

**Vacant Land in Latin America:  
Challenges and Opportunities**

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**Lincoln Institute of Land Policy  
Working Paper**

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## **Abstract**

### **Vacant Land in Latin America: Challenges and Opportunities**

*Vacant Land in Latin America: Challenges and Opportunities* is based mainly on the “International Seminar on Urban Vacant Land: New Challenges and Opportunities” held in April 1999 in Rio de Janeiro, jointly sponsored by the Lincoln Institute and the City of Rio de Janeiro.

The problem has been under discussion since 1999 at courses and seminars sponsored by the Lincoln Institute, which has enriched and fine-tuned our understanding of the issue.

Publication of the book *Vacant Land in Latin American Cities* by the Lincoln Institute of Land Policy in 2002, in which editor Nora Clichevsky selected articles analyzing the problem in five Latin American cities, has been an invaluable contribution to and source of some comments contained in this report.

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# Vacant Land in Latin America: Challenges and Opportunities

## 1. Introduction

### Vacant Land – Why is it a Problem?

Vacant land, brownfields, vacant lots, idle land, land being held by speculators ... the names can be as many as the types, sizes, locations and reasons why some urban lots remain idle, or why they are not explored to their fullest potential, making it difficult to arrive at a single definition. In fact, there is a variety of ways to interpret the origin of the status quo and to develop strategies and actions to mitigate its negative impact, or perhaps even to profit from it.

The classic approach to low-density urban growth, where areas are left vacant to appreciate thanks to public investments in infrastructure over the years, is no longer the single or primary source of vacant lands in contemporary cities. Yet vacant lots are widespread throughout Latin America and points to the poor urban planning efficiency of our cities and metropolitan areas. Vacant land underscores the disparities and iniquities in access to urban land, the stark problem of social and spatial segregation, and the impact of a deregulated real estate market on the quality of life in urban centers.

The fact that there are vacant areas, however, is an opportunity to introduce new uses, to implement development programs, and to start revitalization plans. Ultimately, vacant lands are opportunities to reorient the city fabric, growth and development. As such, vacant land is essentially a challenge, involving both public and private sectors in the implementation of plans, policies and instruments that will use such land as a resource to boost urban quality of life and social equity.

Whether viewed as a problem or as an opportunity, the attitudes of all stakeholders toward vacant land are crucial for future decisions that will have an impact on large segments of the population and will guide key public and private investments in the short, medium and long runs.

The mere fact that lots lie vacant while land is in demand for productive and/or residential purposes is in itself enough reason to encourage revitalization of areas either idle or not explored to their fullest extent in response to current social needs.

However, there is a misconception that land is plentiful, though real estate prices may be sky-high<sup>1</sup> and competition for different classes of land use flares up, making it unaffordable to the population in general. This tends to mask both an actual land shortage and the lack of land ready for urban uses, i.e., equipped with the infrastructure, facilities and services required for regular urban activities.

This situation leads to two key questions: what to do with that land for it to fulfill its social function and to contribute to the development of more equitable cities? How can

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<sup>1</sup> Smolka maintains that high property prices “feed” poverty, suggesting a reverse causality where informal land occupancy is not just a consequence, but also a cause of poverty. (Smolka, 2002).

this be achieved? In other words, what kinds of instruments are required to achieve this goal?

## 2. The Rationale for Existing Vacant Land

Historically speaking, the reason for the existence of vacant industrial land can be tied to the decline of the powerful metallurgical and shipbuilding industry. Throughout Western Europe, it left a trail of industrial “archeology” over polluted, derelict urban land totally divorced from the leading economic sectors.

Initially, governments thought that in time the problem would go away via the right kind of policies. But the problem kept growing, and the gradual phasing out of the old heavy industry did nothing to stem the spread of new vacant land. Even countries that did not experience industrial reconversion are teeming with vacant, abandoned or underused industrial lands.

As a result of urban development and of changing social agendas, uses and buildings, including the areas around them, gradually become inconsistent with new needs or simply obsolete. This leads to two alternatives: to recycle or to abandon them. Paradoxically, in an environment of rising demand and scarce resources, abandonment is practiced all too often.

The problem of vacant land is not simply a matter of supply and demand. Consideration must also be given to why land remains vacant, to the question of price versus affordability by prospective owners, and location strategies. The obvious complexity of the issue emphasizes the need for considerable networking and negotiation involving a large number of stakeholders. And this calls for strong government participation in the whole process.

When designing strategies and plans for development/use of such lands, it is crucial but far from easy to determine ownership. Legal issues concerning land tenure can be a key factor in property non-use regardless of its potential or location relative to the city. Unknown or hard to identify ownership due to poorly performed land inventories, estate issues or complex court litigation may be a hindrance to the redevelopment of a vacant area.

**The 1953 Land Reform in Bolivia distributed land to peasants on the condition that it could not be transferred, have its use changed or be dismembered. As a result, some decades later there is much vacant land of undetermined ownership, which may be public or private, since many of the beneficiary peasant organizations have disappeared (Bazoberry, 1999).**

In other instances, land is legally available complete with infrastructure and services, but no investors can be found for the development. Times of economic recession or political instability likewise contribute to a halt in urban development projects.



In Buenos Aires, there are approximately one and a half million legally owned parcels of land lying idle either because small land holders cannot afford to build on them, or because the smaller developers have been crowded out of the more aggressive real estate investment market. Parcels set aside in the 1950s for new industrial and residential sections—an expectation that failed to materialize—resulted in “leapfrogging”, and lots measuring roughly 300 m<sup>2</sup> remain idle for the most part today (Clichevsky, 1999).

Even when resources are available, actions such as site selection, design and engineering, and securing licenses and permits are time consuming, and the land may remain idle for long periods of time.

Topographical characteristics (sharp slopes) or other adverse environmental factors may pose serious constraints to the development of vacant land. Potential hazards (earthquakes, floods) or actual risks (watershed pollution by industrial wastes) are some of the reasons why large vacant areas remain underdeveloped.

Another set of environmentally based restrictions to land use is exemplified by the vast areas owned by the Ecuadorian Housing Bank in the municipality of Guayaquil. The most striking case, both for its size and location, is Santay Island, measuring 2,178 hectares and located in front of that city. The property was acquired by the state by expropriation, and has been vacant and unallocated since 1982 (Chang Loquí, 1999). In 2000 finally, after 18 years of stalemate (although city officials rated it appropriate for urban development), Santay Island was listed as an environmental protection area<sup>2</sup>.

### **3. Defining the Problem: Types and Characteristics of Vacant Land**

The expression “vacant land” might readily elicit an image of vast, undeveloped expanses of land around cities known as greenfields. However, range of possible typologies includes a variety of other patterns of different types, sizes and location in the city. Likewise, the period of time for which a parcel of land is left vacant – derelict or underutilized – has implications both as to determining the reasons for its idleness, and to evaluating its potential success as a new development. (See Table 1)

Considering land that has never been effectively developed, much of what is currently referred to as “vacant land” has resulted from changes in land use and from new city ordinances, which are often introduced according to urban development plans, altering the status of certain areas from preserved (and not available for development) to urban land (proper for building). When forecasts fail and demand estimates are not met, or when a political decision to make new urban areas available to serve some vested interests instead of to meet the practical needs of urban growth, the outcome is usually more vacant land.

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<sup>2</sup> Santay Island was the 6th Ramsar site listed in Ecuador, and 1040th in the world. It is classified as a Type I Ramsar site, intertidal forested wetlands. Though the area has undergone severe changes, it still meets the biodiversity criteria. Ramsar sites are wetlands of international importance designated under the Ramsar Convention signed in the city of Ramsar, Iran, in 1971.

