

# Players in urban informal land markets; who wins? who loses? A case study of Cebu City

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1. "Informal" land in this context refers to land for which the occupier has no legal documentation of ownership such as a title or any approval from the legal owner to occupy the land.

2. Baross, Paul and Jan van der Linden (1990), *The Transformation of Land Supply Systems in Third World Cities*, Avebury, Aldershot; also Ward, Peter, Jiménez, Edith and Gareth Jones

**SUMMARY:** *This paper describes how informal land developments for housing, more typically associated with the urban poor, are increasingly attracting middle-income households, and how low income households lose out in comparison to middle and upper income households in the purchase and sale of land for housing. Drawing on research in five informal settlements in Cebu, it suggests that low income households often sell land cheaper because of crisis-sales (as money is needed quickly) or because of a greater fear of reprisal because they are selling land they do not own. Low income households also seem to sell land plots cheaper because they perceive their value to be lower than when middle or upper income households sell comparable plots. This contributes over time to the residential segregation of income groups between informal settlements in cities such as Cebu, with the low income groups concentrated on the poorest quality, least desirable sites as they are no longer able to enter the wider informal land market for housing.*

## I. INTRODUCTION

**RESEARCH HAS SHOWN** that the relationship between informal<sup>(1)</sup> housing and the urban poor is a loose one. Increases in urban land prices coupled with the slow delivery of residential plots through formal channels has made titled property unaffordable to the urban poor and an increasingly less attractive option to middle-income groups in many countries in Africa, Asia and Latin America. When the supply of land for development is constrained in expanding cities, middle-income groups often buy out poorer families living in informal or squatter settlements in a process known as "downward raiding". Thus, there is a much greater diversity of social groups living in squatter settlements in many cities today.<sup>(2)</sup> However, the implications of rising middle-income involvement in an informal land market is not fully understood.<sup>(3)</sup> Furthermore, little is known about the actual role of particular social groups in the purchase, development and sale of plots and how this affects over-

(1993), "Residential land price changes in Mexican cities and the affordability of land for low-income groups" in *Urban Studies* Vol.30, No.9, pages 1521-1542.

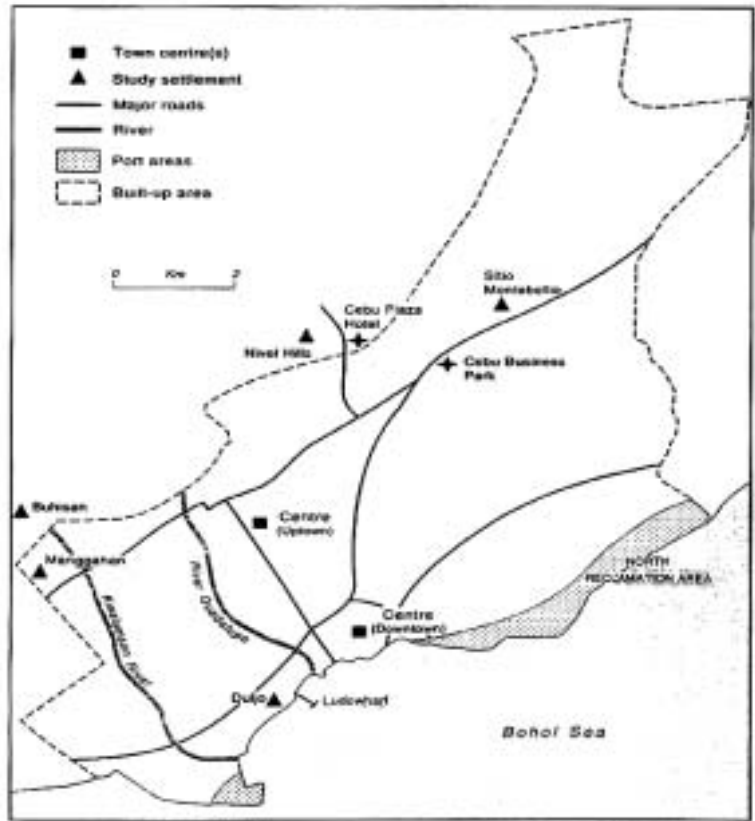
3. Doebele, William A. (1994), "Urban land and macroeconomic development, moving from 'access for the poor' to urban productivity" in Gareth Jones and Peter Ward (editors), *Methodology for Land and Housing Market Analysis*, UCL Press, London, pages 44-54.

all access to plots, particularly for the urban poor. More importantly, the implications of middle-income involvement in the informal land market on urban poverty are still in debate.

This paper aims to assess the role and behaviour of particular groups within the informal land market, their impact on settlement development and the implications of these processes for access to land for different income groups. Current strategies to alleviate poverty view the informal land market as big business with much income-generating potential for a host of actors and agents. However, little is known about the behaviour, strategies and objectives of different groups and about whether profits generated through land valorization are equitable between different income groups, particularly the poor. This paper addresses these issues using data from Ph.D. research undertaken in Cebu, a secondary city in the Philippines, which displays extensive informal land occupation. Evidence from over 200 household interviews and semi-structured interviews from five informal settlements, namely Duljo, Sitio Montebellio, Manggahan, Buhisan and Nivel Hills was used (see Figure 1).

The paper argues that the rising incidence of more wealthy groups in informal settlements can be beneficial to the development of infrastructure in the settlement but the behaviour of

Figure 1: Cebu City



4. Thirkell, Allyson (1993) *The Informal Land Market, Cebu City*, Draft UN Report, page 1.

5. Caretakers are often used by landowners to safeguard the land and prevent invasion by squatters. They may be appointed by the owner or have a loose link with a relative or friend of the owner. Although caretakers are present to safeguard land they are often involved in its occupation and sale, acting as land agents.

6. Informal land transactions are based not on the sale of the title but on the sale of land use "rights". Rights to land are usually established through occupation and use of the land. Thus, in Cebu, informal farmers are often the original traders of land at the urban periphery as they have established informal rights through use and occupancy of the land, which becomes tantamount to ownership. These rights entitle the purchaser to occupy, develop or sell the property. However, it is often understood by the seller and the buyer that the legal title may belong to a third party unconnected with the informal seller and, therefore, the buyer may at some point risk eviction by the legal owner. The informal market (including land brokers, occupiers and consumers) thus refers to the passing on and sale of "rights" and it is common to hear people asking for the location of the "right", its boundary and the price as an accepted and tangible commodity within the informal land market.

