

Inter American Development Bank

Urban Sector Dissemination Note

MONITORING URBAN MARKETS

The experience of Latin American Cities

Lincoln Institute of Land Policy Seminar

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Systematic information about urban land and real estate transactions play a significant role in improving the operation of urban markets. Further, this information is a valuable input for public decision making concerning infrastructure investment, zoning and other land use planning decisions, and for scientific research on urban issues.

The availability of this information may be useful for the Bank in different ways. Changes in urban land prices can be used as proxy=indicators of the economic benefits of urban investments financed by the Bank, particularly in urban infrastructures. The availability of systematic historic data about land markets provides basic inputs for this analysis. Systematic data about new and used real estate of different characteristics and locations for residential use can be valuable inputs for urban economic studies based on the hedonic price methodology. The Bank often finances cadastral work in municipalities. Historic land market and real estate information are useful inputs for the fiscal valuation of properties.

The present Dissemination Note reports on the presentations made and discussions held in the Seminar organized by the Lincoln Institute of Land Policy of Cambridge, MA, on the Latin American experience in monitoring urban land markets. The Seminar gathered 10 representatives of private firms that, as part of their business, systematically gather data and sale information about urban real estate markets (see list).

Background

With more than 75% of the population living in cities, Latin America is the most urbanized developing region of the world. Cities, particularly big cities and metropolitan regions, are the engines of economic growth but also concentrate social and environmental problems. Many of the big cities face severe management problems including weak city-governments and the absence of metropolitan governments in agglomerations that outgrew the boundaries of the original municipalities. City planning, urban management, and project evaluation for public and private development require information for decision making, particularly on the behavior of urban land markets and real estate developments for the residential, industrial, commercial and office markets. Systematic information about prices, new developments, inventory turnover, vacancy rates, real estate business cycles and other market characteristics, play a significant role in improving the operation of urban markets. Further, this information is a valuable input for public decision making concerning infrastructure investment, zoning and other land use planning decisions including the appraisal of Bank urban projects. This type of information is also valuable for scientific research on urban issues.

Notwithstanding the usefulness of urban markets information, the Lincoln Institute of Land Policy reports that urban market monitoring systems exist only in a handful of cities: four cities in Brazil, two in Chile, twenty-seven in Mexico, and one each in El Salvador and Uruguay. Such initiatives developed much on a *had-oc* basis and have had little contact and sharing of experiences and methodologies among them. The Seminar brought together ten representatives of the firms gathering and selling this type of information to share

Comprehensiveness. Participants argued that comprehensive coverage of the market is an essential attribute for a commercial database to be useful to their clients. Therefore, all strive to cover

experiences, and discuss viable avenues of cooperation.

Relevance for Bank activities

The main uses of this information in Bank projects are in the economic analysis of projects in urban areas.

- C Changes in urban land prices can be used as proxy-indicators of the economic benefits of urban investments financed by the Bank, particularly in urban infrastructures. The availability of systematic historic data about land markets provides basic inputs for this analysis.
- C Systematic data about new and used real estate properties for residential use covering properties of different characteristics and locations can be valuable inputs for urban economic studies based on the hedonic price methodology.
- C The Bank often finances cadastral work in municipalities. Historic land market and real estate information are useful inputs for the fiscal valuation of properties.

Comments on the Seminar

Participants reported on their individual data banks -- geographic, time and thematic coverage, methods of data acquisition and dissemination -- and on the specialized analytical services provided to their clients. All the databases claimed a comprehensive coverage of their subject markets and that the data depicts the markets reliably.

the whole subject market whether this is the land market of a given city (in which case the database covers all land offered for sale in the city) or the middle income apartment market (thus covering all

apartments of a certain price range offered for sale in the city). Some databases obtain data from sales offers published in local newspapers, like the case of the Chilean land market database. In this case the presenter assured that the database captures more than 95% of offers posted in the formal land market.

In other cases (Belo Horizonte, Brazil) the data is provided directly by the developer to the database.

Comprehensiveness is assured by the fact that the company publishes the offers for free in the local newspaper with the largest circulation, thus providing the developer with the incentive to provide true and timely information. In this case the company makes its profits selling information (analyzed data) to clients and publications.

It is likely that the claim of comprehensiveness of the databases is supported by the actual information they contain. However, by focusing on formal market transactions they contain no data concerning the behavior of land and real estate markets in areas where Bank projects often concentrate, the rapidly urbanizing urban fringes affected by informal settlements, and the informal settlements in the downtown areas.

Reliability. Presenters argue that the consistent use of a single source of data contributes to the reliable depiction of market conditions. The argument states that although all sources of data have a bias, the use of only one source tends to make the bias systematic and predictable, thus its effects can be incorporated into the analysis. The consistency of the database is an essential component of its value for customers and this was emphasized by all participants, indicating that they continually check for deviations and introduce the corrections in their analysis.¹

¹The informaton on the Santiago land markets, taken from land sales offers published by AEl Mercurio@ is said to have a sistematic bias that is known (overstating in approximately 10% the actual sale price) and accounted for in the land market analysis. The bias is regularly reviewed by comparing a sample of offers with the actual transaction price

Concluding remarks

The availability of historic data on land markets and real estate properties present researches with new opportunities to investigate urban issues.

² Accessibility to the data seems not to be a problem. Participants agreed that in the near future the commercial value of the raw data contained in the databases will decrease. This being the combined result of greater public access to data sources and increased computational capacity of current consumers of their data. The companies represented in the Seminar see a commercial future on the information that can be produced with the data. They argue that the value added will lie in the quality of the analysis.

The availability of the databases can be a resource for the Bank. It offers new avenues for evaluating the economic impact of urban operations.

The experience gained by the companies can be a valuable resource to the Bank and its clients providing specialized analytical services for project evaluation.

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obtained from real estate agents.

² The ACentro de Estudios para el Desarrollo Economico@(CEDE) from Universidad de Los Andes, Bogota, Colombia reported to the Seminar on the successful use of historic real estate data to support research on the dynamics of production and circulation of real estate products in Bogota.

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