The phenomenon is not new. In fact, it dates back to the nineteenth century and to the development plans of cities like Bilbao, Valladolid and San Sebastian. The redesigned city blocks took over half a century to adapt to their intended uses. Much closer to our days is what happened in Quito: in nearly twenty years, the urban area almost tripled as the urban perimeter was enlarged. Since the demographic growth occurred at a lower rate, population density was reduced by approximately 30 percent over the period and the cost-effectiveness of existing infrastructure deteriorated considerably.

As an attempt to cope with a similar situation of extremely low occupancy rates, the experience of Socaba, Bolivia, illustrates the combined application of urban and tax instruments. The local government of Socaba – population 30,000 – had land enough to house 500 thousand people thanks to the expansion of its urban limits, rezoning laws turning untouchable areas into prospective development sites. This in turn gave rise to tax law changes whereby the levies for new infrastructure and services now applied to the entire area within city limits. The idea was to stem speculative land holdings, on the one hand, by pegging the cost of service implementation to property, and on the other, to prevent expansion of the urban grid in search of cheaper land albeit bare of any infrastructure (Bazoberry, 1999).

Another class of large undeveloped parcels includes farming and/or recreational areas. The first such case is the El Espino Ranch in San Salvador, an 800-hectare coffee-growing enclave set in the heart of the Greater Metropolitan Area (Lungo, 1999). A second example involves country clubs or closed condos that are kept out of the market by their owners either for private use or future speculation (Clichevsky, 1999).

On the other hand, small vacant lots scattered in the urban fabric, mostly privately owned, call for a special approach. Given their characteristics, they are not suitable for large-scale urban development efforts. They are not attractive enough for residential use in well-established neighborhoods, and are too expensive for low- and middle-income families. As a result, they remain vacant for long periods of time.

This class of vacant land entails a perverse contradiction in that there is still land available for which there are no takers in the market, while there is a huge pent-up demand in another specific market niche—low-income housing—that still has no access to the formal home/urban property market.

A similar situation is found in São Paulo, where the negative consequences of vacant land pockets have been felt in city management since the late 1970s. At that time approximately 40 percent of the São Paulo urban grid lay idle. There was a concern that holding those areas vacant might cause a shortage of land for urban use, and thus drive up real estate prices. As far back as that time the recommendation was to levy taxes on idle property as a means to boost supply and consequently bring down construction costs.

It follows that much needed tax instruments will not be enough to ensure the use of vacant land for low-income housing unless it is underpinned by political will, public investment programs, home ownership financing, and social mechanisms to monitor urban development initiatives (Silva, 1999).

### **The Case of São Paulo**

The emergence of vacant land areas is a direct consequence of a “leapfrogging” form of urban development. However, the fact that they persist is due both to a lack of instruments to penalize their holding and to an increasing land occupancy rate caused by the razing of older city settlements and their replacement by higher rise buildings.

Since the 1970s, the growth of Greater Metropolitan São Paulo has been due to higher demographic densities rather than to expansion of the urban fabric. The increasing settlement of idle lots has been driven mainly by the strategies of real estate developers (and to some extent by certain grassroots initiatives), and not so much by virtue of regulatory or fiscal measures.

In 1989, roughly 25 percent of the blocks in the City of São Paulo were vacant. A significant portion of this idle land (39.1 percent) involved small lots (under 500 m<sup>2</sup>) while about 10.2 percent were located on a perimeter of approximately one thousand square meters. Most of the lots were either too expensive for families willing to live there, or too distant for those who could afford them as a result, they remained idle.

Partial development of vacant lands during the 1980s and 1990s involved either clustering small lots, or selecting the larger ones (parcels measuring more than 10 thousand square meters account for just 6.5 percent of the city blocks). They were mainly put to commercial (large areas) and residential use in the form of closed condominiums. This format is suitable for less expensive developments focusing on middle- and upper-middle-income families).

The gradual development of vacant lands—reaching out to medium-distance and outer metropolitan belts—failed to boost the housing supply for the lower income families, however. Instead, the housing solution for many living under the poverty line is increasingly found in “informal” developments, i.e., via subdivision of existing lots or irregular settlements (favelas).

The private sector is not the only source of vacant land. The public sector too keeps extensive areas idle, either directly (by holding on to “territorial reserves” as a means to control urban expansion, and by setting aside land for projects that never materialize), or indirectly through tight legislative constraints.

Properties owned by public agencies, religious or military organizations, factories and other facilities of the transport industry (port facilities, railway stations and marshalling yards) also involve large spaces. Often centrally located, they hold buildings, infrastructure and equipment that become obsolete after the original activities are discontinued. Restoring those sites to the city fabric through new uses requires special management and fund-raising skills. Projects involving ocean frontage in the last decades

have successfully rehabilitated a number of shut-down port facilities. A good example of revitalization in this class of vacant land is Puerto Madero, in Buenos Aires.

Restoration of the Nervión River bank after decades of dereliction when industrial plants were shut down in downtown Bilbao, Spain, and construction of the Guggenheim Museum was a milestone. An agreement between the city government, which provided reconstruction funds, and the Guggenheim Foundation, which made available an entire art collection, became the key driver of a city-wide rehabilitation initiative.

Certain industries generate a subcategory of large-size vacant land: brownfields. These are areas abandoned by polluting factories where toxic or radioactive products were handled, and constitute a tangible and clear physical hazard. Their development requires massive investments in cleanup operations, which renders them less attractive than the previous examples.

However, most often the biggest damage is done to the economic health of the city. Money moves away from abandoned buildings and existing infrastructure, and the vacated land will trigger a process of physical and social degradation in the neighborhood. This signals poor safety and health conditions that may in turn drive away local residents and business.

Over the past few decades there has been an outward move by special users (e.g., the upper tertiary and affluent residential segments) looking for new and physically, economically or symbolically more attractive locations. This has produced in many cities a migration from downtown areas (the donut effect), resulting in their abandonment and deterioration in exchange for more remote suburban sites. As a result, the old colonial day inner cities often house a special class of vacant, “invisible” lands: what is known as ‘latent’ brownfields. These built areas have become so obsolete or downgraded that they no longer fulfill their purpose. They are now either totally abandoned or barely in use, constituting physically, socially and economically degraded neighborhoods.

On the other hand, even in areas where a city’s vitality is preserved thanks to a thriving low-price shopping district, as is the case in the Saara, in the heart of Rio de Janeiro, there are still plenty of underutilized buildings. On top of street front stores there are thousands of square meters of second and third floors used for storage, with more idle space than required to suit the needs of the ground level businesses.

To a great extent, decisions on the future use of those pieces of property are skewed by outdated beliefs that combined occupancy (commercial/residential) might have a negative effect on business. The choice then is to keep upper stories underused rather than refurbish them for different purposes. Curiously enough, the same attitude is found among the owners of property listed as historic-cultural sites in England and in Brazil (Sampaio, 2002).

The demand for land also gives rise to illegal developments, and homes are built on sites lacking infrastructure and utilities. This constitutes another subcategory that might be qualified as “false vacant land.” Often these illegally occupied areas (invasions,

squatting, *favelas*, etc.) are officially classified as vacant or temporarily used land. Prior to 1994, the 573 slums of Rio de Janeiro appeared in official city maps as blank areas (Magalhães, 1999).

