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OPPORTUNITIES AND PROBLEMS OF  
ADVANCED LAND ACQUISITION PROGRAMS

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## I. INTRODUCTION

Land availability for low income housing projects has been seen by international lenders as a growing impediment to the successful, on-time completion of such projects. Whereas in the past, sufficient government-owned land was available to meet the need for new housing, much of this land has now been used up. As a result, public acquisition through condemnation is becoming the principal means of acquiring new land for residential development, a process that is usually slow and cumbersome. Too often a housing development program is delayed until the painful process of site acquisition is completed. The reason for these delays are numerous. Few LDCs have the personnel, laws and institutions necessary to undertake the difficult administrative task of condemnation. Even if the structure for condemnation is available, financial resources to undertake such large scale land acquisition is lacking. Looking forward to the next decade, virtually all population projections for major urban areas in the LDCs indicate an increasing demand for new urban land as a result of natural population increases and migration to urban centers. How such people will be housed, and how land for this housing will be acquired, is becoming a concern of many of the international lenders.

For a variety of reasons, such as tradition, institutional inertia, lack of knowledge, concern with political problems, corruption and foreign exchange policies, international lenders

have been reluctant to include land acquisition in loans for new urban development. Since lenders generally do not have staff skilled or experienced in land acquisition it is understandable that the issue of land acquisition has continually been avoided.

This paper will hopefully help such persons confront the issue. First the major issues confronting land acquisition programs in the LDCs is discussed. Next the consequences of marketplace conditions in which demand for land is high and the supply of such land is low, will be examined. The paper will attempt to provide answers to this growing problem. The paper will also examine the potential roles of both the lender and borrower in the field of land acquisition. Finally, it will describe some of the important conditions necessary for land acquisition projects to be successful.

## II. OVERVIEW

### A. HISTORICAL REVIEW

During the early 1960s, international assistance agencies, such as A.I.D. and the World Bank, began developing lending programs to promote economic growth and physical development in the LDCs. Initially, early concessionary lending to the LDCs emphasized country-wide infrastructural systems. These loans focused on financing the development of highways, seaport facilities, electrical power and communication systems and national institutions. During the late 1960s and throughout the 1970s, the international assistance agencies shifted their focus to include the development of housing, particularly housing for the lower income population.

To some extent, the housing programs of the early and mid-seventies were a learning process for both borrower and lender. It has been only in the last ten years that they have begun to fully recognize and appreciate the complexities involved in the provision of shelter for lower income people, especially in terms of design, construction, costs and timing.

This recent emphasis on housing programs has reflected a concern with the rapid population growth of national capitals and other major urban growth centers, as well as the massive shifts of the lower income population from the countryside to

the urban centers. To deal with these problems, the international assistance agencies identified the production of housing-related infrastructure as a key element in the process of providing shelter and therefore, targeted concessionary loans in this area. Until very recently however, the acquisition of land for housing sites was not regarded as either a crucial part of the process of providing shelter or as an appropriate area of activity.

There were a number of historical reasons for this attitude toward involvement in land acquisition. First, in many of the LDCs, especially those with a colonial history, national governments owned considerable amounts of land at the periphery of the capital city or other major urban areas that were suitable for housing. Thus, for many of the first housing loan programs, government-owned land was readily available. Given the relatively small scale of the initial national housing projects, a shortage of government-owned land was not foreseen as a major problem for later projects. Secondly, as far as the international assistance agencies were concerned, their professional staffs had little prior experience in the area of land acquisition upon which to draw. In those few cases in which land acquisition had played an important role in the housing programs, land acquisition was found to be a complex, time-consuming, costly process and often a source of political problems.

Given the inherent complexity of land acquisition, it was assumed that land was an appropriate contribution on the part of the borrower. Generally, local provision of sites for housing was seen by the international lenders as a commitment to a housing program. Various forms of land acquisition by the borrowers were sometimes deemed useful and acceptable by the international agencies in some cases, such as in the case of land occupied by squatters.

B. LAND ACQUISITION FOR LOWER INCOME HOUSING

Despite some of its early efforts, it has been recognized that these local means of land acquisition are incapable of accommodating the enormous anticipated demand for urban lower-income housing in the 21st century. This has become a major concern of the international assistance agencies. The purpose and focus of this paper, therefore, is to look at the question of how international assistance agencies should respond to the emerging issue of land acquisition as a part of the housing problem in the LDCs.

It is useful at the outset to define the forms of government land acquisition that are the focus of this paper. Government acquires land for many purposes. The limits of traditional local government prerogatives and resources for land acquisition generally fall into the following general

categories. First, there are land acquisitions for large-scale government sponsored residential development. Government also acquires sites for specific government buildings and facilities which are associated with residential development. Usually, these sites are located in built-up parts of existing urban areas. This type of acquisition program is usually limited in scope because it involves high market values. Secondly, government acquires land for roads, railroads and utility systems. These acquisitions usually involve large vacant and undeveloped areas. This type of acquisition generally requires lower expenditures, because such actions enhance the property values of adjacent land owners.

This paper will focus on the first type of public acquisition: i.e., acquisition for large scale residential projects for lower-income families.

While there are important differences between countries and between one site and another, prospective residential land for lower income housing generally has the following characteristics. First, the land is usually urgently needed to meet existing needs for large-scale residential development. Secondly, at the time of its acquisition, that land is largely undeveloped; it is usually either in agricultural use, vacant, or used for "informal" residential

purposes at low densities. Third, the land is either at the outer edge of an existing but expanding urban area, or is part of a major new urban development being undertaken by government initiative. Fourth, because it is inherently suitable for urbanization, once it has become either designated for urban use or is serviced with water, sewer and roads, its value will increase both rapidly and markedly. Finally, although there are exceptions, it is land which is in the hands of relatively small groups of owners and has not been subdivided into parcels suitable for urban or suburban purposes.

C. LIMITED EXPERIENCE IN LAND ACQUISITION

In the preparation of this paper, the AID Office of Housing undertook an extensive search of the existing literature concerning the field of land acquisition for lower income housing in LDCs. The results, not surprisingly, were that books, published manuscripts, articles, reported legal cases and similar documents were found to be extremely limited in quantity and in their scope.\* The scarcity of literature on the subject suggests that there has in fact been very little public land acquisition for low-income housing in the LDCs.\*\*

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\* An exception for the absence of published material is Michael Kitay's study entitled Land Acquisition in Developing Countries, expected to be published by Lincoln Institute of Land Policy, November 1984.