7. See reference 3, page 53.

middle-income groups in the wider marketplace in activities such as plot acquisition, bargaining and timing of occupation adversely affects access to plots, and thus shelter, for many poorer households. This paper reviews why middle-income groups have entered the market in Cebu and their strategies for purchasing land. Then it assesses how different income groups operate in the market both as buyers and sellers and how this affects price-setting, plot occupation and, ultimately, peoples' bargaining position in the land market for gaining access to plots.

## II. PLAYERS IN INFORMAL LAND MARKETS: WHO WINS? WHO LOSES?

**LAND SALES** in the informal land market are large and growing rapidly in many cities such as Cebu. One study estimated that around 58 per cent of Cebu's urban population in 1992 (or approximately 62,928 families from a projected 108,826 families) lived on land that they did not formally own through a title document.<sup>(4)</sup> This reveals that in Cebu, as in many other cities, land development through informal channels is the predominant method of urban land development and is thus fundamental to understanding contemporary urbanization. It is understood that most people enter the informal market in one of three ways:

- informal rental agreements either with the landowner or a caretaker;<sup>(5)</sup>
- the purchase of land use rights<sup>(6)</sup> from the "user" of the land; and
- through encroachment on marginal areas such as the foreshore, river banks or pavements.

In many cities like Cebu, land right purchase is the most common form of informal land acquisition. However, little is still known about the actual dynamics of informal land trading such as the nature of plot purchase, price-setting and, in particular, how different income groups profit from land valorization. This aspect of land market inquiry is summarized by Doebele:

"In general, there is very little understanding of who gains and who loses by the process for land and property valorization that is a prominent economic phenomenon in almost all cities. The valorization of property is not, of course, equivalent to the production of immediate income but understanding its nature would at least provide suggestive data relating to the maximization of both macroeconomic and microeconomic productivity."<sup>(7)</sup>

Section III examines how particular groups operate within the market, especially in the buying and selling of land. It also evaluates the implications for such dealings on the shelter options for households, particularly the urban poor.

### III. THE ART OF BUYING LAND

#### a. Risky Buyers or Sensible Entrepreneurs

**THE INFORMAL DEVELOPMENT** of urban land has traditionally been perceived as an important way through which the poorest residents of the city get access to shelter. This is no longer the case as increasingly middle and even high-income households are buying land informally for housing. In the Cebu City sample only 37.4 per cent of those interviewed (91 households) were living below the official poverty line of P3,699<sup>(8)</sup> per month indicating the widespread occupation of informal plots by wealthier families. However, the strategies and motives of more wealthy individuals for entering such a market, and their behaviour, must now be more closely analyzed. Why do middle-income groups choose to buy land and develop housing on government or privately owned land for which they have no legal title? The answer lies in the increasing cost and poor availability of other housing options coupled with rising confidence in informal land markets.

Opportunities for middle-income households to buy a house and lot on the formal market are extremely limited. There is a dearth of centrally located low-cost housing schemes in Cebu City. In 1991-92 two principle schemes for low-cost housing were being developed by private developers, both located outside Cebu City itself. One scheme was in Consolacion, 20 kilometres from Cebu City, and the other in Mactan Island near Lapu-Lapu City, both within the larger Cebu Metropolitan area. Low-cost housing development in Cebu City is constrained, first by high land costs in the city which forces developers to seek cheaper land on the urban periphery; second, by inadequate credit and mortgage facilities for families without regular employment; and, finally, because few developers are attracted to constructing low-cost housing which yields low profit margins. Production of low-cost housing is further hindered by fluctuations in the price and availability of raw materials which increases production time and costs and can stretch the budgets of the developer beyond the economic viability of the scheme.

For example, regional shortages of concrete in 1991 resulted in spiralling prices for concrete for developers, extra labour costs because of extended building time, and possible bank penalties for the developer in the form of rising interest charges. Furthermore, land price rises must also be incorporated into the overall development cost leading to regular house price increases in new developments. On May 1, 1991, a 60 square metre plot with a 32 square metre house on it in the Camella Homes scheme cost P260,000 (US \$9,461). In December 1991, the same package cost P290,400 (US \$10,568),<sup>(9)</sup> an increase of P30,400 in just eight months or P3,800 per month.<sup>(10)</sup> Rapidly increasing prices in the formal market, as illustrated in the Camella Homes Sub-division, demonstrates a highly inflationary market which reduces confidence for potential buyers, making it a less desirable housing option; also, households saving for the equity to buy a home find that such regular price increases constantly

8. In 1991/92, when the survey was conducted, the poverty threshold for Region VII for an average family of five was a monthly income of 3,699 pesos (US\$ 134.6) (NEDA, 1992).

9. In 1991, US\$ 1.00 = 27.479 pesos (EIU, Country Profile 1994-1995, page 11).

10. Camella Homes Price Guides, Cebu City: May and December 1991.

put the scheme out of their reach. For these reasons buyers tend to be sceptical and developers prefer to concentrate on the small-scale high-cost sub-division schemes which pose less risk for more profit.

A further option to consider is the purchase of raw land for private development. However, land development is an expensive and lengthy procedure. Approval of sub-division plans and building design through formal channels can take months and prove costly as it involves the payment of fees. Individual development schemes, therefore, are not appropriate for low and middle-income households which have few resources and an immediate need for shelter.

A comparison of costs for formal and informal housing proves that the decision to buy into a squatter area is not reckless but makes sound economic sense. Table 1 outlines the costs of acquiring a house and lot through the different markets.

**Table 1: Actual Costs for Formal and Informal Housing Schemes in Cebu City, 1991/2**

Housing Option	Lot & House Price 100 square metres	Loan	Equity	Amortization per month (25 years)	Affordability* (Years of salary for poor)
<b>Formal Scheme</b> V & G Better Homes, Consolacion Oct 1 1991	P293,600	P230,000	P63,600	P3,285	6.6
Camella Homes, Mactan Dec 6 1991	P397,000	P335,000	P62,200	P4,443	8.2
<b>Informal Scheme</b> Sitio Montebellio, Talamban, Centrally Located Nov 1991	Land P30,000 House P7,000 Total P37,000	-	P37,000	-	0.8
Buhsan, Buhsan, Cebu City Feb 1991	Land P5,000 House P18,250 Total P18,750	-	P18,750	-	0.4

Source: Formal Scheme prices from V & G Better Homes and Camellia Homes Offices, Cebu City. Informal Schemes from own research.

\*Affordability is calculated from 1991 poverty line for Region VII of P3,699 per household. The figure shows the number of years' salary for low-income households that would be needed to purchase the property.