Precisely because of their double status as irregular (from an urban planning viewpoint) and illegal (in terms of land ownership), they ultimately became “invisible” spaces in the eyes of the local administration. Whether visible or not, their impact on the population nevertheless is quite tangible.

A special type also (wrongly) considered as vacant land involves communal Indian lands, usually located in the outskirts of cities undergoing fast growth. For example, most of the vacant land in the eastern section of Lima belongs to the Jicamarca *Comunidad Campesina* (Peasant Community). The land occupancy rate is similar to that of the city outskirts, or *barriada*, and the community is home to approximately 1,500 people employed in raising livestock. Though there is a legal ban on the sale of communal property, community members—or their leaders—have begun to sell part of the land. They use the ploy of absorbing prospective buyers as community members to get around the no-sale rule, yet another model of illegal urban real estate transactions (Calderón, 1998).

### **Illegal and Irregular Access to Urban Properties**

Indicators concerning urban homes built following invasions or squatting show that this is a common pattern in the Brazilian housing scenario. Though informal and illegal, the practice has become institutionalized: it works for the economy and therefore for the private real estate market. On the other hand, it works in terms of guiding public investments driven by the prospect of sharing in the profits earned by private developers.

The new *favelas* and illegal developments spring up in vacant areas rejected by private real estate companies. It stands to reason that *favelas* for the most part are located in environmentally protected areas (depreciated due to limited sale potential) and government lands. Invasions are barred at vacant sites that might attract private developers, though they may be owned by the state. In those cases, law and order are enforced (Maricato, 1999).

**Table 1: Characteristics of Vacant Lands**

<b>Number</b>	<b>High percentage of total</b>		
	<b>Low percentage of total</b>		
<b>Size</b>	<b>Small</b>		
	<b>Large</b>		
<b>Status</b>	<b>Legally developed</b>		
	<b>Possible population increase</b>	<b>Low densities</b>	
		<b>Derelict buildings</b>	
	<b>Legal restriction on occupancy (environmental preservation, etc.)</b>		
	<b>Informal occupancy</b>		
<b>Brownfields</b>			
<b>Location</b>	<b>Abandoned/derelict inner city areas</b>		
	<b>Outskirts</b>		
<b>Ownership</b>	<b>Public lands</b>	<b>Central government</b>	
		<b>Regional government</b>	
		<b>Local government</b>	
	<b>Private lands</b>	<b>Individual</b>	
		<b>Developer</b>	
		<b>Commune</b>	
<b>Unknown owner</b>			
<b>Time vacant</b>	<b>Never developed</b>		
	<b>Recently vacated</b>		
	<b>Long-term vacant</b>		
	<b>Subject to change in status</b>	<b>Considered no-build area in the past (topography)</b>	
		<b>Considered of no interest for development in the past (demand driven)</b>	
<b>Current use</b>	<b>No apparent use (social or economic)</b>		
	<b>Underutilized in terms of its “best/most profitable usage”</b>		
<b>Allocation</b>	<b>Residential</b>		
	<b>Commercial/industrial</b>		
	<b>Environmental/historic/cultural preservation</b>		
<b>State</b>	<b>Easily developed</b>		
	<b>Requires major investments in rehabilitation, cleanup, infrastructure building, etc.</b>		

Determining average parcel size, their location relative to the city and land tenure regulations is a must, but it is far from sufficient for a full understanding of the vacant land issue. The percentage of vacant land in a city is certainly a key indicator. Estimating the ratio of vacant land to total city area becomes even harder due to the lack of reliable, consistent and standardized data in most Latin American cities. This is a serious limitation to designing effective policies and programs to deal with the problem.

A study of six cities (Lima, Quito, San Salvador, Santiago, Rio de Janeiro, and Buenos Aires) reveals that percentages may range from as little as 5 percent in San Salvador to nearly 44 percent in Rio de Janeiro. However, these percentages may vary considerably depending on the criteria employed to define ‘vacant land.’ The modest 5 percent for San Salvador could jump to 40 percent of the metropolitan area if one takes into account the significant number of “latent” vacant properties—abandoned or semi-occupied buildings or communities—previously housing residential units, public agencies or farming properties now being held idle awaiting investments for redevelopment or demolition and reconstruction. (See Table 2)

**Table 2: Extent of Vacant Lands in Latin American Cities**

City	Vacant land in Hectares	% of the Metropolitan Area	Special Characteristics
Buenos Aires, Argentina	43,300.0	32.0	Includes areas traditionally unserved. New legislation requires vacant land to have basic infrastructure.
Guadalajara, Mexico	4,000	26.6	516 parcels on reserve, 2478 vacant lots <sup>1</sup>
Guayaquil, Ecuador	13,000	39.4	6.000 hectares of reserve areas and 7.000 hectares of private properties
Lima	21,283.0	7.56	Includes only land with water supply and sewer systems
Mexicali, Mexico	2,840	19.07	1.840 hectares of large parcels and 1.000 hectares of small lots
Quito, Ecuador	4,080.2	21.7	Includes areas hazardous environmentally
Rio de Janeiro, Brazil	54,880.0	44.0	
San Salvador, El Salvador	10.5	4.65	Includes only historic center
Santiago, Chile	5,685.37	11.37	

<sup>1</sup> Fausto Brito, Adriana, Editor. 1998. *Suelo urbano y reservas territoriales: Políticas y mercado del suelo en América Latina*. The contributing authors represent ten different Latin American Countries and presented their essays at the “International Conference on Urban Land and Territorial Reserves”. Guadalajara, México, April, 1997.

**Source:** Clichevsky, Nora. The state-of-the-art on vacant lands. *Land Lines* 1(11), January 1999.

In spite of their current extent, in Lima and Quito vacant urban lots are a relatively new phenomenon, while in Buenos Aires and São Paulo land parcels in the consolidated downtown area have remained vacant for decades. Thus, tailored solutions are in order based on the unique features of each case. Whether small or large, centrally or peripherally located, public or private property, abundant or negligible, vacant lands require a unique approach in terms of development and management.

#### **4. Challenges to Efficient Re-Use of Vacant Land**

There seems to be consensus around the need to develop and/or improve policies and instruments to eliminate vacant land. That consensus is found in several countries where city growth patterns, legal frameworks and social and economic environments may vary widely. The question is why, in such broadly different scenarios, is there unanimity on the need to mitigate what is seen as a hazard to urban productivity? Perhaps more to the point is the question of what kind of threat does vacant land pose in each such scenario? Or what are the challenges barring their efficient redevelopment?

Paradoxically, despite the high demand for sites suitable for new developments, building regulations in consolidated urban areas (i.e. equipped with infrastructure and urban services) are usually much stricter than in outlying sections of a city. Stringent zoning plans, land occupancy standards, and local ordinances (often outdated, elitist and socially excluding) are some of the hurdles, compounded by the sluggish processing of building licenses and permits. They hinder initiatives to adopt more flexible land use parameters that would be more in tune with contemporary needs and the funds available for their effective enforcement.

It is surprising to see that in the city of Rio de Janeiro it takes anywhere from two to five years to process a subdivision development, while legalizing an illegal or clandestine settlement may drag on for up to two years! (Larangeira, 2002).

In North America and Europe, urban growth is generally driven by easy credit for new housing, equipment, services, and job opportunities—in short, access to urban facilities. The process occurs in an environment where the real estate market is quite well regulated. In Latin America, on the contrary, informality seems to be a strong component in how land ownership and use are determined<sup>3</sup>. There is a predominance of informal settlements lacking proper infrastructure, with no access to credit, services or the job market. In addition, urban development and tax policies are clearly inconsistent, which is aggravated by a virtually nonexistent or shaky legal framework (Smolka & Amborski, 2000).

