



Where do Property Rights Matter More? Explaining the Variation in Demand for Property Titles across Cities in Mexico

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Summary. — This paper examines the variation in the value of property rights to housing in Mexico, focusing specifically on differences between urban housing markets. Roughly 30% of owner-occupied houses in Mexico do not have a proper deed. Houses with no deed are estimated to be five percent less valuable than otherwise similar houses with a full deed, yet this premium varies widely across cities. I match data from the 2012 and 2014 National Survey of Household Incomes and Expenditures to different sources of city-level data in order to examine hypotheses explaining this variation in a multilevel regression framework. I find that deeds are valued more in cities with more highly educated residents, more political competition, and more voting. Measures of local economic activity, degree of informality, and the regulatory bureaucracy are not associated with higher value to full property rights. Additionally, I find that more educated households value deeds more, and having a deed is more valuable for larger houses in neighborhoods with less vacancy and higher infrastructure quality. Based on these results, I suggest funds to subsidize titling should be redirected to places where titles are worth more. More broadly, I suggest policymakers reconsider framing property-titling programs as poverty alleviation. Low-income households would benefit more from subsidies for improvements to housing and residential infrastructure. At the same time, the federal government should further push to reduce the costs of transferring property.

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1. INTRODUCTION

Land-titling programs are a common component in a standard set of urban and economic development policies internationally, in spite of continued debate over their usefulness and importance. Secure property rights are argued to be a necessary condition for economic development and individual prosperity by many (Barro, 1996; North, 1981), but questions remain as how to best obtain tenure security. One reason for the continued debate is that research on the way in which local context shapes the demand for and the importance of full legal title is limited.

The debate over land titling as a development strategy is inspired in part by De Soto (1986, 2000), who argues that property rights for urban land are essential for capitalism to function. Moreover, they are thought to empower the poor by enabling them to obtain credit, work outside the home, and invest in their house with confidence. In other words, property rights are seen as activating capital that is otherwise inaccessible. Evidence from studies in Peru, Argentina, and Mexico suggests that strengthening property rights in urban slums has a significant effect on residential investment (Field, 2005; Puig, 2012), labor outside of the home, and children's health (Galiani & Schargrodsy, 2004).

Yet, many scholars argue that the emphasis on full legal title to property is misplaced and titling programs are a waste of resources (Gilbert, 2002). Research by De Soto himself (2000) highlights the way informal property rights systems can be quite effective in providing security of tenure. In fact, the informal property rights system in Indonesia, which De Soto describes in some detail, is actually found to improve housing affordability by facilitating elastic supply in a context of low-incomes, strict regulations, and ineffective bureaucracy (Monkkonen, 2013).

Standard economic theories of the evolution of property rights raise questions about the degree to which policymakers should subsidize land titles. One of the central theories of

property rights developed by Demsetz (1967: 350) is that they develop “to internalize externalities when the gains of internalization become larger than the cost of internalization.” Although Demsetz is primarily referring to the shift from open access to individual rights, the perspective raises the important question of the costs and benefits to individuals and society in maintaining a system of land titles and deeds. The value of legal property rights claims is thus expected based on their importance for both market transactions and tenure security.

Existing research examining the variation in demand for and value of property rights claims focuses primarily on agricultural land (Alston, Libecap, & Mueller, 1999; Miceli, Sirmans, & Kieyah, 2001), with one notable exception (Kim, 2007). Jacoby and Minten's (2007) research on land registration in sub-Saharan Africa raises the important question of the cost-effectiveness of registration for those who register property. For policymakers undertaking cost/benefit analyses of titling subsidies and modernization programs, empirical evidence about the determinants of the value of title can assist in providing a decision-making framework. Modernizing administrative records and practices can be costly, and in some contexts these costs will outweigh their benefits to individuals.

Kim (2007) focuses on a more difficult to measure explanation for variation in the demand for property rights. She argues that the differences in the market premium associated with property rights security in two cities in Vietnam stems

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from local civic and political culture, rather than differences in bureaucratic efficiency or the value of the property itself.

In this paper, I investigate the variation in the value of one property rights claim—deeds for houses—across cities in Mexico. As in much of the world, many homeowners in Mexico do not have full legal title to their property. The types of property rights claims many individuals possess are diverse. Illegal squatting on land belonging to another private party is relatively uncommon in contemporary Mexico, but many families' property that was not urbanized according to the formal legal process. In addition, many of these families have begun but not completed regularization proceedings, and therefore most have some legal claim to their home but not full legal title (Monkkonen, 2012).

The deed represents a final, and potentially costly step in the acquisition of full property rights claims in Mexico. More than one fifth of owner-occupied houses in Mexico do not have a deed and almost one tenth have a deed that is not in their name (INEGI, 2015). The latter situation arises in part from transactions that are never registered. Also, many people do not have wills, thus those that inherit their property face a challenge in legally transferring property (Jimenez, Cruz, & Ubaldo, 2012).