\*\* Literature on public land acquisitions is concentrated mainly in the developed countries of Europe and North America, as well as some of the more advanced developing countries of the Far East and, to some extent, North Africa.

Even when senior public development officials have an opportunity to prepare papers for international meetings such as this one, there are other more current and pressing activities of their agencies which engage their interest and eventually finds its way into the literature.

The absence of literature on the subject of public land acquisition leaves public officials in LDCs with few if any guidelines for understanding the theory and practice of this activity.\*

Because of the absence of significant experience with land acquisition, a few special conditions should be met in the initial efforts in the process. First and foremost, it is important that the programs have at the outset, a high probability of success. Speaking generally, failures may teach us as many lessons as successes. In reality, however, it is the successes of the first projects upon which additional projects are based, especially as the successes are reported more fully and quickly. It will also be important that as projects are completed, detailed reports of such projects be made in the professional literature of the lending

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\* From an historical perspective, the field of public land acquisition is at about the same level that the Site and Services Program was at in the early 1970s. In the field of Sites and Services it took over a decade for the program's early experiences to be translated into a literature base from which practitioners were able to evolve better programs and innovations.

institutions. Finally, once a body of knowledge has been developed in the field of public land acquisition, groups such as those represented at this conference should pool their learned experiences. With that pool of knowledge it will be practical to move forward into more difficult and innovative aspects of this emerging field.

D. OUTLINE OF THE PAPER

The broad outlines of this paper are as follows. First, the paper reviews the current problems related to the financing of land for housing development. Secondly, it gives a brief historical review of some of the types of land acquisition used by government in LDCs. In particular, this section will look at the effectiveness of land acquisition methods that do not involve payment at true market levels. Third, it outlines the possible roles of the lender and borrower in undertaking a land acquisition program. Fourth, it highlights the potential major obstacles for lender participation in local housing land acquisitions. Finally, it discusses the future prospects of land acquisition as a part of the international financing of housing programs for lower income families.

### III. CURRENT STATUS OF LAND ACQUISITION LOANS

#### A. OVERVIEW

Based upon a recent series of interviews conducted by AID personnel, it is apparent that housing development loans made by international lenders to LDCs do not include significant amounts of money for land acquisition. There are four major reasons why this has occurred. First there is the relatively short history of the international community's experience in lending for land acquisition. Secondly, international lenders are fearful that major problems may arise from such programs, particularly problems of corruption. Third, there are political and economic problems inherent in choosing to use limited resources for acquiring land rather than for constructing housing. Finally, there are political concerns with respect to introducing any new programs.

#### B. LAND AS A LOCAL RESPONSIBILITY

From an historical perspective, it seems that land needed for new urban projects has been readily available to local development agencies. Much of the early housing development occurred on publicly owned land. For this reason a lack of sufficient suitable land for development was never perceived to be a significant problem in the development process, and has received little attention. Only very recently has AID, as one international lender, begun to recognize that the absence

of available land for housing is a major impediment to implementing lower income housing schemes.

Traditionally, land acquisition has been viewed as a local responsibility, to be undertaken by local authorities with local currencies. The origin of this concept may be traced to post-war assistance programs. In the relief and rebuilding programs after World War II, infrastructure which was available in host countries (such as railroads or hydroelectric equipment) were paid for by international loans or grants. However, the cost of transporting this equipment and bringing it into operation were seen as an appropriate activity for the recipient country. Such transportation and assembly costs were paid for out of local resources.

C. THE CORRUPTION ISSUE

Unfortunately, it is a fact of life that in every country and in many types of activities, corruption rears its ugly head. Many people feel that land acquisition transactions represent significant potential for corruption. Since loans are made by institutions which act as banks or on behalf of banks, it is understandable that such conservative institutions do not wish to become involved in such programs. This type of thinking is not unique to the international lending market. It is a norm associated with lending practices by commercial banks throughout the world.

However, to avoid making contributions in an important area of international assistance simply because there are risks of corruption would be a mistake. Fortunately, the problem of corruption in land acquisition can be dealt with. If good appraisal techniques are utilized, reasonably accurate values for land can be established. Since large scale land acquisition may involve a limited number of people, policing this process is both necessary and feasible.

While lenders are concerned with this problem, it should not be assumed that including land acquisition in a program would adversely affect a loan proposal. Historically, lenders have dealt with the issue, both within their own institutions as well as with the programs they have been requested to finance. If the problem is confronted at the outset and sensible safeguards are provided, lenders will be able to evaluate the risks and act accordingly.

Historically, loans for development purposes were seen as an important stimulus for international trade. Loans were provided to pay for international trade items such as wood, cement and other building materials. Currency transfers for land acquisition were viewed as an inefficient means of stimulating foreign exchange transactions. International lenders have not had to confront this issue due to the constant availability of land for development and growth in

less developed countries. The focus of the international lending community were on the actual planning and construction of shelter.

D. ABSENCE OF EXPERIENCE WITH LAND LOANS AND WHY

In reviewing the activities of international lending agencies, it would appear that experience in land transactions is lacking among professionals who staff the agencies. The traditional educational background of professionals utilized by international lending agencies are in the areas of housing, engineering, planning, economics and political science. Few people who come from the public or private sector into international development, have experience and familiarity with land transactions. For example, in the United States, where there are large numbers of trained people in the development professions, only a very few are ever in the position to be directly involved in real estate transactions involving large tracts of unimproved land. In the public sector, the role of principal in land transactions has been reserved for highly specialized groups of professionals. Often because of their high degree of specialization, such professionals have not been brought into the international lending community. Furthermore, since the termination of urban renewal programs in the U.S. and new town development in

Europe, there have been relatively few opportunities for the professional to gain experience in this field.

This lack of experience also exists among the professionals of the borrowing country. Given the absence of resources for land acquisition, there have been relatively few opportunities for local staff to develop the skills and confidence necessary to undertake land transactions.