In Quito and Guayaquil (which together account for 52 percent of the urban population in Ecuador) there is land available for new housing development. However, bringing it to the market hinges on investments – particularly for provision of basic urban services. The barriers to development of vacant land in Ecuador involve both a complex project approval arrangement, and the tight urban development standards set by the local

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<sup>3</sup> At least 40% of all homes in Rio de Janeiro are built in violation of city codes (Magalhães, 1999).



government. Add to this the limited funding options available, especially for socially oriented initiatives (in particular low-income housing). (Chang Loquí, 1999).

Limited local competencies and budget shortages (often as a result of poor tax collection practices and lagged property valuation figures) is another common feature in those countries. This set of factors has been interpreted as a virtually insurmountable obstacle to the reuse of vacant lands.

### **The Case of Bogotá**

Bogotá differs from most Hispanic American cities on at least two points: its administration is in the hands of a single central authority, and there is hardly any vacant land. Only 2,000 to 2,200 of its total 36 thousand hectares where 6.5 million people live consist of scattered and highly pulverized vacant lands. It might be the exception that proves the rule, i.e. vacant land has no significant impact, at least in quantitative terms.

Some facts might explain this unique pattern of land use and land occupancy. On the one hand, a poor public transportation system encourages residents to look for homes close to their places of work. On the other, there is a tight system of time-driven taxes where property taxes may triple over a ten-year span if land is left undeveloped. In priority development areas, land tenure left idle for two years is cancelled and either reverts to the municipality or—a recent policy—goes on public auction. The end result is an occupation density so high that the standard free space available is a mere 2.2 m<sup>2</sup> per inhabitant. Building lot standards are even more astonishing: they measure 2.5 to 5 meters in width by roughly 6 to 10 meters in depth!

While on the one hand there is no vacant land, on the other, there is very little room for renovation of the built environment. Widening a street (existing roads are 4 to 6 m wide) involves investing 50 to 70 percent of total costs just in expropriations. Meanwhile, 150 thousand hectares of underused farmland around the city sit idle waiting for incorporation to the urban area. (Salazar Ferro, 1999)

Bogotá is still plagued by every urban ill usually associated with the existence of brownfields (high costs for infrastructure building and maintenance, private appropriation of publicly generated income, long journeys to and from anywhere, soaring real estate prices, etc.) although the city has no vacant land to speak of! The unanswered questions remain: what else might be causing those problems? How can they be overcome?

Legislation is often blamed for distortions in urban development such as misdirected land use. In fact, it is not hard to find inconsistencies in the law. The point is, however, that over and above any inadequacies in regulations, the management and practical enforcement of existing rules (or their absence altogether) is tied to a power structure strongly held by land and property owners, and by real estate rent seekers (Maricato, 1999).

The number, size and spatial distribution of vacant land parcels are generally hard to determine due to a dearth of updated inventories. Lack of this information constitutes an additional burden in designing consistent redevelopment policies. Although the total extent of vacant or underused sites may not be sizable in some cases, they can trigger a process of degradation at an exponential rate.

Effective management and monitoring of urban growth depends heavily on achieving the proper balance between the amount of land available for occupancy, and its periodic and systematic adjustment. Identification of vacant land and the many obstacles to city growth, on the one hand, and the spatial distribution of new infrastructure, on the other, must go hand-in-hand with control over the use of vacant land for productive purposes, the ability of new infrastructure to absorb more flows and inputs, control over market prices, and the creditworthiness of prospective home owners (Knaap, 1999).

In Lima, for example, the presence of vacant land apparently is due more to regulatory issues than to actual market-related factors. The listing of “untouchable farming land” was intended to minimize competition for it between rural and urban uses and to preserve environmentally sensitive areas, but ultimately stimulated irregular land sale/occupancy. The government’s *laissez-faire* attitude toward the occupation of vacant lands (which in principle should also be left idle) is another example of ‘*ex-post* regulation,’ i.e., legalization of *de facto* situations instead of enforcing urban regulations (Calderón, 1998).

The gap between the intentions/targets of formal planning and the results effectively achieved arises from the combination of Utopian or unrealistic definition of desirable urban land occupancy rules (where elitist and esthetically-driven approaches prevail in master plans), and poor management capabilities (in negotiating, leveraging resources, ‘marketing,’ etc.) when the time comes to carry out the actual vacant land development initiatives. As a result, sites targeted for such projects (often poorly designed and/or mismanaged) remain vacant. In fact, the obstacles to vacant land development are sometimes less of a legal or economic nature, and rather a matter of management and ... politics (Smolka, 2002).

Absent or weak political and business leadership, a negative attitude toward planning and redevelopment, and the lack of a long-term approach that will stimulate public-private cooperation for investment in deteriorated inner cities are all contributing factors to an atmosphere of urban decay. Vacant land is nothing more than an expression of those problems, though it may also exacerbate other social, economic and political distortions.

Successful mitigation or reversal of the problems arising from vacant land requires full participation of those stakeholders who can both contribute and benefit from new urban development policies and approaches. The profile of stakeholders will vary depending on land tenure considerations and on the specific needs of each site. In general, vacant land in Latin America is in the hands of one or more of the following players, each with their own vested interests: real estate developers or brokers (both legal and illegal); lower income segments of the population who have bought land but cannot afford to build; real estate speculators; farmers; government agencies, and other institutions like the church, armed forces, social security, etc. Fundraising is still one of the major barriers<sup>4</sup> to redevelopment. Therefore, support from funding agencies is crucial to achieve any measure of success.

### **5. Managing Vacant Land. Existing and Proposed Instruments**

The problem of vacant land involves other issues and must be addressed against the backdrop of overall urban development policy. This calls for enforcement of proper tax and regulatory instruments tailored to the unique requirements of each city and to the goals set on a case-by-case basis. To this end, adequate tax and regulatory policies must be tailored to the peculiarities of each city and in line with their objectives. The basic assumption is that any increase in real estate value can or must be captured by and reverted to the benefit of the community.

In the United States and Canada, such instruments are considered to be both effective because they generate income for local administrations, and efficient in terms of management and revenue collection. On the other hand, and though most Latin American countries do have the legal means to adopt some kind of “improvement tax,” in cases where such instruments are in force results have been negligible or altogether insignificant (Smolka & Amborski, 2000).

Some of the key problems plaguing the property tax system are:

- Obsolete and incomplete registries result in revenue losses;
- Inefficient taxation practices leading to unbalanced enforcement;
- Taxation rates strongly skewed by historic values, not only because assessments are seldom performed, but also because proposed rate revisions are often blocked for political reasons;
- Poor tax collection practices.

(De Cesare, 2000)

In Uruguay, a study was performed on the cities of Montevideo and Minas as well as on the Maldonado-Punta del Este conurbation. Some findings were: haphazard urban land management; weak land use rules at the national and state levels; lack of instruments to

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<sup>4</sup> The Franja Costera Project in Asunción, Paraguay, illustrates the opposite: while funding constituted no problem, the strongest barrier to the materialization of this initiative was of a political nature.

capture socially-generated valued added earnings; and the economic drain arising from less than optimal use of the social capital invested in infrastructure and services. The end result is increase of city management costs and ineffective collection of funding resources (Viana, 1999).

