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His current work examines urban land markets in formal and informal settlements in Latin America, and he is coordinating two large research networks: *INFOSOLO*, comprising nine universities and various state and municipal governments, focusing on the study of informal urban land use in Brazil; and *INFOMERCADO*, which links researchers who study the land economics of informal settlements in Argentina, Brazil, Colombia, Mexico, Peru, and Venezuela. Abramo has published extensively in the field of urban economics, including two award-winning books among the nine he has edited or authored and a long list of articles.

Abramo earned a B.A. in economics from the Fluminense Federal University in Brazil, an M.A. in urban and regional planning from the Federal University of Rio de Janeiro, and a Ph.D. in economics from the *École des Hautes Études en Sciences Sociales*, France.

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Pedro Abramo

LAND LINES: *What is the focus of your current research with the Lincoln Institute?*

PEDRO ABRAMO: My research aims to understand the economics of informal urban settlements, especially long-established, consolidated communities and their relationships with formal real estate markets. I have been working on this theme for a number of years in Brazil and in other Latin American countries, and now collaborate with a network of researchers who are also affiliated with the Institute. These empirical studies have produced many counterintuitive findings that contradict widely held beliefs about informal settlements (*favelas*).

For example, it is often thought that informal settlers are a fairly homogenous group in their socioeconomic characteristics. In fact, the opposite is true. The socioeconomic composition of the *favelas* is more heterogeneous than that of formal neighborhoods, in terms of household income as well as ethnic, religious, and cultural background. Another common belief is that *favela* families are for the most part stable, long-term residents, suggesting that there is no active land market in such settlements. When we compare property turnover rates in formal and informal neighborhoods, however, we find higher turnover rates in almost half of the *favelas* analyzed. Research findings also show that residential mobility in and out of *favelas* is associated with socioeconomic mobility and with the functioning of land markets.

LAND LINES: *How do informal settlers value land in the favelas?*

PEDRO ABRAMO: One would expect land values among *favelas* to be associated with values in nearby formal neighborhoods. Thus, a *favela* located closer to a high-end neighborhood should command higher land values. Surprisingly, we found no such correlation. Instead we found that the social assessment system used to value informal settlements is quite different from that used in formal neighborhoods.

The *favela* is seen as having strong community externalities, with active social and reciprocity networks playing a critical role. Another unique aspect of the *favela* is the relative freedom in how to use the land and build one's own house, an attribute that is highly valued. Land prices reflect the influence of these externalities, so the land price gradient for the formal and the informal parts of the city are quite different and discontinuous. We have also found striking differences in land prices between formal and informal neighborhoods, and in particular surprisingly high land prices in certain otherwise poorly located informal settlements. These findings reflect the fact that the attributes used to value each of these types of settlement are not ordered in the same land price gradient continuum.

LAND LINES: *Do most favela families own their land?*

PEDRO ABRAMO: No, but the *favelas* have a very active rental market. In Rio de Janeiro, rental properties in informal settlements grew by approximately 30 percent over the last five years, and similar trends were observed in several other Latin American cities. This activity reflects the persistence of urban poverty and population pressure, combined with the fact that outright land occupation, which was common in the past, is no longer a viable option in most cities.

LAND LINES: *How does the favela rental market operate?*

PEDRO ABRAMO: Interestingly, rents in informal settlements can be higher, in relative market prices, than rents in formal neighborhoods. There may be two explanations for this finding. First, the formal rental market has requirements that many informal sector workers cannot meet, such as a steady job and/or a steady income, and a guarantor who is a property owner in the formal market. Those unable to meet these requirements are diverted to the informal rental market, where the added demand accelerates the production and price of rooms for rent and lot subdivi-

sions for building additional rental units. The second reason for the expansion of the rental market, especially in consolidated informal settlements, is their proximity to employment opportunities. The informal rental market is the only alternative for lower-income workers seeking to avoid long commutes from the city fringes to their workplaces.