Although land prices in both markets can be highly variable, Table 1 illustrates how the two markets compare in terms of shelter costs. High equity costs and expensive monthly repayments over 25 years make the formal package both unaffordable to low-income households and undesirable to middle-income families. In fact, the total cost of an informal housing unit is approximately 10 per cent of the comparative formal scheme and around 30-60 per cent of the initial equity of the formal

package. Accessible prices for informal plots coupled with low eviction rates in Cebu City makes informal housing appealing to a much broader range of urban families.

Whilst eviction rates are low, the threat of eviction is not ignored by middle-income households but is considered as a risk factor within an overall housing strategy whereas most poorer families perceive eviction as an inevitable and frightening event. As many poor families live close to their place of work, they view the prospect of moving as economic suicide. Evicted families, therefore, usually move into rented accommodation or share with relatives in the same area. They have few resources to re-purchase land and are thus unlikely to have the opportunity of owning land again, even informally.

However, the attitude of middle-income buyers is quite different in that such low land prices makes purchase a worthwhile economic gamble. Sonie, a 45 year-old man living in Nivel Hills and working as an electronic engineer in one of Cebu's major hotels, summarized this view, "Rents are expensive so if we can break even before eviction, it's OK." Another resident in Buhisan had similar sentiments. Serenia bought the right to a land plot and moved to the settlement to avoid paying rising rents in Cebu City. In 1991, she was living in Martirez in the central commercial area, when her monthly rent increased from P400 to P900. She looked at other rental rooms in Mandaue which were P1,500 a month when she heard from a friend that rights were being sold in Buhisan on the city fringe. In 1991, she paid the caretaker of the land P1,000 for a 167 square metre plot and a further P30,000 to builders for the construction of a three-bedroom house. Her total cost was P31,500 (US \$1,146),<sup>(11)</sup> the equivalent of two years and nine months rent at P900 per month (in the unlikely event that rents remained constant). Squatter eviction can take many years in the courts and it is therefore highly likely that she would at least recoup her initial investment in under three years or even faster if she let rooms in her house. Therefore, the purchase is a sound housing investment.

High monthly housing costs in both the rental and ownership markets compared to low land prices and slow eviction procedures has encouraged middle-income households to seek shelter through informal channels. Growing demand for informal land has thus placed pressure on supply, resulting in rising land prices, effectively reducing accessibility by lower-income families. However, it is not the presence of middle-income households alone that has adversely affected supply but their **behaviour** within the market that has had a profound impact on informal land supply and its affordability.

### **b. Plot Acquisition and Size**

One critical aspect of social behaviour within the informal land market is the determination of plot size. Land in the informal market is a valuable commodity and the size of plots indicates the allocation of resources to different social groups. Evidence within the sample settlements shows that, broadly speaking, the size of plot can be correlated to the income of the household,

11. See reference 9.

in other words, higher-income families occupied larger plots than their lower-income neighbours. This is not surprising in itself but is fundamental to understanding how middle-income groups can substantially influence informal land development in irregular settlements.

The disparity in plot size in settlements is due to the purchase of larger plots at the outset and the incremental buying of plots after occupation. On the urban fringe, where informal farming is common, farmers often sub-divide their land into rough areas and sell it. Although there are often no fixed markers for plots, the low-income settlers rarely abuse this relaxed allocation of land by the farmer but tend to occupy an appropriate space. At this early stage of settlement development, land prices are relatively low and, whilst poorer families tend to occupy a modest space, middle-income buyers purchase large tracts, especially in emerging settlements at the city fringe. As already explained, these can then be occupied, sub-divided and/or sold at a profit to incoming buyers. The benefits of buying large plots lie not only in the potential economic gain but also in the fact that, as the plot size increases, the price of the land per square metre diminishes. Therefore, smaller plots are proportionally much more expensive to buy than larger areas.

**Table 2**

Plots	Average Plot Prices Adjusted (pesos)*		Price Per Square Metre Adjusted (pesos)*	
	Under 100 square metres	Over 200 square metres	Under 100 square metres	Over 200 square metres
Duljo	4816.35	3398	147.52	16.49
Sitio Montebellio	1177.46	7078	21.88	13.85
Manggahan	105.9	210	1.29	0.95
Buhisan	159.8	-	2.36	-
Nivel Hills	848	3978	8.92	7.71

Source: Sample data, Cebu City, 1992

\*Values adjusted to 1978 prices according to the Regional Consumer Price Index 1980-1990, NSO, 1991.

In some settlements such as Buhisan, the caretaker or farmer regulates plot size. In Buhisan, Filamina, the caretaker of an area of private land, decided autonomously that the plots should measure 100 square metres and set about measuring plots with a tape measure using sticks and bamboo poles as boundary markers. On questioning her further about this technique of sub-division she stated that: "I made the plots 100 square metres because that is enough space for anyone." Even with this more regulated allocation of plots there were still disparities in the size of residential plots. The reason for this is that wealthier families purchased two plots in order to gain extra space or, on occupation, negotiated with poorer neighbours to purchase their plot or a portion of it in order to extend their boundary. The

12. The *barangay* is the smallest political unit in the Philippines and is administered by a locally elected *barangay* captain.

13. In 1989, US\$ 1.00 = 21.737 pesos (EIU, Country Profile 1994-95, page 11).

process of incremental plot expansion is illustrated by the history of Joy, a 34 year-old resident of Manggahan and an office worker in Cebu City.

Joy explained that, before moving to Manggahan, she had lived in an informal settlement in Lower Nivel. A work colleague was the *barangay* captain of the area's son<sup>(12)</sup> and told her that he knew of a right for sale. The right was owned by a poor family who had lived there since the early 1950s in a small bamboo and *nipa* house. The land originally had been an army reservation owned by the provincial government but was now being claimed by a rich landowner. While the land was in dispute, the original occupants sold rights and a settlement grew. Joy bought the right for a "low" price and immediately destroyed the house. She and her husband paid P50,000 (US \$2,300)<sup>(13)</sup> to build a substantial concrete house and moved to the Sitio in 1989. They later expanded the house by buying the right to the property next door for P4,000. However, they decided to move after hearing of available rights in Manggahan as this settlement was nearer to their workplace. Joy also complained that it was hard to get an individual water connection to the house in Lower Nivel because of the steep slopes. Subsequently, Joy and her husband put their house and lot on the market for P95,000 but, being unable to find a buyer, had let the property for P500 a month.