Ecuador, on the other hand, is signaling a reversal of the status quo. Unlike other Ecuadorian cities, for some years now Guayaquil has developed a policy to capture property-generated value added via regulations and efficient enforcement. The ordinance regulating the special improvement charge payable by the owners of property benefiting from public works performed by the municipality (R.O. N. 68:14-XI-96) stipulates that it be paid together with the local property tax. It further sets rates according to the city sector ranking, and may range from 2 percent of the city's commercial assessment of the building, to 4 percent according to its location. This tax was first collected in 1997, and will be payable for fifteen years. However, applying part of those taxes to finance a Parcels Bank as allowed by law will depend on political will (Chang Loquí, 1999).

The levying of property taxes often does not differentiate between occupied and unoccupied land, and no penalties are charged against undeveloped properties. In fact, sometimes the tax on vacant land is lower than that charged on occupied properties, implying an incentive for owners to let their land sit idle for long periods of time. In recent years there has been an increasing trend to levy taxes on land ownership (whether vacant or in use). This tax is progressive over time as a means to curb speculation and appropriation by owners of the added value generated by public investments. Two cities where this taxing modality has been adopted provide a good illustration of this approach: Mexicali, Mexico, and Porto Alegre, Brazil. In the former, the new tax has caused a reduction (in surface area) of vacant land, considerable increase in the number of legalized urban lots registered with official property registries, and a significant rise in tax collection rates with the resulting major expansion of the city's investing capabilities.

### **The Case of Mexicali, Baja California, Mexico**

The rapid occupancy of vast tracts of land since the city was founded in 1903 resulted in a very low population density (40.3 inhabitants/ha). At present, Mexicali has 600 thousand inhabitants distributed on 14,890 hectares. This land occupancy pattern includes considerable vacant land (19.07 percent of the total city grid) consisting of large estates (1,840 hectares), and around 1,000 hectares of small holdings.

City growth and speculation have led to underutilization of existing services and infrastructure. There are large pockets that are both overvalued and too expensive for low income housing, driving new developments to the outskirts, where the land is cheaper due to lack of services. The new tax on vacant land has had the following consequences:

- The area in hectares taken by vacant land has shrunk from 3,033 hectares in 1996 to 2,800 in 1999; conversely, the number of parcels has grown from 24,596 to 27,642 during the same period. This was due to the addition of new housing developments that are not fully occupied yet;
- Increase in the number of properties entered into the real estate registry from 150,743 in 1989 to 216,323 in 1999. Of the 65,580 additional holdings recorded 12.7 percent are classified as vacant;
- City revenue growth between 1989 and 1998 thanks to the property tax, from slightly under 5 million pesos in 1989 to nearly 68 million pesos in 1998, bringing considerable tax revenue gains and significant progress in terms of property registration. Of the total collected, 8.5 percent came from the tax levied on vacant land (almost six million pesos).

The tax measures adopted will result in the settlement of vacant land. Results will be seen in the medium term and are expected to increase the city's population density ratio, optimize existing infrastructure, discourage speculation, curb growth, and generally promote urban order, a sine qua non for social wellbeing.

The initial rate of taxes on urban lots (supplied with water, electricity and sewage) classified as no-building sites or brownfields and on buildings rated as derelict, unsafe and idle will increase automatically by 25 percent each year up to ten years.

The Municipal Income Law of 1999 sets the property tax on empty lots at 12.0 per thousand. It also states that, in the case of vacant buildings or abandoned houses, the final rate applicable may not exceed 30.0 per thousand. The table of unit registry amounts defines twenty-one types of housing groups for residential use, where values range from 553 to 36 pesos, and five types for commercial purposes, ranging from 673 to 165 pesos.

The policy of setting aside land reserves defines as vacant those buildings supplied with basic infrastructure services, and as land reserves those that are not supplied with those facilities (Méndez Ocampo, 1999).

In Porto Alegre, the introduction of a time-driven progressive property tax has clear urban development objectives such as curbing the occupation of city areas lacking infrastructure while stimulating the growth of adequately served areas. At the same time, control over idle land holdings would result in greater supply of legally tenured parcels.

### **The Case of Porto Alegre**

Ever since its first development plan, Porto Alegre determined the need to create legal-urban instruments to stem the growth of sites lacking infrastructure and fostering the growth of areas equipped with infrastructure and urban facilities. The idea was to eliminate vacant land from those areas slated for development under penalty of a time-driven progressive urban property tax (IPTU). For areas to be 'frozen' there would be a reduction or exemption of the IPTU and an increase in the service tax rates.

Taxes were first charged on vacant land following the 1988 Constitution, which provides for urban policy instruments enforced to ensure the social role of property. At the local level, this was translated into the so-called Priority Occupation Urban Areas, which have infrastructure and urban facilities prepared to take in a higher population density. At the same time, the policy called for identification of vacant or underutilized lots, requiring that they be developed or pay the time-driven progressive IPTU.

Sixty-five owners of 120 such properties totaling 2,393,301 m<sup>2</sup> were identified, amounting to 1.5 percent of the developed city area, when R\$ 842,874.60 were collected in taxes. Only one of the landowners (who held 33 percent of the target properties) went to court and obtained an injunction against the progressive tax on his property. Nonetheless, the same owner is now beginning to develop part of the lots he owns<sup>5</sup>.

The significance of this instrument is primarily developmental and social. Its purpose is to offer land and increase supply in the attempt to meet the pent up demand for housing, to create jobs, and limit government intervention in the building of homes for the very low-income segments of the population.

Experience has shown that enforcement of this instrument alone, i.e., not backed by other policies (especially credit facilities), is not fully effective. The expectation of allocating 23,156 parcels, building 9,986 housing units, and creating 30,803 job positions by 1999 have yet to be met, although there is still some time before the deadline (Guimarães, 1999).

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<sup>5</sup> The use of taxes must be based on clear stimulus or prevention goals rather than on exacting punishment or working solely as a means to boost revenues.

Although the levying of progressive taxes over time may be useful to force land held for speculative reasons to be put on the market, taxation is not always the best alternative.<sup>6</sup> As indicated above, holding a piece of property vacant is not always a sign of speculative designs. On the contrary, it might mean solely that the owner cannot afford to pay for its development. If this were the case, it would be more reasonable to provide support to potential developers (via tax incentives, negative taxes, ready access to credit, etc.) before penalizing them with more taxes (Smolka, 2002).

The pertinence, feasibility and equity of the progressive property taxes so extensively used in Brazil during the 1990s are currently under scrutiny. The rationale behind them was to enforce graduated taxes according to a rate schedule, and to provide the taxing system with a sort of ‘safety net’ for the lower income categories. More expensive property would carry a higher tax rate than cheaper ones, taking into consideration the sharp differences in income levels as well as the fact that home ownership costs among low-income families are proportionately greater than for the more affluent segments of the population. Arguments against this policy hinge on the need to streamline the tax system (De Cesare, 2002).

Aside from taxes or charges, development promotion policies can also have a positive impact on the whole issue of vacant land. Incentives may take the form of “enterprise zones” or assistance for implementation of certain economic activities through tax exemptions and/or relief, for example.

With this in mind, Cornia (1999) asks: can fiscal instruments change the behavior pattern of urban land suppliers? In answering this question, he says that the role of the public sector must be twofold: to “encourage equity capital,” i.e., funds potentially available for investment in urban development; and to tax frozen real estate assets or those that may hamper optimum use of urban land, tying in the need to create positive or negative incentive to the development of the different classes of vacant lands.