E. LAND VERSUS HOUSING PRODUCTION ISSUES

Economic and political objectives of both lenders and borrowers have understandably discouraged the use of scarce resources for land acquisition. Within the context of international housing programs, success is normally measured by the number of dwelling units ultimately produced. That number of new units is a direct function of the total amount of economic resources made available for housing production. The constant shortage of resources to undertake such projects acts as a limiting factor to the quantity of units produced. When it becomes necessary to utilize part of the budget for land, the amount of money available for housing production is decreased. For this reason both lenders and borrowers are reluctant to use the proceeds of such loans for land at the expense of housing.

F. POLITICAL RISK IN A NEW LENDING POLICY

From the lender's point of view there are considerable political risks involved in undertaking new programs such as land acquisition. However, the process of land acquisition, with all of its uncertainties and potential for misuse, does have certain advantages. First, it is a process which can be observed and controlled. Secondly, it has the potential to help many thousands of new homeowners, while negatively impacting a relatively small group of people, the owners.

#### IV. PRIOR PROGRAMS IN LAND ACQUISITION

Land acquisition programs for government-directed development programs is not a new concept. Since the turn of the century, governments in Europe, parts of Asia, North America and Australia have implemented land acquisition programs.

Early efforts in large scale land acquisition - other than for national roads and buildings - has involved "land readjustment". Land readjustment has been successfully used in three situations. First, in agricultural settings, government has intervened by re-parceling land from inefficiently shaped and sized holdings into parcels which can be farmed more efficiently. Secondly, as cities have expanded, government has employed land acquisition programs to convert agricultural land into urban land. In Japan, for example, government enters into land restructuring schemes with private property owners. In these schemes, the government subdivides and redistributes the land and provides it with the necessary infrastructure. Thirdly, government has used land restructuring schemes to stimulate urban growth. In western Australia land restructuring helped to overcome problems of land ownership and the lack of infrastructure which were inhibiting growth.

After the second World War, some governments adopted land acquisition methods to address problems of acquiring land for housing. The land readjustment techniques generally proved

workable as long as the housing program itself generated a source of income. This was not the case, however, with lower income housing, where governments encountered an economic and budgetary dilemma in acquiring land for such housing. This dilemma boiled down to the question of how government could reallocate potentially valuable privately owned land for lower income people who did not have their own economic resources with which to pay for land.

A less complex and perhaps more economically attractive system of land acquisition was used by post-World War II new town planners in both Scandinavia and Great Britain. These planners recognized the concept that the economic feasibility of lower income housing depends largely upon minimizing the costs of land.\* In this respect, one of the major problems of new town planning has been that the mere announcement by government of a plan for urban expansion or new construction itself causes land values to increase.

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\* Perhaps one of the best examples of the failure to recognize the principle that for very large scale development land acquisition had to be at a low price, was the U.S. experiment with new town development in the mid-1960s. During this period, the U.S. government encouraged, through loans for land acquisition, infrastructure and housing, the development of new towns as a cure for urban sprawl of large central cities. The results of this national program were not successful. Relatively few new towns prospered. Despite obtaining loans at below the market rate, the carrying costs of land and improvements created such an economic debt for the new towns that they were unable to produce housing at market cost. An example of fairly successful new town development is provided by experience in Israel. The Israeli new towns were, without exception, built on nationally owned land, and land costs for such new towns were zero. As a consequence, most of the Israeli new towns, from an economic point of view, have been successful.

The principal method for dealing with new town land acquisition, therefore, involved evaluating land at the pre-development market price. This strategy enabled new towns to provide a substantial amount of housing for lower income families, who could no longer afford housing in central cities or in private suburban developments. It also prevented the previous landowners from receiving windfall profits at the expense of the government programs.

Nevertheless, it is important to note that with the exception of the British\* and Swedish\*\* new town experiences, the concept of determining land value for government acquisition based upon its prior use has not been accepted in any of the other developed countries. Although this technique is economically attractive from government's point of view, it has not been widely used primarily because it adversely affects private land ownership and consequently does not receive widespread public support.

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\* This method of land acquisition was eventually abandoned in England.

\*\* The acceptance of this method of acquiring land from the private sector may in part be explained by the socio-political climate of Scandinavia. In Sweden, significant government involvement in the marketplace is acceptable. Acceptance of below market prices for privately owned land by government for public purposes such as new housing is just such a case.

## V. THE PROCESS OF CHANGING LAND VALUES AND ITS IMPACT

### A. THE IMPACT OF RISING LAND VALUES ON LOWER INCOME HOUSING

One of the central concerns of public land acquisition is the price of land for future urban housing projects. In the LDCs, where per unit housing costs have to be kept as low as possible, land costs account for a very high proportion of the total shelter cost. Land costs are themselves made up of two components: the cost of the raw or unimproved land and the cost of improvements.\* Typically, 50% of the total shelter cost is attributed to these costs. The cost of the improvement, which consists generally of professional fees and the construction costs of the improvements themselves, are usually fixed due to the necessity of having to meet basic health and safety standards. For example, one can only reduce the quality and cost of such improvements as water systems and roadways, to a point at which certain basic minimal standards of health and safety are met, and no further. Therefore, of the two components which make up the cost of improved land, only the cost of unimproved land itself is flexible. Thus, the price of unimproved land becomes an essential component in determining the total shelter cost, and this in turn determines the feasibility of such projects.

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\* Improvements refer to the basic infrastructure, such as roadways, water supply and sewer services which make the construction of housing on the land possible.

In summary, it is essential that the cost of the unimproved land be maintained at as low a price as possible in order to make housing projects economically feasible. This chapter will deal with those issues which determine the price for raw land, and the extent to which government can influence the cost of such land.

Throughout countries with free market or mixed economies, the phenomenon of a rapid increase in the value of agricultural or vacant land which is subject to increasing pressures of urbanization, has become a major inhibiting factor in undertaking successful shelter sector projects. Such rapid and substantial increases in price seem to be the norm.

For example, in the United States, land which is actively used for farming at the outer edge of a growing metropolitan area, which is both suited and clearly in the path of development, may have current values which range from \$20,000 to \$40,000 per hectare. As urbanization and development proceeds and more land closer to the edge of the metropolitan fringe is consumed, this land on the outer edge begins to take on a changing character. Local land use controls change, highway programs provide access from the metropolitan area, and other public infrastructural and policy changes bring this land within the sphere of urbanization of the metropolitan area. When such activities occur, the typical price for farmland or

vacant but suitable land increases to between \$50,000 and \$120,000 per hectare. Relative increases in the price of such land is reported under similar conditions in less developed countries.