These examples illustrate the visible disparities in plot size in all the sample settlements even in Buhisan and Sitio Montebellio which had experienced a greater degree of control in the allocation of space. The main conclusions to be drawn are that different income groups purchase or acquire different sized plots. Middle-income groups have the available capital to purchase larger plots, leading to disparities in plot size even within the same settlement. The larger plots not only yield higher income-earning potential but also are proportionally less expensive than smaller plots. In many cases the retention of valuable residential land as a garden or as a potential expansion area is an inefficient use of space within informal settlements, leading to supply constraints within the market. In addition, the presence of middle-income groups within an informal settlement affects the density and, more importantly, the **rate** of densification within settlements. More wealthy households keeping areas vacant or occupying large plots not only constrains land supply but also results in a low and slower rate of densification within settlements. Therefore, differential rates of densification operate according to the proportion of middle to low-income families within a settlement. The result is accelerated densification within settlements containing a higher proportion of poorer families usually in less desirable areas such as the foreshore or inner-city squattments.

### c. Plot Payment

The nature of payment for plots in the informal land market is a critical factor determining access to plots. In the absence of formal mortgage finance, financial transfers and the conditions

14. Ejidal land in Mexico is communally owned land over which peasant communities have agricultural rights. Individual peasant farmers (*ejidatarios*) are not allowed to sell their land parcels although these may be left to heirs. Although theoretically inalienable, these lands are regularly sold off by *ejidatarios* or elected leaders; see Ward, Peter, Jiménez, Edith and Gareth Jones (1994), "Measuring residential land price changes and affordability" in Gareth Jones and Peter Ward (editors) (1994), *Methodology for Land and Housing Market Analysis*, UCL Press, London, page 160.

15. See reference 2, Ward, Jiménez and Jones (1993), page 1539.

of sale are determined by the informal plot sellers themselves. In Cebu, plot vendors are unwilling to accept extended payment schedules but, instead, insist on cash payments for plots or on a small number of instalments. Research in Mexico shows that as in Cebu, cash payments for *ejidal*<sup>(14)</sup> land is common. In Mexico, an average 43 per cent of sample populations in irregular settlements in Querétero, Toluca and Puebla paid for their plots in a single payment.<sup>(15)</sup> In Cebu City, 83 per cent of the sample, or 106 buyers, were obliged to pay with one cash payment, well above the figures in the Mexico case study.

**Table 3: Land Acquisition Payments in Cebu City**

Land acquisition payments	Percentage of rights buyers	
Outright (single payment)	83	(106)
Deposit and Balance	8	(10)
Multiple Payments	9	(12)
<b>Total</b>	<b>100</b>	<b>(128)</b>

Data, Cebu City: 1992  
 N.B. Absolute numbers in Brackets

The reasons why plot vendors insist on cash payments is unclear. One explanation may be that as occupation symbolizes ownership then the act of occupying the plot marks the final transfer of land. In some cases, vendors doubt that they will receive their money once such occupation has taken place. This lack of confidence in the financial aspect of the land market creates problems of affordability for low-income households and further favours the middle-income buyer in the purchase of land rights. Therefore, even though prices may be relatively low, the ability of low-income households to raise extra cash for purchasing land is often insurmountable for the lowest income earners. Further examination of the financial sources for rights payments reveals that 65 per cent of the sample used savings to finance land purchases (see Table 4). Furthermore, only 19 per cent of the sample were able to borrow money from relatives or employers, 7 per cent raised the money through the sale of goods and 9 per cent received gifts of money from the family in order to purchase a plot.

The data reveal that payments for purchasing land on the informal market rely heavily on a household's own resources and/or the ability to glean money through kinship networks either as a gift or as a loan. Low-income families living on or below the poverty line in Cebu City are unlikely to save enough to allow them to make single cash payments for land at short notice. In addition, many of the urban poor are supporting even less advantaged relatives in the rural areas and, therefore, any wages or cash bonuses are often spread thinly over a number of needy kin thus limiting the household's ability to save. Therefore, the inability of the urban poor to mobilize such amounts of cash severely limits their potential to buy land not only on the formal but also on the informal market. The greater liquidity of

**Table 4: Source of Finance for Land Right Purchase**

Source of Finance	Percentage of rights buyers	
<b>Savings/Wages</b>	<b>65</b>	<b>(83)</b>
Borrowed	<b>19</b>	<b>(24)</b>
- family	44	
- employer	48	
- moneylender	8	
Sales of Goods	<b>7</b>	<b>(10)</b>
- squatter property	50	(5)
- titled property	10	(1)
- vehicle	30	(3)
- pigs/livestock	10	(1)
Gift from Family	<b>9</b>	<b>(11)</b>
<b>Total</b>	<b>100</b>	<b>(128)</b>

Source: Author's Data, Cebu City, 1992

N.B. Absolute numbers in brackets.

middle-income households and entrepreneurs enables them to raise such funds, allowing them to act quickly in purchasing plots for personal occupation or profit. Subsequent speculation on such plots, leading to inflationary pricing, further limits low-income entry into the informal land market.

**d. Plot Occupation and Plot Vacancy**

More affluent buyers purchasing plots can afford to choose between a range of options including occupation, disposal or speculation. In this way they view the purchase not only as fulfilling a basic need (which is the concern of many poorer residents) but also as an investment embodying a range of opportunities. Many residents occupying larger plots use the extra land to build a more substantial dwelling for family use or as potential space for an extension. Vacant land within the plot is used for recreational space or for the cultivation of vegetables or for keeping pigs and chickens for home consumption or sale.

In many cases this also provides extra space for business opportunities. In one settlement in Cebu, Sitio Montebellio, some occupants have built garages at the side of their houses to keep a jeepney, tricycle or even a car for business purposes. In the settlements of Sitio Montebellio, Duljo and Buhisan, extra space within the dwelling and on the plot was used for production and small-scale business activities. Tito, a young entrepreneur, used his house as a factory for manufacturing shellcraft fashion accessories. After a while, he purchased an additional smaller plot at the back of his factory from a poorer neighbour to provide a small living area for his workers, a team of around eight men.<sup>(16)</sup> The dual use of land for productive as well as reproduc-

16. It is interesting to note that the principal working team originated from outside the settlement hence their need for accommodation. In fact, community members were involved in shellcraft production but worked from home on a piece-work basis.

17. Benjamin, S. (1991), *Jobs, Land and Urban Development: the Economic Success of Small Manufacturers in East Delhi, India*, Lincoln Institute of Land Policy, Cambridge, Mass.