In Toronto, Canada, various attempts were made to stimulate and facilitate vacant land development. Along the years, the city resorted to tools like density bonuses, building rights transfers, zoning plan revisions, provision of infrastructure<sup>7</sup>, and public-private partnerships. Many such strategies required skilled negotiations before an agreement acceptable to all stakeholders was finally reached. Although some of those instruments were indeed applied to small parcels of vacant land, the more tangible impact was felt in the larger scale developments (Amborski, 1999).

The city of São Paulo launched a major initiative in a large segment of its western district, an area of low population density cut across by railroad tracks, and home to a

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<sup>6</sup>Although in 1996 the Supreme Court ruled the levying of progressive property taxes unconstitutional, a recent constitutional amendment has authorized progressive taxes according to property value, in addition to different taxes depending on property location (De Cesare, 2002).

<sup>7</sup> Specifically for Latin America, adoption of policies conducive to narrowing the intracity income gap is recommended, in order to promote a more homogeneous urban environment. Consequently, a more equitable distribution of infrastructure via priority improvement of underprivileged locations would help achieve this goal (Clichevsky, 1998).

number of brownfields. The Água Branca area was designated for rehabilitation by Law 11.774, which established a new set of land use and occupancy standards, and provided concrete rules for public-private cooperation. The São Paulo city government granted more flexible building permits than envisaged in the current legislation. As a counterpart, building contractors agreed to restore and expand the road grid, to build a commercial complex of approximately 100 thousand square meters including 13 office towers, and to renovate abandoned buildings that now are used for civic and cultural purposes.<sup>8</sup>

It should be stressed that achieving a positive outcome requires flexible instruments that can be adjusted according to political change and different economic cycles. The success or failure of incentive policies will hinge on variables such as the local social and political environment. Success will depend ultimately (and perhaps essentially) on the response of development stakeholders and other private partners (including the crucial participation of citizens in the decision-making process, particularly regarding the allocation of public funds), and on their willingness to form a coalition with the government to take advantage of the opportunities offered by policymakers.

The lack or inadequacy of public policies gives rise to “makeshift solutions,” i.e., it opens the door to illegality, or as Guillermo Bazoberry puts it “allegality.” In that environment, the more pressing needs tend to drive the behavior of urban land supply-and-demand players with no regard for any formal regulatory framework. Thus illegal real estate markets have sprung up as a matter of course in Latin American cities.

Erminia Maricato (1999) stresses that political coalitions often hinder the enforcement of existing regulations. Therefore, urban or fiscal instruments cannot be discussed outside the political arena. The new Brazilian law on land allocation renders legalization easier but does not meet the challenge of expanding the market to include the lower income segments.

Most of the cases presented during the seminar contain a variety of instruments framed by consistent legislation, albeit not clearly addressing the issue of vacant land. Nevertheless, the existence of adequate instruments is necessary but not sufficient to achieve more efficient use of vacant land. Unilateral and isolated plans will not be conducive to material results unless they are backed by negotiation skills, political support, and a proper managerial framework for their implementation and monitoring.

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<sup>8</sup> São Paulo. Prefeitura. Empresa Municipal de Urbanização.  
[http://portal.prefeitura.sp.gov.br/empresas\\_autarquias/emurb/operacoes\\_urbanas/0001](http://portal.prefeitura.sp.gov.br/empresas_autarquias/emurb/operacoes_urbanas/0001)



### **The Case of Rio de Janeiro**

In Rio de Janeiro, the shortage of affordable homes and massive illegal occupation (over 40 percent of all city property are not legally owned) emphasize the need to prioritize low-income housing developments for future use of existing vacant land. However, the use (or incorporation to the market) of such vacant land requires a better understanding of the production pattern of urban spaces and of the rationale behind the actions of real estate developers – key drivers of the building environment.

Designing policies to encourage redevelopment of vacant land therefore calls for initiatives contemplating the development, maintenance and use of vacant land. In other words, planning must take into account the development of regular and irregular urban subdivisions, acknowledging the fact that both kinds help create and maintain vacant land in their respective market segments.

To broaden access to more land and mitigate social-spatial segregation issues, the idea is to capture the goodwill generated in the process of real estate development.

Instruments available for definition and subsequent management of vacant land include, first of all, the 1988 Federal Constitution. It empowers local governments to prevent the perpetuation of vacant land through: a) compulsory subdivision or construction; b) a time-progressive urban building and property tax (IPTU); and c) legal expropriation based on subordinating property rights to the social role of land. Theoretically, this would reduce the incentive for owners to keep their property held idle for speculative reasons, but enforcement of this rule is still subject to much controversy. Finally, the 1992 Municipal Master Plan includes sanctions against retaining vacant and underused land and promotes their utilization for socially oriented purposes.

Although the instruments are available in the formal urban planning framework, they are still to be enforced effectively for lack both of specific regulation and political will. Political will is crucial, for example, in setting priorities for public investments in poorer areas mostly occupied by low-income segments of society as an effort to promote a more equitable quality of life throughout the city (Oliveira, 1999).

### **Land policy instruments in Mexico City**

- Subsidized land purchasing: focusing on low income housing, it is a credit line offered by the Federal District Housing Institute, a decentralized local government agency.
- Expropriations: a mechanism whereby the City Government can purchase land and subsequently sell it at subsidized prices to low income families to help them enter housing programs.
- Divestments: disposal of public domain property for public utility purposes. As a funding instrument, it helps the Federal District Government allocate land it owns to housing initiatives. This land can be purchased at very low prices to meet social demand.
- Exchange: land slated for high-income developments or other purposes can be traded in for land allocated for low-income housing and infrastructure works.
- Action polygons: the Federal District Urban Development Act defines action polygons as urban development instruments.
- Development potential transfer system: this urban planning instrument transfers surplus construction density from the historic inner city, and applies it to other city areas under development.
- Extension of the potential transfer system: this extends application of this instrument to buildings other than those listed as historic, located in specific city districts and earmarked for neighborhood development initiatives.

(Benlliure Bilbao, 1999)

## **6. Public Policy and Private Investment**

The issue of vacant land is not just a matter of supply and demand. Consideration must be given also to why land remains vacant, to the question of land prices, to the social implications of vacant land surroundings, and to the location needs of prospective buyers. The obvious complexity of the issue requires strong participation and networking of numerous stakeholders, including public agencies.

An underlying assumption of this report is that vacant land is not merely a problem, but also resource that can be tapped to improve the quality of city life. It can stimulate discussion of policies to define the roles of both the public and private sectors, as well as of fiscal and regulatory instruments focusing on urban development and on improved access to land and homes for low-income families.

To this end, it is strategically advisable to set public-private or public-public (among different government agencies) cooperation initiatives. On the other hand, there are challenges on the issue of governance. They lie in the weakness of certain institutions and

in problems caused by political shifts, and underscore the need for instruments both flexible and adaptable.

Another form of public-private cooperation to stimulate the supply of low-income housing is illustrated by Colombia. New legislation requires that a minimum 20 percent of the area in new developments to be set aside for government-backed housing initiatives. Through what is known as *Metrovivienda*, the government no longer purchases land, but rather sends out a call to owners and the properties are sold in auction to private developers (Salazar Ferro, 1999).

Exchanging land for the pardon of local taxes in arrears is another alternative open to governments to boost their land holdings. These are subsequently included in new development projects, either carried out by the city alone or in partnership with the private sector.

On the other hand, supplying homes is not the only sphere in which new forms of cooperation are effective. Large inner city lots, particularly those owned by the government, are being vacated due to a need for bigger facilities. They offer an opportunity for joint ventures between public agencies (at all levels of the administration) and private companies. There are several examples of this class of partnership in Buenos Aires, Boston, Guayaquil, and Rio de Janeiro, just to mention a few.