LAND LINES: *What other features distinguish the favela and the informal economy?*

PEDRO ABRAMO: There are many examples of the complex rationality that drives the economic behavior of the *favela* dweller. The building materials industry is a case in point. Although self-help construction is an important segment of the demand for building materials, the materials sold in informal settlements fetch higher prices than elsewhere in the city, and the wages of construction workers also are higher. To compensate for these price distortions, families use progressive and mutual help building techniques, phasing the building process according to their capacity to pay, and mobilizing family and friends as part of a reciprocity network.

The prices of food and other goods also tend to be higher in local stores than in nearby formal neighborhoods. Nevertheless, families in informal settlements continue to buy from local vendors because they gain access to informal credit and the benefit of proximity. As a result, informal settlements offer far more than residential options. Many have vigorous commercial activities ranging from funeral houses to Internet cafes, major fast food chains, and branches of banking agencies.

LAND LINES: *Does insecure tenure in the favela affect land prices?*

PEDRO ABRAMO: Land prices apparently are not as affected by the lack of formal property titles as was previously thought, because tenure is not seen as insecure; in consolidated informal settlements property title is not a priority for most families. Property rights are seen as legitimate once a family invests in the property and occupies it over a period of time. Given this customary property rights concept, we would not expect prices to rise if property titles were issued, but this is a hypothesis that still needs to be more thoroughly test-

ed. It is possible, however, that the process of land title regularization and enforcement of urbanization standards in informal settlements may be a negative externality for the residents, because such a change would eliminate the freedom to build and divide lots, which represent a very important asset for the families involved.

LAND LINES: *Do you mean that government programs to upgrade informal settlements may have detrimental effects?*

PEDRO ABRAMO: Preliminary evidence suggests that the effects on land prices of government programs to regularize tenure and introduce higher urbanization standards in consolidated informal settlements are rather modest because prices are already at the top of the affordability threshold of their clientele. In the short run, the “announcement impact” causes a speculative reaction that inflates prices in the expectation of a better habitat in the future. But in the medium and long run, prices tend to fall back to preprogram levels or, if the improvements made were in fact significant, stabilize at a slightly higher level.

The same is not true in new informal subdivisions where the prospect of basic services provision has a significant effect on land prices. The anticipation of infrastructure modifies the marketing strategy of the informal developer, who capitalizes the future betterment in the lot price and acts as a futures trader. Such developers operating in the periphery of Latin American cities realize large profits, and land prices remain high in the short and medium term, whether infrastructure provision takes place or not.

LAND LINES: *What are the most critical issues to be addressed in further research?*

PEDRO ABRAMO: Our work suggests that we don’t know enough about several important linkages and discontinuities between the formal and informal urban land markets, especially the policy implications of increased competition as these markets intersect and the potential for integrating the informal areas into the urban fabric. Another important issue is to better understand how and why the informal market often provides the most realistic and rational option for low-income families,

even when formal alternatives are available. This also has important policy implications as it affects the sustainability of both public and private alternatives provided in the formal market for low-income families. In particular, we need to understand the role played by tacit norms and the alleged land use flexibility provided by informal land markets in Latin America.

LAND LINES: *What informal land market indicators should we be paying attention to?*

PEDRO ABRAMO: It is fundamental to develop and test indicators that increase the visibility of key attributes relevant to the functioning of these markets. For example, indicators of property turnover, the origin and destiny of the parties involved in the transaction (i.e., family relocation patterns), and the attributes contributing to price variations directly address the essence of these active informal markets.

To construct these indicators requires a great deal of raw empirical data, but the results fully compensate the costs of collecting and analyzing such data, given the need to dismiss myths and guide urban policy for the poor. I’m also convinced that—given the magnitude of these settlements—the research on the functioning of informal land markets is actually indispensable to understanding formal land markets and ultimately how Latin American cities are currently being produced.

LAND LINES: *What are the main difficulties in gathering information about informal land markets?*

PEDRO ABRAMO: There are many stories on this topic and one could write a complete fieldwork guide about it, as anthropologists do. Applying survey questionnaires in informal settlements is not an easy task and is often performed under stressful conditions. We have found that success in—if not the actual ability to perform—field work in the *favelas* requires working closely with local leaders and having them escort researchers during the data collection. Some of the indicators that our research produces expose fear and suffering. At the same time, they reflect the enthusiasm of a research team that is sure their work will, somehow, help improve the living conditions of the urban poor. 