B. INCREASING LAND VALUES AND THEIR EFFECT ON GOVERNMENT ACQUISITION POLICIES

This phenomenon of rapidly escalating land values in the process of converting undeveloped open land into urban land has two important impacts on the development process. First, it has created arguments as to whether such rapid escalation in land values is justified. While in some countries, land acquisition policies are based upon acceptance of the increases in land prices, in others policies are based upon the view that such price increases are not justified. Secondly, in both developed and lesser developed countries, there is substantial debate as to whether land, as an important component of shelter, should be treated as a commodity subject to the laws of supply and demand. This section will attempt to outline some thoughts on those two important issues.

The limited existing body of literature on changing land prices due to circumstances of intensive demand have generated two opposing schools of thought. One school of thought

maintains that such increases in land values are not economically justified. In fact, the obligation to pay for such land at the increased value is viewed as a form of exploitation, irrespective of whether the owners of such land are a privileged class or whether they are merely farmers who happen to be in the right place at the right time. Compensation for land at its increased value is seen to be contrary to the national interest in respect to urban development. In countries where such a view predominates, the price of land acquired for public purposes has been set at the market price preceding the intended change in land use, i.e. prior to the advent of urbanization. The objective of such programs is to pay that value for land established before government activity gave rise to its increase. In countries where land cannot be acquired at the pre-existing market price, then programs are established which compensate for having to pay for this increase in value. The program provides for payment of land by means of a long-term debt. Due to the factor of a high inflation rate in many of these countries, repayment with low interest rates on that debt diminishes the value of payments over time. In this way, whatever increases in the value of land may have occurred are negated by the diminished value of the debt payments.

The opposing school of thought, that the rapid increases in values are justified, recognizes that vacant land adjacent to

urban areas is a scarce commodity and that the increase in value of that land justifiably reflects that fact. Another justification for the rapid increase in land values may be seen through tracing the history of ownership of a particular parcel of land. Typically, land is held by its owners for substantial periods of time before being converted to urban uses. In holding such land for a long period of time, the land owners have little, if any, economic return from that land whether it is used for agricultural purposes or if it is vacant. Therefore, the rapid increase in value from agricultural or vacant land to urban land reflects the delayed return on investment of such land.

In the case of the LDCs, land ownership is often seen as one of the few "safe" investments available to most citizens due to the fact that they do not have access to the more stable overseas capital markets. In young and volatile economies, land ownership is one of the few havens for investment capital or surplus earnings. Therefore, it is argued that the price of land taken for public purposes must reflect the fact that it is not merely a commodity but a source of capital. The result of such thinking is that public acquisition programs must pay for current market values.

C. WHY LAND VALUES CHANGE IN THE PROCESS OF URBAN DEVELOPMENT

What follows is an examination of how land values change and the most important ingredients in that process. In looking at this process, an attempt will be made to determine whether or not the land needed for urban development can be made subject to the laws of supply and demand. Finally, whether or not those economic laws offer an opportunity for reducing land costs for shelter projects in the LDCs will be discussed.

In most instances, land at the periphery of growing urban areas is used for agricultural purposes. Prior to the onset of development, such land typically has very low price, especially in relative terms. The reason for such a low price is in the way in which agricultural land is used and valued. When evaluated in monetary terms, the value of agricultural land is based on its residual value. Although somewhat simplistic, the following describes the way in which agricultural land is valued. First, a determination is made of the annual value of the agricultural yield of such land, i.e. the gross proceeds. Then the costs related to production are deducted from the gross proceeds. This usually includes the costs of seed, fertilizer, machinery (if any) and, of course, the value of the farmer's own labor. Next, some value for profit on the total farm investment will be deducted. The difference between the cost of production and the gross

proceeds is the "residual value" which represents the value of the farmland itself.

While there are exceptions, such as in the case of highly efficient or intensive agricultural operations, the residual value for land used in agricultural production, especially in technically unsophisticated agricultural production, is usually very low. For example, in the United States, when there is no potential of converting agricultural land to urban uses, the residual value of farmland is usually between \$10,000 to \$15,000 per hectare.\* When farmland has potential for urbanization within 5 or 10 years, significant changes in value begin to occur. In the U.S., such changes are usually preceded by such actions as the introduction of zoning (a clear signal that urbanization is imminent), or through major highway building proposals.

In the case of the LDCs, the announcement of future development plans, both immediate and long-term, will usually have the same impact upon land values. It is the very

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The values mentioned above are those found in the northeast United States close to the Atlantic Ocean. Here, due to market factors, farm production is fairly intensive. In other parts of the U.S. such as in the center of the country, where grain and beef production constitute a less intensive form of agricultural activity, land values for good quality agricultural land in production range from \$3,000 to \$4,000 per hectare.

perception that a change in land use is about to occur which triggers the increase in land values.

Since such land provides a site for shelter for tens if not hundreds more people than for farming, the change in value is dramatic. Even if local or national government plans indicate use of the land for limited urban purposes, landowners will perceive that the demand for new homesites and other related purposes will ultimately result in a much more intensive use of the land. The landowner's determination as to land value is based not only on the present zoned or designated use of his land, but upon the hope and expectation that in time his land will be used for more intensive purposes.

The process of change through government action in land use creates dramatically different values for the land being affected. The usual scenario of government instituted changes in land use is one of converting very low-intensive agricultural use to very highly intensive urban uses. This change in use does not occur evenly throughout the outer edges of an expanding metropolitan area. Through variations in land use regulations, the locus of roadway access and water and sewer supply, land suitable for future intensive urban use is often perceived as being in short supply. Often, the perception of shortage is as important as the shortage itself. Hence, rapid increases in values follow the process

of government sponsored urbanization and the perception of a shortage of supply.

In reviewing the history of urbanization in the U.S. over the last four decades, considerably different forces of supply and demand with respect to land have created considerably different land values. Where the forces of supply and demand have been in balance land values have been stable, but in situations when these forces were not brought into balance, the actual shortage or perceived shortages have created high land values. From experience in the United States we know that where supply and demand of urbanizing land are brought into equilibrium, the economic laws governing price work in the normal fashion.

