

# Squatting, eviction and development<sup>☆</sup>

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## Abstract

This paper explains both squatting and preemptive eviction by landowners within the context of incomplete land markets. The model shows that squatting is not inevitable in incomplete property markets; instead, it arises from optimal landowner decisions not to fully exercise property rights. The analysis explains why squatters' housing investments and owners' preemptive eviction rates tend to be higher than efficient and why eviction rates for open property are inefficiently high. It also examines informal land markets comprising potential squatters and owners and shows why they need not fully resolve inefficient squatter investment and landowner eviction decisions.

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## 1. Introduction

Squatting, or unilaterally using someone else's land without paying rent, is one of the most visible features of real estate markets in many developing economies. Although wide-spread in agricultural regions as well, over one third of the urban population engages in squatting in many developing countries (Garr, 1996). In conjunction with pervasive squatting, preemptive eviction by some landowners represents another prevalent practice. What is puzzling about this practice is why, rather than simply allowing squatting to continue until the land is ready to be developed for higher (and legal) uses, landowners sometimes enclose their property or preemptively evict squatters well in advance of their decision to develop the land.

Hoy and Jimenez (1991), in the closest antecedent to the approach taken here, present a useful framework for studying these questions, a model of an incomplete land market in which landowners are precluded from renting to squatters while they wait to develop their land for formal sector uses. Hoy and Jimenez view squatting as the result of high transactions costs or legal restrictions on owners that prevent them from collecting rent from potential squatters. In addition, preemptive eviction represents the owner's attempt to reduce squatting by promising to evict regardless of whether or not such eviction is profitable once squatting actually takes place. The assumption that landowners can

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commit to strategies that are not credible plays an important role in their analysis, however, for without it there is no preemptive eviction in their model.

This paper offers a model of the landowner–squatter relationship to explain both the apparent pervasiveness of squatting as well as the practice of enclosure or preemptive eviction.<sup>1</sup> The model retains the usual characterization of squatting as rent-free land use without explicit permission of the landowner. This model initially assumes, like [Hoy and Jimenez \(1991\)](#), that institutional restrictions or high transactions costs preclude landowners from collecting rents from squatters, thereby leading to incomplete land markets. Here, however, neither landowners nor squatters can commit to strategies that are not credible.

In contrast with earlier studies, this paper shows that incomplete land markets need not inexorably lead to active squatting. Instead, following [De Meza and Gould \(1992\)](#), this paper envisions the private enforcement of property rights as an explicit choice made by property owners. In this view, squatting occurs only when the land owner explicitly decides not to exercise his or her property rights of exclusivity by enclosing the land or otherwise engaging in preemptive eviction.<sup>2</sup> Thus, rather than explaining squatting as the inevitable outcome of exogenous institutional restrictions preventing landowners and temporary land users from engaging in mutual transactions, squatting is instead the consequence of the owner's rational decision to temporarily relinquish property rights. In addition, the model illustrates that the attractiveness of continually defending property from squatting (that is, enclosure or preemptive eviction) hinges upon the difference between the cost of privately enforcing private property rights by preventing squatters from settling on one's land and the expected cost of letting squatters remain until development becomes profitable, then evicting the squatters immediately prior to development.

The analysis shows that squatters tend to invest in more housing capital than is efficient, the owner's preemptive eviction or land enclosure rates tend to be higher than is efficient, and owners tend to evict squatters on unenclosed or open property over a wider range of realized states than is efficient. The intuition for these three inefficiency results arise only in part from squatters' investment decisions. Although squatters recognize that their housing capital investment may yield zero (consumption) returns in the event that the owner chooses to clear his land for formal market uses, their investment decisions do not take into account the additional burden put on the landowner in the event the land is to be cleared; greater squatter structural density increases the demolition cost to clear the land for formal development. Thus, squatters tend to invest in more housing capital than is efficient. At the same time, landowners recognize at the outset squatter motives for greater housing capital investment. This makes it profitable to enclose and defend against squatting a wider range of properties than could be justified if squatters' housing investment—hence demolition costs—were lower. As a result, the squatters' over-investment in housing capital motivates more landowners to enclose their property than is efficient.

For land that owners choose to leave open to squatters, however, the inefficient landowner eviction behavior arises from another source. Once squatters have put their housing capital into place, the institutional constraint that precludes them from dealing with landowners in the market also prevents them from bidding their full consumption value for the land that they occupy informally. Thus, there is a range of formal market land uses that generate lower benefits than those that would be enjoyed by the squatters. But because the formal land market does not price squatting as a competing alternative use, the landowner has an incentive to clear the land of the squatters' housing and develop it for the formal sector use even when formal sector returns are lower than the foregone benefits to the evicted squatter. As a consequence, landowners tend to evict over demand functions than is efficient.

This paper also demonstrates why introducing an informal land market comprising potential squatters and owners does not necessarily resolve the inefficiency of squatter investment and owner eviction decisions. Because the squatters' poverty precludes formal methods of adjudicating squatter contract violations *ex post*, landowners must resort to taking the land rent in the form of lump-sum bonds. Such bonding, however, does not force squatters to fully internalize the marginal eviction costs of their housing capital decisions. Thus, squatters invest in more housing capital than is efficient even when contracting with owners is possible and allowed.

The discussion is organized as follows. Section 2 presents a model of the landowner–squatter interaction and examines the properties of the equilibrium. Section 3 extends the framework to study how enclosure or preemptive

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<sup>1</sup> Squatting on government land is also a widespread phenomenon in many developing countries. This analysis does not address government policies regarding squatting and eviction for public land. See [Jimenez \(1985\)](#) for an analysis of the case in which the government assumes the responsibility for eviction.

<sup>2</sup> We follow [Hoy and Jimenez \(1991\)](#) and define preemptory eviction as keeping the land clear of squatters even in the absence of immediate development for the formal sector.

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