Along the same lines, but on a more modest scale, the proposed redevelopment of Navegantes district in Porto Alegre, Brazil, is a chance to revitalize the entire downtown area of the state capital thanks to a recycling of shutdown industrial facilities.

In this case, the private initiative to introduce a retail outlet in lots and buildings formerly occupied by textile plants in the Navegantes shopping district has brought tangible benefits in renovating the surrounding area, as stimulated by city administrators. Implementation of a Technological District may trigger extensive rehabilitation of the inner city, in line with a new development plan. The experience has highlighted at least two facts:

- The benefits resulting from the concerted efforts of public and private stakeholders;
- Redevelopment of derelict industrial areas is a significant alternative, considering how much they can affect the revamping of adjacent downgraded areas equipped with idle infrastructure and access systems. (Castelo, 1999)

Nevertheless, the regulatory framework involved will have to be reviewed before any joint initiative can be set in motion, focusing first on the legal framework to have it reflect social concerns objectively. Updated property rights standards (a touchy area where the line between private rights and public interest is not always clear), and the current trend of prioritizing the social role of urban land and collective over individual rights—as embodied in the 1988 Brazilian constitution and reinforced by the recent Cities Act—signal significant progress in reversing the traditional oligopolistic status quo in urban land allocation.

Land occupancy follows an informal power structure: market laws tend to supersede legal rules that are enforced arbitrarily. Illegality is tolerated because it works as a 'relief valve' for a strongly speculative real estate market. Both the liberal and the centralizing state postures are advocated as a means to ensure that privileges remain untouched: too much regulation in some urban areas contrast with total laissez faire in others (Maricato, 1999).

A more democratic and transparent city management approach concerned with involving the people directly in urban planning efforts not as passive subjects, but as the producers and consumers of urban spaces, can be seen as an attempt to overturn a situation of oligarchical control over land within the urban perimeter and outskirts.

In Córdoba, Argentina, vacant land is clearly an opportunity that transcends its physical scope and embodies a more comprehensive city-wide strategy. The goals set envisage a shift in perspective, to include both an interdisciplinary approach to urban planning and consensus building and participation. All of this will be achieved through the redistributive capabilities of the local administration, bearing in mind need to take a business-like attitude toward real estate products. In other words, the proceeds of a transaction may be invested in another less profitable venture. This might be one of the reasons why the Córdoba administration has been so successful in attracting the private sector as a partner in the city's development drive.

The outlook is optimistic concerning the possibility of redeveloping vacant land based on the assumption that absence of demand should not discourage such initiatives. Markets can be created even at less than attractive sites whenever major interventions set their sights at upgrading the target area, both from the physical and symbolic standpoints. In order to do so, relations between public and private stakeholders must be rebuilt on new foundations conducive to an environment favoring urban renewal. A modern and effective city administration requires converting the local public agencies into active development players instead of performing as part of a merely punitive power (Wood, 1999).

## 7. Case Studies

The case studies in this section illustrate the importance of adopting customized policies against vacant land to suit various situations and goals, including social equity and urban efficiency and productivity.

The cases of Puerto Madero and to a certain extent also Asunción in Paraguay reflect comprehensive rehabilitation policies for extensive degraded areas, where the ability of the many stakeholders to institute joint efforts plays a key role.

San Salvador and Rio de Janeiro are examples of more modest urban interventions made in inner cities. No development could be realistically expected by initiative of property owners, either due to high land prices or to the low-income level of local residents. Government actions to stimulate residential as well as traditional tertiary uses increases the opportunity for constructive renovation and a rekindling of social and economic activity in sites remarkable for historic and cultural legacies that are part of a city's identity. In addition, they expand the housing supply for segments of the population that can hardly afford to buy urban properties and homes legally.

Quito and Lima have experienced the effects of competing uses between rural and urban land. Hoping for higher returns on their land, owners resorted to lobbying and/or speculation to bypass the law, opening the door to an illegal real estate market. Regulatory initiatives came later and had to legalize de facto situations far removed from original development plans.

In Panama a unique example of turning public land over to the city for use brings new possibilities of relief to an overcrowded city and encourages environmental responsibility.

### **7.1. Management Strategies, Economic Cycles, and Public-Private Partnerships: The Case of Puerto Madero, Buenos Aires**

Puerto Madero had been abandoned since the early twentieth century. By the 1960s it was sealed off as a military security zone, a derelict area housing rundown relics like old dry-docks, cranes, and grain mills and silos.

Located along Avenida de Mayo close to downtown and facing the river, Puerto Madero was seen by the people as off limits, something they were used to “looking at without seeing,” skeptical about its usefulness. As a result, countless development projects came and went for years and never materialized.

Both the old harbor and the entire inner city in Buenos Aires had become severely deteriorated as the tertiary sector redeployed toward Avenida Nueve de Julio and Libertador creating a new hub area. The political decision to revert the situation was taken by the Buenos Aires City Hall with the support of the central government, and emphasized “city production” as a driver of economic turnaround. The decision

materialized along three action lines: rehabilitation of Avenida de Mayo with government funding; incentives for private investments in the renovated downtown area to attract retailers and service firms; and urban development of the old Puerto Madero into a landmark that would bring the downtown area out of stagnation and restore its former status.

A set of favorable circumstances helped the project along. On the one hand, by late 1989 the Argentine economy began to pick up and to flag a way out of the crisis. The economic upswing resulted in a boost to investments. On the other hand, a new legislative framework – namely, the Economic Emergency laws and State Reform policies enacted in 1989 – brought more flexibility to the management of government property under legally empowered innovative management practices. This made it possible to set up the *Corporación Antiguo Puerto Madero* – to implement the project - via a merger of the General Port Authority and a city-owned company. The new entity was a private law government-owned enterprise with a starting capital equity fund, but with the proviso that it would not be eligible to receive government budget appropriations. It was equipped with the bare minimum structure to operate: a technical, an administrative and a public relations manager.

Redeveloping Puerto Madero meant adding 150 hectares to the local urban plan, an ambitious undertaking unusual for those days. A new office building then cost roughly three million dollars to build; a shopping arcade, thirty million; but the scale of Puerto Madero was in the order of about two billion dollars. Thus, the (essential) job of attracting investors depended on two key factors: earning credibility for the project and handling the disputes arising from discussions on how to redefine the use of the area.

The private sector -crucial for development of the project- shied away from equity investments after so many years of financial speculation. In order to prove its feasibility, the master plan had to be broken down into several small-scale projects requiring smaller investments. These in turn were translated into stages - or investment modules - to fit a realistic investment schedule in line with the situation of the country.

The more stable macroeconomics of the early nineties attracted more productive investment and boosted credit opportunities. There were new investors, new products and building and management technologies, all pointing to Puerto Madero as an optimum site for new businesses. Developers set out to determine what was successful in the market in order to define types of parcels and usage, and special financing on a case-by-case basis.

A nationwide competition was launched and the Project was designed around a north-south axis. Along one side were the four renovated dry-docks of the old harbor. Along the other, there would be a sprawling park extending between clusters of office towers. The *Corporación* was authorized to sell the old buildings newly protected under a national heritage ordinance, and to use the proceeds to carry out the development.

Usage leaned strongly toward the tertiary sector, emphasizing the business and administrative nature of the site. There is also a residential area bordering on ample green tracts. At present, over ten years from project start, Puerto Madero boasts a high

occupancy rate. It houses offices, university facilities, entertainment centers, restaurants, and a water sports marina. The first housing units will be available shortly.