Experience on the west coast of the United States in the last 20 years, particularly in southern California, have highlighted some of those factors causing the disequilibrium of supply and demand of land, thereby resulting in rapid increases in land values. Factors such as topography, strong local development and environmental controls, and competition for land by a strong agricultural and urban economy have adversely affected the supply of land required for urban purposes. From San Francisco to the Mexican border, the new urban region of lower California is hemmed in by the sea to the west and a series of mountain ranges and deserts to the

east. Topography has created a limited supply of land. In addition, for a variety of local and cultural purposes, the conversion process of land into urban use has been restricted by local laws and other development controls. Finally, some of the land most suited for residential development is also used for intensive agricultural purposes. As a result, only a limited amount of suitable land is available in that region and, historically, land values have reflected that fact. This situation has been compounded by the fact that the process of growth has continued almost unabated for two decades, during which time the supply of land has been restricted. The most rapid increases in land values have occurred in the last ten years due to the fact that demand had been building up in the 10-year period prior to this.

During the same period of time, a contrasting situation occurred in the so-called "sunbelt" states of the southeastern United States. Here, with no ocean or major mountains to impede urbanization, the general supply of land has been adequate to meet demand. In this region, the existing agricultural economy is not of the type which can compete for the existing land resources with urban growth. Historically, over the past 20 years, the region had seen little of the prosperity that is often associated with rapid urbanization and hence, local land use controls and government policies were often supportive of growth. As a consequence, land

values were never perceived as being an impediment to growth in the sunbelt states, particularly during the 1970s. The experience of the sunbelt states from the 1970s onward does suggest that where conditions prevail which allow for sufficient land to be brought from agricultural into urban use, laws of supply and demand do apply to land as a commodity.

Another interesting but very different example can be found in the northeast state of New Jersey. This state is a major office, research and distribution center located in the middle of the eastern seaboard development corridor of the United States. Until the second World War, the state had been a marginal agricultural area. Ample land suited for development, together with an excellent highway system, were all in place to meet the needs of the expanding New York metropolitan region. However, in the early 1960s, many local authorities concerned with the high costs of urbanization, introduced and established local land use controls which prematurely inhibited the supply of land for popularly priced housing. Consequently, in a state where large areas together with the necessary infrastructure were available, the limited supply of land zoned for popular housing rapidly increased in value. Recently, through a legal decision, local authorities have not been permitted to enact land use controls against popular priced housing, thereby causing a decline in the value of land for such housing.

From the discussion above, it is reasonable to assume that the traditional economic laws of supply and demand can and do impact land values. However, there are reasons to believe that a situation in which the laws of supply and demand operate cannot be anticipated in the lesser developed countries in the foreseeable future. Reasons for this will be explored below. If such an assumption is true, its consequences and impact on cost will have to be recognized in the structuring of land acquisition programs.

Reasons why reasonable prices for urban land cannot be anticipated in the LDCs, particularly in the near future, will now be discussed.

D. THE IMPACT OF SUPPLY AND DEMAND ON LAND VALUES IN THE LDCs

For supply and demand to impact land values, supply must not only be adequate, but must also be perceived by the consumers of such land as being adequate. An underlying premise of this perception is that the supply of land at locations appropriate for urban purposes is adequate. Given the sensitivity of the marketplace to any perceived shortages of land, only a substantial and visible supply of urban land will be effective in maintaining reasonable price levels.

In LDCs, a number of factors make such a perception unlikely, and therefore it is also unlikely that prices for urban land can be established and maintained at reasonable levels.

One factor prevalent in almost all LDCs is the extremely rapid rates by which urban areas grow as a result of the natural increase in population and in-migration from rural areas. Most of such growth must be accommodated through fairly low density shelter housing due to the fact that such housing is less costly and also more culturally acceptable to the new urban immigrants. Consequently, large quantities of land are needed to accommodate the new population. At the same time much land which may be suitable for growth lacks the necessary infrastructure for urbanization (such as roads which connect residential areas with employment sectors), and thus prevent such land from being urbanized.

Prior historical development and locational factors of cities in LDCs may also adversely effect the supply of land for urbanization. Many major LDC cities were originally established as seaports during the colonial era. In such cities, growth cannot be accommodated along the entire periphery because one side fronts directly onto a major river, lake or sea. Instead, growth is limited to a fairly small periphery in which the supply of land suitable for urban growth is limited. Compounding the problem are other physical impediments to the expansion of such cities. Such impediments include land which

is subject to flooding or tidal actions, or which contains fairly steep hillsides which further impedes growth.\*

In addition to these natural and infrastructural problems are other problems related to obtaining an adequate amount of new land for urban growth. This problem consists of three major components. One is the obvious problem of having the adequate funds with which to acquire available land. Another is having the administrative and manpower resources necessary to carry out such acquisition. Finally, there are political and social impediments related to land acquisition in such countries.

Under present economic conditions, it has to be assumed that virtually none of the LDCs will, with or without the assistance of international lenders, have sufficient economic resources available for acquiring that amount of land necessary for accommodating urban growth. The economic resources necessary to acquire that amount of land are simply not forthcoming. Furthermore, as often pointed out in the

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\* Very good examples of this problem can be found throughout the Caribbean basin. In Barbados, the central city of Bridgetown is a seaport. Most of the urban growth has had to be accommodated in the very limited lowlands to the north and west of this capital city. An extreme example is the capital seaport city of Roseau in Dominica, which is located on a very limited level area facing the sea. All future growth must be located on the steep hillside surrounding that city, which is expensive to develop.

existing literature on the subject, most of the governments in the LDCs (and many of the developed countries, for that matter) must out of necessity use their limited resources to fulfill the short term national goals. Therefore it may take years, if not decades, for the necessary financial resources to be obtained and allocated to meet both the current needs of land for growth as well as to catch up with the cumulative shortages of land, built-up over a long period of time. At this point, it is unreasonable to assume that an adequate supply of land necessary to accommodate urban growth can be obtained, short of instituting a program of condemnation without compensation, something which is most likely politically unacceptable. Even under such a scenario, the problem of acquiring sufficient funds necessary for infrastructure still remains. Administrators and planners for both international lenders and the administrators of national development programs may have to accept the notion that based upon current financial resources, it is unlikely that a sufficient supply of land can be made available to have a direct impact on the price of land.