In Mexico, homeowners' estimates are that houses with a full deed were almost six percent more valuable than similar houses without, in rural and urban areas, after controlling for house, household, and neighborhood characteristics. Yet this estimate of a deed's value differs substantially across urban areas. The standard deviation of the estimated value is as large as the premium itself. This variation should not be surprising. There is a diversity of factors pushing individuals to value deeds more in particular places, from greater threats to tenure security, to more opportunities for using property as collateral, or the ability to obtain a higher price when selling it (Muñoz-Peña et al., 2003). Similarly, there is a diversity of legal origins for housing in Mexico, from squatting to unauthorized developments, on land that is private, state or collective, all of which have implications for the formalization process (Azuela de la Cueva, 1987).

In order to test various hypotheses that seek to explain the difference in the value of property rights across markets, such as the prevalence of informality, the level of economic activity, the quality of legal and bureaucratic institutions, and the local political environment, I use the National Household Income and Expenditures Survey (ENIGH by its initials in Spanish), household-level survey data from 2012 and 2014. The results expand upon and reinforce Kim's (2007) finding that in Vietnam, local political culture is closely associated with the self-assessed value of property rights claims. In Mexico, the share of a city's population with university education, the extent of electoral competition, and the degree of citizen participation in voting are all statistically significantly associated with a higher value for property rights claims at the city level, whereas variables measuring local economic activity, degree of informality, and level of inequality are not. Additionally, more educated households value property rights more, and having a deed is more valuable for larger, self-built houses in neighborhoods with better infrastructure and less housing vacancy.

The findings demonstrate the need for further investigation and debate on this topic. They draw into question the relevance and structure of government efforts to provide property titles as a development strategy. Should resources be dedicated to giving titles in places where they are not greatly valued? Should these programs be considered as poverty reduction programs, giving preference to households who place less value on property rights? Or should resources instead be direc-

ted to improving the institutions that provide households with property rights and providing low-income households with residential infrastructure?

2. RESEARCH ON THE VALUE OF PROPERTY RIGHTS CLAIMS

Research on demand for and the value of land titles has not overlapped extensively. Studies of the demand for property rights tend to focus on explaining differences in rates of registration of agricultural land using characteristics of the land and its occupants. Alston et al. (1999) and Miceli et al. (2001), for example, examine the demand for the registration of agricultural land in Brazil and Kenya. They consider competing factors: more valuable land with more educated and wealthier owners is found more likely to be registered, whereas registration is less common for land that is far from administrative centers as it is more costly to register. Despite the parallels to land titling in urban areas, this is not a commonly applied research approach for urban land. One exception is Monkkonen (2012), who adapts these models to the regularization¹ of urban land in Tijuana, Mexico. He finds, contrary to theoretical predictions, that there has been a higher rate of regularization in neighborhoods with lower land values.

There are many studies of the value of title for urban land. These are generally based on a hedonic regression model that decomposes the value of land and housing into attributes, such as size, materials, infrastructure, location, and the strength of property rights claims. This approach has been undertaken in cities around the world. Table 1 presents a summary of results from eight studies. In some cities, researchers find properties with title to be only a few percentage points more expensive than those without. In others cities, such as San Jose, Costa Rica, they are as much as 80% more expensive. The present study incorporates this work in developing control variables at the house and neighborhood level.

Other findings from the existing literature help frame the analysis. For example, several studies show that different levels of property rights claims, such as receipts showing proof of payment of property taxes, are valued by the market and have a significant relationship to property prices (Struyk, Hoffman, & Katsura, 1990). Lanjouw and Levy (2002) show that in Ecuador, the age of the community and the strength of its organization can substitute for legal title. In the context of Vietnam's emerging real estate market, possessing multiple types of property rights claims was found to have a greater price impact than the sum of different types of claims independently (Kim, 2004).

The work by Kim (2004) raises the issue of endogeneity in models of the value of property title. As she writes, "owners of more valuable properties might tend to pursue the cost and trouble of obtaining title to protect their asset" (Kim, 2004:294). Thus, title can serve as a proxy for unobserved quality factors. She argues that this is not a threat in most urban contexts, as the probability of a property having title depends heavily on factors beyond a person's initiative, such as local administrative capacity, location and form of housing development, the age of the house, and the length of tenancy. Nonetheless, it is evident in the descriptive data for Mexico (Appendix Table 6), there is a clear correlation between titling and housing quality. Thus, this threat to endogeneity must be taken seriously.

Another aspect of the variation in the value of property rights scholars have directly studied is the way in which a title benefits different groups of people. Notably, Lanjouw and

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