18. Rodell M.J., (1983), "Sites and services and low-income housing in R.J. Skinner and M.J. Rodell (editors), *People, Poverty and Shelter: Problems of Self-Help Housing in the Third World*, Methuen, London and New York, pages 21-52.

tive functions is often beneficial to the owner as it creates small business opportunities at a minimal start-up cost for the owner and provides employment opportunities for other members of the community.<sup>(17)</sup>

One of the most critical differences in the behaviour of particular income groups is the timing of occupation of the plot after purchase. It is common to find vacant plots, open areas or even large tracts of land which have been sold but remain undeveloped. This was common to all the sample settlements to a greater or lesser degree with the most marked example being Nivel Hills. Nivel Hills remains largely vacant with only a few dwellings dotted around the hillsides. However, residents state that the settlement is full with no land rights available as every square metre is already sold, many to absentee owners. It is difficult to argue that unoccupied plots are a characteristic of middle rather than low-income households as the owners of vacant plots are absent and thus not available for interview. However, discussions in communities revealed that, in most cases, low-income families tended to occupy the plot immediately after purchase because of eviction from other sites or rental lodgings, or to save money on rented accommodation. The practice of holding purchased plots vacant is thus a luxury that only wealthy households can afford. More affluent buyers hold the plot vacant for one or more of the following reasons; first for speculation purposes, second to wait until the settlement is more established and thus more secure and third, to save money for materials in order to build a consolidated house. In all the sample settlements except Duljo, substantial concrete houses were being built similar to more exclusive private sub-divisions. This challenges the theory that dwellings in informal settlements are built incrementally over time.<sup>(18)</sup>

Of the households interviewed in the sample, 23 per cent of all those purchasing rights (128 households=100 per cent) had delayed building by at least six months, 9 per cent had held the land vacant for between one and two years and 6 per cent had waited over 2 years before occupying the land. This creates a significant bottleneck in the supply of informal land, particularly in urban fringe areas such as Nivel which are ideal for informal settlement expansion but which are dominated by speculators and middle-income buyers. Investigation shows that in many areas on the urban periphery, natural expansion of informal development is prevented as, although lands have already been purchased, they are held in limbo by more affluent purchasers. The result is an invisible barrier to settlement evolution and diminishing opportunities for poorer households to gain access to such sites thus creating a squeeze on informal land supply. This practice forces low-income families to seek land on less desirable sites such as the foreshore and canal and pavement areas which do not attract middle-income buyers. This is one of the more critical aspects of middle-income involvement in the informal land market and is a particular problem in Cebu City.

### e. Plot Sub-division and Disposal

Sub-division and/or the sale of lots is undertaken by low and middle-income households alike but speculation and the sub-division of vacant plots is confined to more affluent buyers who have readily available cash to deal in surplus plots. As already explained, low-income families tend to occupy plots on purchase and regard the plot primarily as a living space rather than as a commodity. This is not to say that the poor are unaware of the market for plots but they rarely have the information or the available cash to purchase additional plots for speculation. Furthermore, plots vary widely in price, even within the same settlement, indicating that social factors may influence price-setting of plots. Section IV examines price-setting and the implications for the poor within the marketplace.

## IV. THE NATURE OF SELLING LAND: PRICE-SETTING AND SALES

**CURRENT DEBATE ON** informal land delivery systems stresses the income-earning potential of land sales for the poor. The valorization of squatter land and its marketability generates money for those who sell it and for others, like agents, who are involved in land purchase and sale. A study by Benjamin in East Delhi describes one community which, by developing small-scale industry within the settlement, managed to generate a highly lucrative land market, linking productivity to land valorization and ultimately to the alleviation of poverty.<sup>(19)</sup> Such activities must be viewed as beneficial both to the residents, to the employers and, above all, to the poor. Land sales within the informal market still cause concern for policy makers in that this may lead to the displacement of poorer households who then settle elsewhere, perpetuating squatter housing. However, the decision of poor households to sell must be accepted as an inevitable process within any market. People choose to liquidate a precious resource, namely land to cash. Doebele questions the negative view on such entrepreneurial activities by the urban poor, stating:

“It (the informal land market) is in itself a significant source of employment for large numbers of people and is an important part of the informal employment sector which is one of the main means of livelihood for the poor. It is also sometimes an avenue by which the entrepreneurial poor can escape poverty.”<sup>(20)</sup>

There is no doubt that large numbers of the urban poor find themselves in charge of a valuable commodity simply by occupying someone else's land. Nevertheless, how do they perform in selling such plots and are they adequately compensated for relinquishing them? Research by Ward, Jiménez, and Jones in three intermediate cities in Mexico indicates that there is great variation in plot pricing within low-income settlements. They state:

19. See reference 17.

20. See reference 3, page 47.

21. See reference 14, Ward, Jiménez and Jones (1994), page 167.

22. See reference 21.

23. Baross, Paul (1983), "The articulation of land supply for popular settlements in Third World cities in Shlomo Angel, Raymond W. Archer, Sidhijai Tanphiphat and Emiel A. Wegelin (editors) (1983), *Land for Housing the Poor*, Select Books, Singapore.

24. See reference 2, Ward, Jiménez and Jones (1993); also reference 14, Ward, Jiménez and Jones (1994).

"Our specific analysis of individual low-income settlements showed considerable atomistic variation which, unsurprisingly, could be best explained in relation to local factors."<sup>(21)</sup>

These factors include social variables such as friends selling land to each other and thus charging a lower price, goods being used in part exchange or mutual friends being acknowledged between the buyer and the seller.<sup>(22)</sup> This study acknowledges that social variables can influence sale price but little is known as to whether this may advantage or disadvantage the sellers themselves. Evidence from the Cebu City case study indicates that the urban poor consistently sell plots for low prices. The rationale for differential pricing is a result of both choice and constraint for the poor within the marketplace. This has wide-ranging implications in terms of how the poor compete within the informal land market not only in terms of purchasing plots but also in their sale.

### a. Conditions of Sale: Poverty and "Crisis-selling"

A critical aspect of the informal market for land is not purely its valorization but, inevitably, the determination of its value and thus, price. Research shows that in squatter settlements, land prices generally increase steadily over time due to settlement consolidation, improved infrastructure and subsequent increasing security of tenure among the residents.<sup>(23)</sup> However, detailed analysis of price shows inconsistencies in the determination of price between households **within** settlements. The factors which determine price at the settlement level and, more importantly, the household level are still unclear. The research by Ward, Jones and Jiménez in Mexico concentrates on the nature of price for land with different degrees of tenure but there has been little attempt to analyze the determinants of land value between social groups within an informal unstructured land market.<sup>(24)</sup> This analysis examines the socio-economic factors which influence people's decisions to sell, the construction of price and the implications for different income groups, particularly the urban poor.