E. IMPEDIMENTS TO LAND ACQUISITION IN THE LDCs

Even in rare cases where the demand for land is not extensive and the needed land is present, and where funds or other methods for acquiring land are available, another problem,

that of "processing" land acquisition, may act as a further impediment. This is a problem which many developed countries have experienced in the last few decades.

Since World War II, experience in the United States at the national level provides two examples of the problems associated with the process of land acquisition. These two examples are the interstate highway system program and the major urban renewal programs in which large scale urban land acquisition was required. Both experiences indicate how difficult and time-consuming this process is. In almost every case the acquisition of land for public purposes took longer than initially projected. The timely processing of land acquisition was inhibited by the necessity of determining the fair market value of land, and in so doing avoiding the inherent potential for corruption in such transactions.

In the LDCs, the administrative process of land acquisition is further curtailed by the shortage of trained personnel necessary to carry out the process of land acquisition. Not only is there a severe shortage of professionals trained in the science of land evaluation and appraisal, but any new program requiring the reallocation of manpower resources for this purpose usually has an adverse impact upon other essential programs which require these same professionals. In addition, personnel with specialized legal training in the

process of land transfers are required. The process also requires that an effective system of identifying and recording title to land has to be established. Experience in the U.S. has shown that it takes a substantial number of years to establish a sufficient quantity of personnel to operate this system.

In the LDCs a final problem to be dealt with are the political and cultural problems related to land acquisition. As the existing literature points out, often those who own large amounts of land also wield considerable political power. For such people, continued control over land may have political as well as economic ramifications. Both the international lender and the national developing agency must anticipate significant political problems of transferring land owned by the powerful and wealthy into public ownership. Undoubtedly, the ultimate price paid for such land as well as the amount of time needed to carry out the process of acquisition will reflect such a problem. While land in developed countries may have important cultural values, such values are usually not a serious impediment to acquisition. For example, in the United States, when a family-run farm is condemned for public purposes, a very good opportunity usually exists for an equally attractive farm to be acquired elsewhere.

Thus, the strong attachment to land felt by present owners can often be overcome by the availability of other reasonably priced lands elsewhere. In the LDCs, attachments to land may be historically-based, and the land itself may hold important cultural values to its owners. In these situations, other parcels of land equally suited for farming may not be an adequate substitute, even where adequate compensation is made for acquiring such land.

F. IMPACT OF THE IMPEDIMENTS ON LAND ACQUISITION IN THE LDCs

Given the amount of resources available and the multitude of problems associated with land acquisition in LDCs, the operation of the laws of supply and demand cannot be relied upon to establish "reasonable" prices for land. While it would be pleasant to contemplate that programs of land acquisition can reasonably control price through adequate supply or a regulation of demand, the impediments discussed above clearly indicate that this would be wishful thinking. Therefore, it must be recognized as a basic tenet of land acquisition programs in LDCs, that public land acquisition will take place in a climate of shortage and such shortages will be reflected in the price paid for such land.

## VI. MAJOR ELEMENTS OF A BANKABLE LAND ACQUISITION PROGRAM

Based upon our existing knowledge of land acquisition for lower income housing, it is possible to identify elements necessary for a successful land acquisition program. Since an underlying assumption is that a land acquisition program would be established on a loan basis, the program must be designed so as to be acceptable to lenders as well. The program should be directed towards minimizing risk. Both the short range and long range elements of such a program are described below.

### A. SHORT RANGE ELEMENTS OF A LOCAL PROGRAM

For the first project to be successful, a number of conditions must be established. First, a suitable site for the proposed project must be identified. At the same time, the shelter project itself must be designed so that as soon as the land is acquired, the project may proceed. The project itself should provide shelter for lower income families.

#### 1. LAND ACQUISITION PROGRAM IS ESSENTIAL FOR HOUSING

The proposer of such a program must be able to demonstrate that there is no public land available for the specific project in mind and that the only alternative is for the public sector to acquire privately owned land. Where no public land is available a compelling case has to be made

by the proponents of the project to the donor that local budgetary constraints make land acquisition impossible. It must be shown that without outside assistance, an important project cannot be undertaken.

2. THE PROGRAM SHOULD HAVE A HIGH PROBABILITY FOR SUCCESS

To increase the chances of its success, the project should be part of an established government housing program which has a history of successful, on-time implementation. The funds necessary for the actual production of the infrastructure and the housing should either be in place or commitments for those funds should have already been obtained. Related infrastructure elements such as highways, water and sewer and other necessary community facilities, if not part of the project itself, must be identified and be reasonably assured of being available at the time the project is undertaken. Finally, the overall time schedule from the start to completion of the project including land acquisition, the necessary infrastructure and the production of the housing itself, must be reasonable. Thus the first project should not be unusually large; it should be established at a location which avoids any unusual problems with respect to land acquisition, and to development and infrastructural improvements.

The objective of the project is to ensure from the outset, a high degree of success. It is equally important to the land acquisition program as it is to the project itself that the entire scheme be completed successfully and within a reasonable time schedule. If the first of such projects fails, not only will it be detrimental to the project itself, but will also be detrimental to the idea of including land acquisition as an acceptable and necessary component of land development.

3. THE PROGRAM SHOULD HAVE STRONG LOCAL POLITICAL SUPPORT

Strong local political support for land acquisition is an important element in negotiating for such a loan. The project must have a high level of political support and the quality of support should be sufficient, in extent and intensity, to overcome the anticipated political problems related to the acquisition of land. The proposed project should not generate confrontations on either cultural or environmental grounds. As an extreme example, no international lender would be associated with an acquisition program which involved such developments as the new Tokyo Airport or the extension of the runway at the Frankfurt International Airport. In both cases, the proposed land acquisition resulted in major confrontations with local groups over cultural and environmental matters.

It would be important to international lenders that the existing local development institutions be available and committed to administering the land acquisition program. The assumption of so new and difficult a task can only occur with substantial local political support. To establish a new institution within the development structure of an existing government would only result in the kind of political problems which a lender would be reluctant to confront. Furthermore, since the acquisition program will require a substantial legal commitment, it will be necessary for the high level political interest to ensure that there will be adequate mutual cooperation between the local legal agency and the development agency. In this regard, a climate for introducing legal reforms necessary for making land acquisition possible, has to be established.

