks and lobbying behaviour on successfully gaining value-enhancing rezoning. A State authority, the Urban Land Development Authority (ULDA), took planning control away from local councils in selected areas in order to increase the speed and scale of development in those areas, in the process increasing land values. Using micro-level relationship data from multiple sources, we compare the relationship-network characteristics of landowners of comparable sites inside and outside the ULDA areas, finding that ‘connected’ landowners owned 75% of land inside the rezoned areas, and only 12% outside, capturing \$410 million in land value gains out of the total \$710 million from rezoning. We also find that engaging a professional lobbyist is a substitute for having one’s own connections. Scaling up from our sample of six rezoned areas to the hundreds of rezoning decisions across Queensland and Australia in the last few decades, suggests that many billions of dollars of economic rent are being regularly transferred from the general population to connected landowners through political rezoning decisions.

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## 1. Introduction

Land rezoning involves two distinct decisions: the choice to rezone more land for higher-density development, and the choice of the precise area to be rezoned. Political pressure to expand higher value zoning areas is usually argued to come from owners of undeveloped land who may directly benefit, in concert with a wide range of secondary beneficiaries such as banks and construction companies, in a type of ‘growth coalition’ (Grabowski, 2013; Molotch, 1976; Strom, 1996; Terhorst and Van De Ven, 1995). The secondary decision, where exactly to rezone, involves the allocation of property rights from the community to the owners of the land within the rezoning boundary at the moment of rezoning. In the absence of mechanisms such as land value taxes or betterment taxes that recoup the value of the resulting price-differential, there is scope for bargaining between politicians and landowners of different areas, including the potential for corruption and bribery during the final determination of rezoning boundaries.

We study this secondary decision in Queensland, Australia, where we look at the influence of political connections on rezon-

ing, documenting how relationships predict political favours and calculating the value of those favours. We look at six rezoning area decisions taken long after an announced intention to rezone, comparing the political connections of landowners on the inside with those just on the outside. We find that the inside areas differed greatly from areas that were flagged previously as subject to imminent rezoning, which is exactly what you would expect if political insiders were maximising their rents by rezoning in unexpected places.<sup>2</sup>

The main endogeneity problem in identifying the role of political connections is that even in the absence of political favouritism, rational property developers will buy up properties in those areas most suitable for re-zoning. By comparing the property owners just inside the rezoned boundaries with those just outside the boundaries (but within previously announced suitability criteria), we avoid this problem. Our method is thus to focus on the rezoning boundary, combining longitudinal data on landowners and

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<sup>2</sup> Our paper mainly relates to the urban planning literature on political determinants of planning decisions, particularly event studies of political favouritism (Ahlfeldt and Maennig, 2015; Amore and Benedsen, 2013; Calabrese et al., 2007; De Figueiredo and Richter, 2013; Dehring et al., 2008; Engle et al., 1992; Hilber and Robert-Nicoud, 2013; Lubell et al., 2005; Schone et al., 2013; Solé-Ollé and Viladecans-Marsal, 2012; 2013).

sale prices with data on the connections between landowners and a large set of entities involved in rezoning.

One might think political influence goes via donations to political parties. Surprisingly, in our data the observed donations from landowners do not predict rezoning decisions, perchance because in Australia the role of campaign funds that pay for media exposure is very limited. To document how political influence is then attained, we combine a myriad of related data into a single network so as to find out whether positions in whole networks help explain political favours. One interpretation of the role of the network to the landowner is that it allows them to discretely reward politicians in the future, such as via favourable appointments and consultancies following their political careers.

Our relationship network comprises corporate ownership and directorship connections of landowners and their companies; connections from employing professional lobbyists; property industry group membership; and many other connection types. We uncover marked differences in the network characteristics of the successful landowners versus the unsuccessful ones, in accordance with the idea that advantageous positions in relationship networks help to make implicit deals that take advantage of a missing formal market in political favours (Burt, 2000; Coleman, 1990; Granovetter, 2005; Jackson et al., 2012; Sobel, 2002). This adds to the literature on urban development and zoning decisions, where very little is currently known about the role of such relationship networks in rezoning decisions, though the role of relationships has been widely argued to be important (Calabrese et al., 2007; Dehring et al., 2008; Engle et al., 1992; Hilber and Robert-Nicoud, 2013; Simon and Henneberry, 2000; Solé-Ollé and Viladecans-Marsal, 2012, 2013).