In the Cebu City case study, plot prices within settlements and even between adjacent plots were often highly variable indicating that the price may not depend solely on the economic determinants of the market but may also be influenced by social factors. The differential charges for plots within settlements cannot easily be explained. Why does a double market evolve and why is it that while land is being sold at high prices, some occupants continue to sell their land rights at token sums? A more critical examination of the sellers indicates that different social groups make certain choices concerning plot sale within a highly constrained market. Constraints on plot sales not only affect the original users such as the farmers but also low-income households in general.

In fact, the farmers form an interesting and specialized case study in the determination of price and the disposal of plots.

The decision to sell is triggered through a perceived or actual threat to their agricultural land use rights. The sale of plots is thus justified as compensation for potential loss of agricultural revenue. As agricultural work yields low economic rewards the plots are valued according to a perceived agricultural loss value rather than according to a land development value, which is much higher. In addition, the sale of the agricultural land may be the first occasion when the farmer has encountered any form of commercialized land exchange and, therefore, the agricultural value is the only gauge he/she may possess. The result is that, without fail, the farmer sells land at nominal sums and is often the poorest resident in the emergent settlement, whilst other buyers profit from the informal exchange of plots. Differential pricing extends beyond the farmers *per se* and indicates the presence of a more general social determinant in the fixing of plot prices which allows double pricing to occur between residents of the same settlement.

One explanation for differential sale prices can be uncovered by examining the conditions under which sales occur. Middle-income owners will often choose to sell land to move to a different area, to buy titled property or for speculative purposes. However, poorer residents are less mobile because of fewer resources and opportunities. Therefore, low-income residents usually sell plots when there is an immediate need for money. The only way to obtain instant cash under such circumstances is to liquidate their property, a process known as "crisis-selling". Common reasons for such crisis-selling are illness of a family member, legal expenses if the household is involved in a court case or extreme poverty.

The severity of the crisis determines the level of the price, in that the plot is worth as much as the value of the need. Therefore, poor families are often forced to sell at below "market" value. This process was explained by Ellen who owned a land right in Manggahan. In 1991, she needed P6,000 for an agency placement fee in order for her husband to take a job in Saudi Arabia. As her husband had been unemployed for some time, they had few savings. At first, she tried to pawn the land but, failing to find an interested party, was forced to sell it for P10,000.<sup>(25)</sup> Ellen felt that P10,000 was cheap but she needed the money quickly to secure the placement for her husband. At that time plots of a similar size were being sold in Manggahan in excess of P20,000.

In Sitio Montebellio, a similar situation occurred in April 1992 when two lots of similar size were sold. One was sold for P105,000 and the other for P25,000. The difference in price was determined by the urgency of the sale and the income level of the seller. The latter seller was a poor vendor who needed the money because his son had been arrested. Therefore, although the price was originally higher he lowered it to accelerate the sale.

Similarly, middle-income buyers recognize the vulnerability of such sellers and use this information to bid them down on price. In Nivel Hills, Virgie, a 34 year-old *sari-sari* store owner,<sup>(26)</sup> purchased two adjacent plots in 1988-89 to form one large area.

25. Land pawning known as *prenda* is common practice in the Philippines, particularly in rural areas. Titled and untitled lots are often pawned to raise money for household needs. However, these arrangements are often extremely informal and, in the absence of a title or formal agreement, lead to ownership disputes. Many households complain that it is common to lose land occupancy rights through such agreements which are impossible to record through formal registration procedures; see Nagarajan, Geetha, David, Cristina, C. and Richard L. Meyer (1992), "Informal finance through land pawning contracts: evidence from the Philippines" in *The Journal of Development Studies* Vol.29, No.1, pages 93-107.

26. Sari-sari stores are common throughout the Philippines, selling small quantities of assorted goods such as cigarettes, bread, tinned foods and, often, beer.

Her husband was working as a chef on a cruise ship and their monthly income was around P70,000 (US\$ 2,800 per month, as opposed to the monthly minimum wage of around P3,079 or US\$ 123 per month). She bought a plot from a resident who had recently become unemployed and who, needing money urgently to feed his family, sold the plot for a mere P2,000. The adjacent plot was later sold to Virgie for P6,000 following the sudden illness of a family member and ensuing medical expenses. Virgie explained that the need for immediate cash was greater for the first seller than the second and so the price was lower.

The exploitation of low-income landowners not only is used as a buying strategy by individual householders but also is perpetuated by land agents. Many settlement agents identify poor families who are vulnerable to crisis, labelling them as potential sellers. If the family encounters some crisis or hardship the agent will offer to resolve their situation with a cash payment. The agent is then able to complete a deal which may already be in place with a more affluent buyer. This is summarized by Rudy, a land agent who worked from a hotel in downtown Cebu City:

“People have similar opinions of price but price does not depend on the status of the land but on the need of the occupant. The poor only sell when they are in great need of money and, therefore, can be beaten down on their price. However, in speculative rights sales usually afforded by the middle-income [earners], prices are high because the need for immediate sale is not high. Sites in the same area with different occupants of different income sell at widely differing prices.”

“Crisis-selling” is a crucial social factor in the determination of price and enables middle-income buyers to exploit the poverty of poorer residents. Using such tactics the middle-income buyers can acquire land at relatively low prices and displace poorer residents or sell for speculative purposes. The buyer is paying not only below market value for the plot but also is increasing the price way beyond the original sale price, making the re-purchase of the plot by the poorer resident impossible. In addition, the tragedy of such selling is that not only is little money received from the sale but also that this has already been targeted for a particular need and, therefore, the family receive limited real benefits from the sale. The vulnerability of the urban poor and the more sophisticated tactics of the middle-income groups prevent poorer sellers from charging high prices and thus form an economic constraint based on the social status of the seller which adversely affects the market position of low-income sellers.