B. SHORT TERM CONCERNS OF THE INTERNATIONAL LENDER

An important concern of international lenders will be to create a test case in order to examine and study the process of land acquisition, and build up some knowledge of this process.

## 1. OPPORTUNITIES FOR TECHNICAL ASSISTANCE

Recognizing that some difficulties may arise from the first land acquisition programs, the lender will seek an opportunity to test the program where both the technical assistance and prior experience of the lender will be accepted. AID, for example, would want to play a role in determining the appropriate approach and values connected with an acquisition program early in the process. In anticipation of such assistance, AID has already designed a program which facilitates land acquisition. This program, entitled Land Assessment Guidelines, produced by the Patco Corporation under a contract with AID, is designed to produce a framework in which land acquisition can be evaluated and undertaken. In addition to contributing to the initial programs of land acquisition, it is also important for the lender's technical staff to learn and understand from first hand experience some of the problems associated with land acquisition.

An important area of technical assistance is the framework in which the lender can help to improve local land acquisition law, procedures for acquisitions and help establish the institutions necessary for their implementation. One of the most significant factors which will help to reduce the risk involved in large scale

acquisition will be the quality and structure of the legal system which carries out this process. Since a substantial body of legal knowledge and skills have already been developed, particularly in the U.S., and such materials are often readily transferable, this area of technical assistance may be extremely useful.

One of the particular problems of land acquisition that has been reported in the literature concerns the existing LDCs legal systems. Most of these legal systems are based on the common law systems of the colonial powers who settled there during the nineteenth and twentieth centuries. These legal systems cannot accommodate the large scale land acquisition programs that are necessary today. In the last 20 or 30 years however, the developed countries have evolved legal theories, institutions and methodologies for large scale and rapid land acquisition.\* Since the legal foundations of many LDCs is the same as those of developed countries, transfer of legal systems for coping with land acquisition could be accomplished through technical assistance and education.

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\* One example of such an innovation is the use of a 'quick take' condemnation. This procedure allows a taking to occur, a preliminary award to be made and then after the actual transfer of the deed, a final determination of value. This quick take method allows government to use the land long before the last court procedures have been completed.

Finally, an overriding concern of the lender on the short term basis will be the general goals of the acquisition program. The key goal will always be one where the land to be acquired is for specific, viable projects which can be completed on time. What lenders may not find attractive are long term land acquisition programs directed towards land banking. At the present time, such long range objectives are beyond the scope of available resources. In addition, the technical and practical knowledge as to how they can be accomplished in an effective manner is presently lacking.

C. LONG TERM CONCERNS OF THE INTERNATIONAL LENDER

In the short term the lending community is interested in resolving current financial problems related to land acquisition. From a long term perspective the objectives are twofold. One objective is to assist the recipient LDC in restructuring its national capital budget to include future land acquisition as a function of the national budget and national development institutions.

A second objective will be to accomplish local self sufficiency with respect to land acquisition. In this regard, the lending institutions will have an interest in the development of institutions which can plan and budget for future land resources.

Finally, through technical assistance, the lending institutions will have an interest in assuring that land acquisition programs in the LDCs can be carried out on a self sufficient basis.

## VII. POTENTIAL ROLE OF INTERNATIONAL LENDERS IN LAND ACQUISITION

Assuming international lending agencies both recognize the need for land acquisition programs and are willing to finance these programs through underwriting loans, there are a number of important responsibilities that the lending agencies will have to assume.

The first is the transfer of the economic resources required for land acquisition. These resources, in the form of hard currency loans, have a wider and more important effect than that of solely acquiring the land needed for specific projects. The second is the transfer of experience and technical assistance from the developed countries or international lenders to the LDCs. The third responsibility is that of introducing a third party in the land acquisition process (the lender), who can have an important effect upon the sensitive political aspects of land acquisition. Each of these will be discussed below.

### A. TRANSFER OF NEEDED HARD CURRENCY

The strong currencies which may be transferred to an LDC in the process of a land acquisition loan will have a number of potentially important beneficial effects. The most obvious and immediate is that the use of foreign currency to acquire land for housing will, in many instances, allow much needed

housing to be produced. With respect to time, the housing funds that other international lenders have allocated will be put to use on a more immediate basis. We anticipate that in the absence of a land acquisition program and funds for such a program, substantial funds allocated for housing development and infrastructure loans may not be promptly utilized due to the absence of sites which are ready for immediate development. With funds for land acquisition, national economic plans which rely upon international housing funds may then be implemented on a timely basis.

One of the historical reasons that land acquisition has not been a part of international development lending is the view that local land transactions do not increase or facilitate international trade. Such a conclusion, this paper contends, is not valid. Any foreign currency transfer, whether utilized for bricks and mortar to build housing, or used to pay for housing sites, builds and furthers international trade.

Finally, the sustained use of long term hard currency loans for housing development and related land acquisition are important in strengthening local institutions. Without committed resources, land acquisition in a LDC cannot succeed. Moreover, an agency can develop and be strengthened only when it has at its disposal sufficient financing to carry out its mission.

B. IMPORTANT OPPORTUNITIES FOR TRANSFER OF KNOWLEDGE AND SKILLS

As suggested throughout this paper, the experience with land acquisition in the developed countries of the world has been neither smooth nor simple. While the methods used for land acquisition in North America and Europe are not necessarily the best or the most efficient, the very substantial body of knowledge developed through experience can be highly useful to LDCs. In the United States, for example, there are a number of periodicals and professional organizations which deal exclusively with this specialized activity.\* At the university and professional levels, there are a variety of professional training courses, both in short and long term public land acquisition, designed to train public and private sector personnel to carry out various roles in the arena of public land acquisition. From an educational point of view, the utilization of experience in the field of land acquisition in developed countries can save a very significant amount of time and help to avoid potential mistakes that can occur in the development of institutions for land acquisition in the LDCs.

At an operational level, assistance in the field of land acquisition for publicly-assisted housing could be enhanced by drawing upon this body of experience and by including some of the following components. First, personnel trained in land acquisition, both on the administrative and technical levels,

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\* For a list of these see Selected Bibliography at pp. 56-58.

could be made available to the borrowing LDC. Operating methods developed by local government could be reviewed and in many cases adapted to fit the needs of similar LDC institutions. By making administrative procedures used in the lending countries available to the LDCs as outlined, local institutions can be developed in shorter periods of time than would be otherwise possible.