Our findings are remarkably similar to those in a recent working paper by Mastrobuoni (2015). They looked at the relationship networks of US mafiosi from the 1950s and 1960s and found that those who were in close-knit cliques had higher wealth in terms of the value of their later property holdings. We find the same: the landowners who were part of close-knit cliques and hence had high 'closeness centrality' were much more like to be favourably rezoned, even conditional on the contribution of more simple indicators of political connections such as donations and the use of professional lobbyists.

Using historical sale price data, we calculate the implicit transfer from the community to these favoured connected property owners to be 58% of the \$710 million of improved land value of the rezoning, which they received by owning 75% of the rezoned areas, implying that very little of the price benefits of rezoning go to the general public. When scaled up from our sample to the national level, these results suggest that each year many billions of value gains are being redirected toward well connected landowners at the expense of the unconnected, which includes the general public that has the *ex ante* property rights over the rezoning decisions. We are limited in our ability to estimate efficiency losses from these rezoning decisions, though note that the remote location and peculiar final shapes of the rezoned areas suggest large inefficiencies due to higher infrastructure and commuting costs (Yan and Oum, 2014).

Whilst we do not directly observe the *quid pro quo* aspect within these relationship networks (apart from the publicly available political party contributions, which are relatively small), there have been many criminal cases and scandals that are informative about that *quid pro quo*. Several high-profile cases document how the benefitting property owners are often direct family members of the politicians involved<sup>3</sup> or how the politicians, either before

they run for office or once out of office, join property developers as directors or co-owners (Dodson et al., 2006).

The paper proceeds as follows. Section 2 provides a brief summary of the related literature, followed by the institutional background to our study in Section 3. Section 4 outlines our data and methods of analysis, with the results presented in Section 5. Section 6 discusses the result and potential policy options for pricing rezoning.

## 2. Related literature

Our paper mainly contributes to the literature on social and political determinants of urban planning decisions and the use of event studies, or quasi-natural experiments, to tease out potential causal relationships in terms of political favouritism at sub-national levels of government (Ahlfeldt and Maennig, 2015; Calabrese et al., 2007; De Figueiredo and Richter, 2013; Dehring et al., 2008; Engle et al., 1992; Hilber and Robert-Nicoud, 2013; Lubell et al., 2005; Schone et al., 2013; Solé-Ollé and Viladecans-Marsal, 2012, 2013). Additionally, the paper is a demonstration of how relationship networks, rather than direct political connections, can enable valuable favour exchanges in local and State level politics in a relatively low corruption country. We briefly review the papers closest to ours.

Solé-Ollé and Viladecans-Marsal (2012) look at political determinants of new land assigned for urban development within Spanish municipalities, using a data sample of 2034 municipalities over the period 2003–07, which covers a single municipal political term. They ascertain that electoral margins are significantly related to the decision of how much land is rezoned for development, with tighter margins resulting in less rezoning. In later work, Solé-Ollé and Viladecans-Marsal (2013) use this data to look at the influence of political parties on urban zoning using a regression discontinuity design that looks at party incumbency while controlling for the vote share, finding that left-wing governments rezoned 65% less than similar right-wing governments in their preferred model specification. These two studies primarily concern the decision to rezone in the first place. Where we differ from these studies is that our primary interest is the secondary decision of the precise locations of newly rezoned areas, which is where the winners and losers are ultimately determined and where relationships and organised interests perhaps play a greater role. We hypothesise that for the 'growth coalition' it is not so important where the precise boundaries are, but such knowledge is crucial for the individual property market participant who has taken up an asset position prior to rezoning.

In a study of competing interests in urban planning decisions, Schone et al. (2013) look at the *taxe locale d'équipement* (TLE), a local development tax similar to North American impact fees in the 293 municipalities in the French Rhône Department. TLE is paid to the municipality by developers when they are granted a building permit, consisting of a percentage of the estimated building value (which can be up to 5%). By examining variables capturing lobbies of aligned interests<sup>4</sup> and controlling for interactions with neighbouring municipalities, they find that a larger homeowner lobby is related to a higher TLE rate, while a larger undeveloped landowner lobby is related to lower TLE rate, indicating that urban planning policies can be swayed by their direct beneficiaries. They found no effect on TLE rates from the size of the construction sector, indicating that the 'growth machine' alliance differs due to local

<sup>3</sup> For example former Brisbane Mayor and Queensland Premier Campbell Newman's close school friends and father-in-law are property developers (Callinan, 2012).

<sup>4</sup> Their variables are somewhat indirect since some the key variables are unobserved: they hence proxy ownership of existing developed land in a municipality by the home ownership rate; ownership of undeveloped land is proxied by the proportion of farmers in the population; and the 'growth machine' lobby is proxied by the share of employees in the construction sector.

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