### **b. The Fear of Right-Selling**

Another factor which prevents low-income families from selling land at higher prices is a fear of breaking the law. Although

27. Personal communication, 1992.

poor households feel justified in disposing of occupancy rights, they acknowledge that it is not a land title and cannot demand high prices. Many poor families in Cebu felt that they could be punished legally for high rights sales and were accordingly reluctant to charge them. Mrs. Caldera, one of the original farmers in Nivel Hills, relayed such fears, saying that she could not sell her rights because it was government land. Her daughter was equally fearful of selling plots. Another farming family in the same area had sold rights for as little as P300 or P400 per plot. The woman in this household added "I have a right for sale but my husband does not want to sell it for a high price because we do not own the land."<sup>(27)</sup>

However, the middle-income groups sell rights for high prices with impunity. One of the reasons for this is that buyers feel less fearful of the law. Many sales are handled through intermediaries so that the trading of public lots or private lands can rarely be traced back to source. This also applies to informal house-building in that middle-income and some high-income entrepreneurs have built large expensive houses on government and private lands with seemingly little fear of eviction. The middle-income groups obviously feel that institutional links and contacts offer some added security. However, the poor have little power or money and few connections and, therefore, keep the prices low to avoid detection from those in power.

### c. The Perception of Value

Crisis-selling and the fear of breaking the law by selling land rights are reasons why the poor are obliged to charge minimal prices for their land rights. However, these are not the only factors determining price differentials among particular income groups. There is a more fundamental dynamic affecting price-setting and that is the perception of land value linked to the income of the seller. In other words, there appears to be a correlation between household income and perception of land value. This is a highly significant factor in informal land market analysis as it proposes that different income groups perceive land values at different levels resulting in a fragmented pricing mechanism according to social status. The ultimate outcome is the stratification of settlements according to income leading to spatial segregation of middle and lower income-groups within the informal housing market.

Perception of property value is a particularly difficult variable to evaluate conceptually and quantify methodologically within an informal unstructured market. Within the study, each respondent was asked their household income and was asked to value their property according to current sale value on the informal market. It was found that there was no standard pricing within settlements and, in fact, adjacent plot owners varied widely in their estimation of land value; the only plausible explanation seemed to be their level of income. For the lowest-income households, the estimation of value was requested without taking into account the crisis factor so that the estimated value was a fair opinion of the sale price. This methodology is

28. Land pricing is commonly evaluated according to the plot *per se* rather than to its actual size. Plots are rarely measured accurately but are estimated more loosely according to rough area, location and nature of seller. By and large, small differences in plots are not taken into account.

not without problems and caveats however, it provides an interesting and critical slant in understanding the relative positions of different income groups as market operators.

For the analysis, the sample households were divided into three income bands: below the poverty line (less than P3,699), P3,699-P10,000 per month and one or the other P10,000 per month. Assuming that households within income bands generally spend similar amounts on house construction and have comparable plot sizes, then the perceived property value within such bands can be examined.<sup>(28)</sup> Figures 2, 3 and 4 show actual income in pesos against perceived property value for low, middle and high-income households. In all three graphs, there appears to be a relationship between income and perceived value of plot. This is particularly pronounced in the high-income category whereby higher-income groups perceived their land as being valuable with a significant market price. This is in contrast to the middle-income groups whose perception of value is much “flatter”, showing similar perceptions in plot value across the board. Low-income families, however, show an erratic calculation of plot value ranging from almost nothing to P200,000. The highest estimation in the middle-income groups reached P600,000 and in the high-income groups, P1 million. This would indicate that the higher the income, the greater the perception of property value and the lower the income, the smaller the perception of value, in spite of different locations. In addition, the fluctuation within the low-income perception of value shows a lack of knowledge and also of confidence in the market, provoking both extremely low estimations and inconsistent pricing.

Qualitative data, gained from questionnaires within the settlements support this hypothesis in that it is common to find adjacent plots within a settlement perceived at highly variable prices, which can be explained partly by the social status of the