C. ASSIST LOCAL DEVELOPMENT AGENCIES IN THE POLITICAL ARENA

Lending agencies should investigate the possibility of working at higher governmental levels and political structures in the land acquisition program. In many instances, the international lender is in a better position than local administrators and technicians to work with the existing national or regional governmental and political structure in building the necessary institutions and training the personnel required for land acquisition programs. This role would be particularly useful for housing programs for low income families. The international lender can help to demonstrate to local governments that land acquisition, in combination with the appropriate institutional structure, is essential to providing shelter for the lower income population.

A major concern of international lenders is that of corruption with respect to land acquisition transactions in LDCs. Based

upon the experience in the more developed countries, this concern is not ill-founded. In the developed countries, in some instances, some people with access to inside information of future government acquisition plans have used such confidential information for their own personal gain.

Another source of concern relates to the process by which a fair and reasonable price for land which is taken from the private sector for public purposes is established. Once again, the concern of international lenders with regard to the potential misuse of funds for land acquisition is not ill-founded. The lender institutions, however, can play an important role in dealing with this special problem. Lenders have special standing for treating the problem of corruption and misuse of funds which local institutions may not have. Local governments are especially concerned that lending programs, through international lending banks, be accomplished in an effective and efficient manner in order to maintain a good relationship between borrower and lender. This concern can be utilized by the international lenders in land acquisition programs in dealing with the potential misuse of public funds.

Precedents have already been established for international lenders to oversee the implementation of local projects. Since land acquisition is an important and visible part of any

project, local borrowing institutions are likely to be agreeable with regard to this role. Finally, because the process of land acquisition involves highly specific values, it lends itself to just such an arrangement. In exercising the supervisory responsibility, the international lender can make a significant contribution to improving the process of land acquisition.

## VIII. APPLICATION OF PRIVATE SECTOR LAND ACQUISITION TECHNIQUES IN THE LDCs

As already suggested in this paper, there are individuals and organizations in the private sector who have developed successful techniques for acquiring land in the complicated and risk-prone real estate market. Understanding such techniques may well provide some lessons for similar ventures in the LDCs. While assuming the same degree of risk may not be suitable for governmentally directed activities, some of the methods used by the private sector may be suitable for government directed acquisition programs. It may also be possible and even desirable, that in certain instances the private sector be utilized directly as an agent for large scale land acquisition. A brief description of the principles utilized by the private sector in the U.S. in large scale land acquisition programs follows.

An important concept of the private land developer is that no one piece of land (with the exception of in-city sites) has all the attributes of a perfect site for housing development. However, a large number of land parcels may contain at least some of these attributes. Since land for residential development generally consumes 50-70% of the total urban area, a great number of land parcels may be seen as suitable for residential development. In acquiring land for intermediate residential development, those in the private sector will evaluate the suitability of and negotiate on many parcels of land simultaneously. This makes land far more susceptible to the laws of supply and demand than when a single

piece of land is the sole subject of an acquisition program. By conducting a multiple acquisition program, the private sector is able to determine what the realistic market for land at a particular point in time is and is thus more likely to find that seller who, at that particular point in time, has the greatest incentive for completing a transaction. Basically, by looking at a region for land rather than at a particular parcel, the private sector land buyer will induce greater elasticity in the equation.

For rural land at the periphery of an existing urban area, the private sector uses two means of acquisition. These two methods are related to the initial purchase price and anticipated holding term for the particular parcel of land. The first method, when land is bought outright, is undertaken with two considerations in mind. First, that the acquisition price reflects the current and future carrying cost of such land. This technique is often employed when active farmland is purchased for long term holding purposes. The second circumstance in which land is purchased outright is when the sales price of such land is sufficiently low to be suitable for long-term holding purposes.

The second method of land acquisition is the purchase of rights or options to buy land at some later period of time. Frequently, the cost of such rights (which are in reality are a number of options under which the buyer may purchase the land) is related to the present owner's carrying costs of such land. Since the principal

carrying costs for land, at least in the United States, are taxes, the annual cost of the option may well be less than five or ten percent of the current value of such land. In order to make such a transaction attractive to the landowner, the future acquisition price is set significantly higher than the current value. By employing the use of options to acquire land, a land buyer is able, with a limited amount of resources, to control far more parcels of land than if he employed the technique of outright purchase. Since there is a high degree of risk in determining the future use of the land, this methodology can help to reduce risk by controlling many parcels of land simultaneously. In addition, the use of the option allows the buyer to drop a particular project when it becomes apparent that the parcel is not suitable for development. The use of options are generally employed for intermediate periods of time, say from two to five years. Normally, since land values increase rather rapidly just prior to use, the cost of the options plus the premium on the site itself, are usually compensated for by the rapid increase in the site's value.

Another practice employed by the private sector is to attempt to change the permitted use of land which has either been purchased outright or is under option. While there are fairly significant costs involved in the process of obtaining higher use through zoning, the risks involved in such expenditures are often fully compensated for by resulting in a significant change in the types of uses permitted on the parcel.

Where land acquisition for future residential developments are an important part of a national housing scheme, these as well as other methods of land acquisition by the private sector may well have useful application. It is apparent that the public sector can undertake programs utilizing some of the above techniques.

## IX. FUTURE PROSPECTS FOR FINANCING LAND ACQUISITION BY INTERNATIONAL LENDERS

Based upon our knowledge of the problem of land acquisition for residential development in the LDCs, it is reasonable to forecast that prospects for loans which include land are good.

We believe that LDCs and their development agencies, will find that land availability has become a major impediment in undertaking large scale housing development projects. Since international lenders have already established housing as a priority within the overall national development scheme, it is understandable that impediments to the efficient execution of such projects will receive increasing attention. It is therefore likely in the near future that there will be increasing pressures to provide land for residential development through the process of international assistance.

Currently AID, as one international lender, is considering land acquisition in connection with housing developments in Tunisia and Thailand. If such projects are actually brought to a successful completion, they will provide a precedent for other donor agencies. If successful, such examples are likely to receive international attention, encouraging other countries and lenders to undertake similar efforts.

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