Figure 2: Correlation of Income and Perceived Property Value: Low-Income

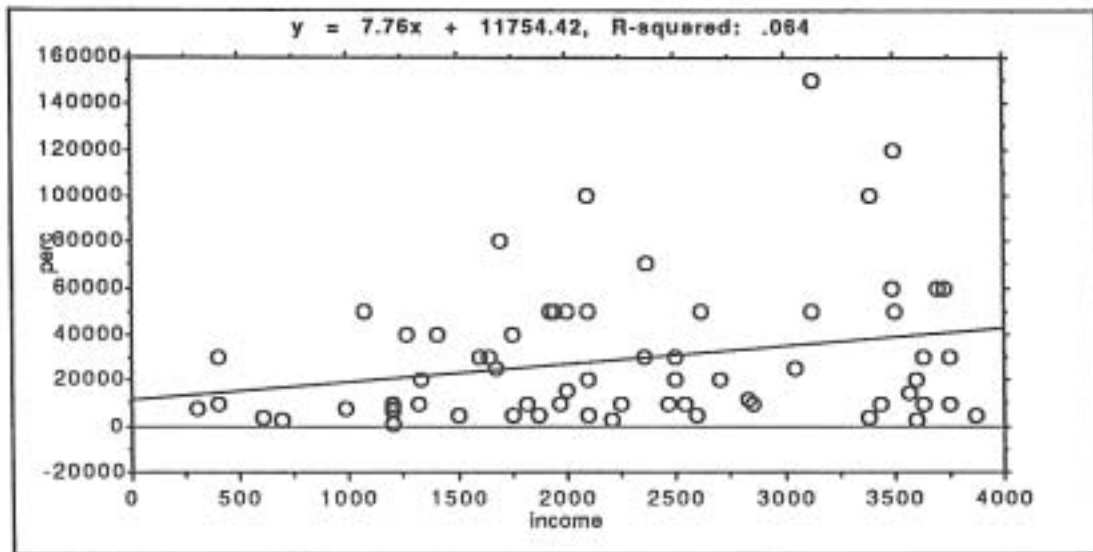


Figure 3: Correlation of Income and Perceived Property Value; Middle-Income

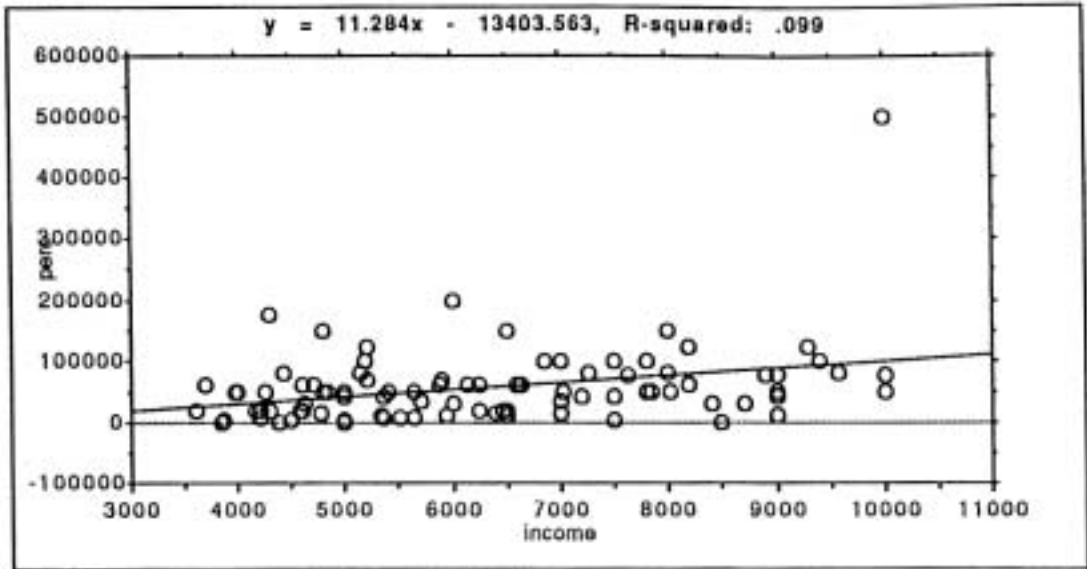
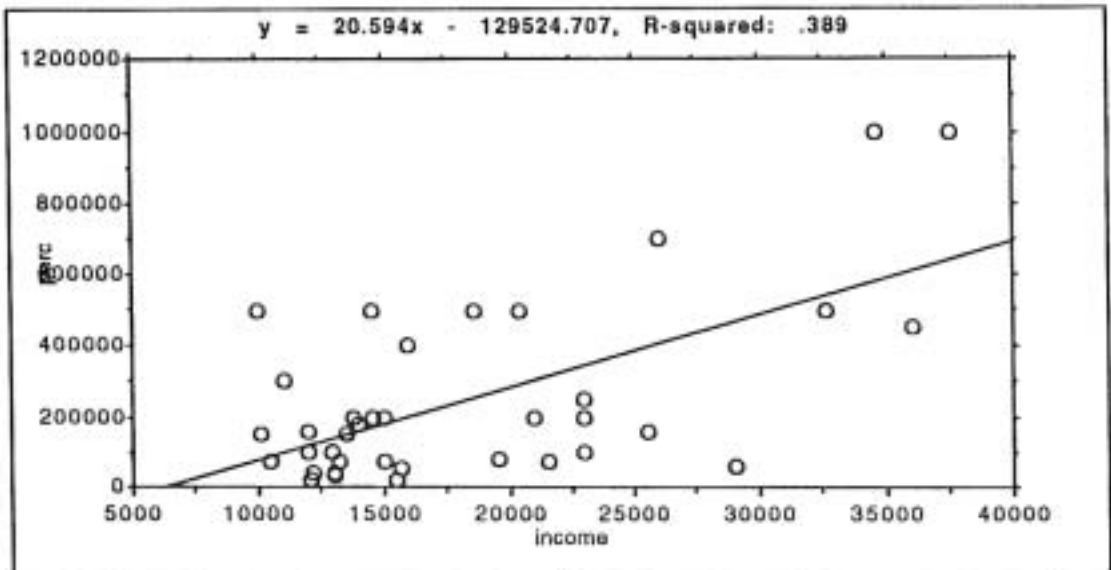


Figure 4: Correlation of Income and Perceived Property Value; High-Income



seller. Although the basis of the varied perception of property value is hard to fathom, two ideas may be put forward as explanation. First, low-income households are not used to dealing with large sums of money (as opposed to higher-income groups) therefore, the proposition of charging a million pesos for a plot of public land seems unrealistic to poor families. Second, as already stated, middle and high-income households buy informal land and build houses usually because they are, to some extent, assured of at least temporary security of tenure through connections and possible pay-offs within the formal system, in

contrast to poorer households who have few connections. This perceived security of tenure is particular to income groups and commands a value, so that higher-income households who feel more secure translate that into the value of the property.

One major caveat in this analysis needs to be addressed however, namely plot size. Previous analysis has shown that higher-income households tend to buy or acquire larger plots than poor households. Therefore, the fact that they perceive the property as being worth more could be explained by the larger land areas, which cannot be disputed. However, Figures 2, 3 and 4 look at the perceived value of property according to income per square metre. This shows a negative relationship between perceived square meter of plot and household income, which is not entirely unexpected. Ward, Jiménez, and Jones report similar findings in their research, stating: "As expected, there is a negative correlation between unit costs of land and overall plot size indicating that a unit of land costs less on larger plots."<sup>(29)</sup> The Cebu sample supports this in that middle and high-income buyers are able to purchase larger plots at relatively low prices. The nature of cash land purchases and the restricted supply of plots intensifies the demand for smaller plots. This creates a squeeze within the market in that the price for small plots per square metre is far higher than for larger plots because of the spiralling demand. Therefore, when the perception of property value is translated by square metre, the data indicate that, although higher incomes still anticipate greater property values overall, perceived value for lower-income households per square metre is shifted up.

29. See reference 14, Ward, Jiménez and Jones (1994), page 175.

## V. CONCLUSIONS

**THIS PAPER HAS** considered the behaviour of different social groups within the process of informal land development. The presence and, more importantly, the behaviour of different social groups in the pricing of plots is a complex issue and demands more detailed research. The paper describes how middle-income households purchase land in informal areas as it provides a fairly secure, convenient and inexpensive option for obtaining housing. However, the research reveals that differential pricing within settlements occurs, influenced by the conditions applied to the sale and the social status of the seller. Poverty and the lack of resources renders low-income families more vulnerable to crisis selling and fearful of reprisals from informal land sales. This, in turn, is exploited by more wealthy groups who have greater daring in land purchases through confidence and possible connections within the public and/or the private sector. However, interviews suggest that, in addition, poorer families have a lower perception of land value indicating that, through both choice and constraints, within the market they are unable to charge market value for their plots. They consistently sell their land for low prices. This factor is particularly alarming as the market for sale and purchase depends on the social status of the actor meaning that, although the poor real-

ize the marketability of their land, they fail to appreciate, let alone capitalize on, its value. Once they surrender their plot, they face little if any chance of regaining the land for the price received, forcing them to seek alternative housing options or land in poorer locations. The wider implications of such dealings are that the informal market is divided, with low-income families accessing fewer residential sites which, in turn, creates enormous pressure on poorer, less desirable sites in foreshore areas. The irony is that the poor must pay proportionally much higher prices for extremely poor quality land which impacts upon the shelter options for different income groups, the land availability and its location. However, the most alarming result is the heightening of conditions of poverty in the poorest quality sites of the city as the poor can no longer afford to compete within the wider informal land market.