The overall success of the development was due to a combination of favorable economic and legislative components that resulted in the establishment of a corporation with enough independence and flexibility to operate. The developer in turn displayed great management skills in settling disputes arising from (re)definition of land use, in showing that its project was indeed feasible, in shaping public opinion, and in designing the project to fit the demand. In short, making Puerto Madero a viable proposition from every standpoint.

## **7.2. Franja Costera Project, Asunción**

The Program for Development and Protection of the Asunción Shore is a comprehensive and multipurpose plan involving social, economic, urban, and environmental development. It is located along a six-kilometer stretch of land totaling 970 hectares to be reclaimed initially, taking advantage of the shoreline potential. Another one thousand hectares will be rehabilitated in phase two.

The urban plan consists of building a coastal road; relocating squatters currently living on floodplains; urban renewal of existing neighborhoods; creating new housing developments in partnership with private companies; revamping of major obsolete equipment; opening of new green areas, and overall environmental improvement of the target area. The set of actions would indirectly benefit anywhere between 80 thousand to 150 thousand people.

The direct beneficiaries are approximately 26 thousand residents of Bañado Norte, where the poorest inhabitants of the city live. Four thousand housing units of various types are planned especially for this segment of the population. The plan further contemplates an occupational training program, a grassroots organization, production cooperatives, a building materials "bank," and other outreach initiatives for social and economic development.

A project of this scale would be too ambitious for the local government to tackle single-handedly. Thus, an effort was made to engage other stakeholders, including the Central Government, different public and private sector representatives, the residents themselves, and the city population at large.

Project *Franja Costera* was designed as a fully self-funding urban planning operation complete with cost-recovery mechanisms. The seed money would come from the Inter-American Development Bank - IDB. In fact, the institution publicly announced that the project was not only viable from the Bank's standpoint but advisable for Paraguay, and extended a \$180 million loan. The local counterpart funds would be apportioned by the Paraguayan Treasury along six years to a local project manager: the Franja Costera Public Consortium, a fifty-fifty independent partnership formed between the city government and the Executive Branch to handle the Program.

Direct cost recovery – to service the debt along a twenty-year period - would come from: sale of reclaimed land at landfill sites to private buyers; public-private housing developments; proceeds from the development of new land; mortgage on the non-subsidized portion of the low-income housing units; and enlargement of the taxable base. The last item would accrue thanks to the property taxes charged on landfill areas created and incorporated to the city (a graduated development tax plus a special rate tax for the new neighborhoods of low-income housing). Tax collection would also benefit from a planned toll charged for use of the shoreline road.

In contrast with the enthusiasm that drove the early stages of engineering design and feasibility studies, the negotiation and agreement phase hinged strongly on political will.

Next on the agenda was securing ratification from the National Parliament for the credit approved and for the establishment of the *Franja Costera* Public Consortium. Once the Consortium was set up, an international tender would be announced to hire one or more private companies to manage the project, and to prepare the engineering design according to the Feasibility Study schedule. The building contractors would be selected in late 1997.

In early 1997, the National Government was to apply to the IDB officially for the loan on the basis of feasibility studies and of agreements concerning local matching funds and debt servicing arrangements. The loan agreement between the Bank and the National Government was to be signed sometime in mid-1999, but in fact never materialized.

The undertaking came to a standstill when a new city administration took office, and the Central Government reconsidered its priorities. As a result, the plans to set up the Consortium were tabled; and neither the transfer of funds from the central government was approved, nor was the loan agreement with the IDB signed.

Right now the Project is on hold pending political agreements between the Central Government and the Asunción City Hall before negotiations can resume with the IDB, and the project can be put into practice.

If the Federal Government believes the project has any social, environmental and economic relevance it should approach it as a national commitment, take responsibility for it, and restart the whole process as well as the negotiations with the IDB. It would also be necessary and advisable to engage the city of Asunción and every other stakeholder, particularly the local grassroots organizations and other institutions that had supported the original initiative.

Despite the soundness and timeliness of the initial proposal, the Asunción experience shows that funding is not necessarily the main obstacle to urban reconstruction plans. The ability of different stakeholders to work together is equally or more important than the kind of solution proposed. Through cooperation, they might have materialized the project, enhancing the economic, social and environmental status of an urban area that remains vacant.



### **7.3. The San Salvador Downtown Shopping District**

Located in a green coffee-growing valley, San Salvador's farms compete in revenues with urban land use. It stands to reason that vacant land is not a priority item on the national agenda.

The gradual migration out of the inner city by businesses that had settled there since the 1940s has brought many homes into a state of distress and destruction. They are now either tenements or vacant lots. Several fires and particularly the 1986 earthquake have contributed to worsen the massive deterioration—physical as well as social and environmental (crime, a growing gray market, heavy traffic, etc.). All of these factors combine to drive out the population (only 13 thousand people currently live downtown) on the wake of the investment flight.

On the other hand, the Downtown Shopping District known as DCC—barely 226 hectares or 1.4 percent of the greater metropolitan area—houses the Historic Center, a historic, artistic and cultural heritage that must be revitalized.

Given its modest size, the unbuilt inner city area plays a negligible role in renovation efforts. The small and odd-shaped vacant lots are spread out around the historic center in just 10.5 hectares of land (4.65 percent of the DCC). Nevertheless, they could account for as much as 40 percent of the DCC if one includes the so-called ‘latent vacant land’ involving underutilized, abandoned and borderline derelict buildings.

To achieve effective renewal of the DCC, it would first have to be restored to its residential function (to house up to 60 thousand people in high rises), complete with more public spaces and equipment. In other words, the area must be rezoned to restore a modicum of balance and diversity in land use. If this were achieved, the DCC would again be an attractive (and profitable) place, once more a landmark for the city.

The role of the government in boosting renovation initiatives is hamstrung by a lack of effective tax and regulatory instruments, and by poor tax collection enforcement,<sup>9</sup> which in turn limits local investment capabilities. Although several actions are under way, they are still not enough to attract private stakeholders. In this regard, the adoption of tax incentives might become one more element to attract those much-needed partners.

### **7.4. “Enseada da Gamboa” Project, Rio de Janeiro**

The state of neglect and dereliction of most of the harbor and/or ancillary facilities after the port of Rio de Janeiro moved to the city outskirts is one more example of a centrally located 'brownfield.' Meanwhile, local zoning legislation limiting residential use instituted an urban policy emphasizing financial and administrative occupancy. This resulted in the process known locally as ‘*esvaziamento do centro*’ (literally, flight from downtown), a ‘desertification’ of downtown Rio after business hours. The absence of a resident population, under-use of existing facilities, and the vacancy of lots and non-

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<sup>9</sup> El Salvador is the only Latin American country that has no property tax.

residential buildings all contributed to the deterioration of public areas that might be occupied by the upper tertiary sector of the economy.

Gamboa was once a cove later filled to build a railroad marshalling yard. It is set amid predominantly residential neighborhoods dating back to colonial days, and retains the original and unique parcel allocation along its slopes, with winding streets and housing units typical of that period.

The marshalling yard cut off this section of the city from its surroundings. This was largely responsible for stemming development of the area and discouraging investments, plunging the district into acute deterioration. Reversing the status quo requires government effort and actions to promote rehabilitation of the building ensemble, re-evaluation of traditional planning practices, and redefinition of action strategies.

Emphasis on multifunctional urban spaces where different land uses coexist is a stated concern of City Hall<sup>10</sup>. A new urban policy stresses the need for more flexible urban planning legislation to include permits for residential use of inner city properties.

That is the setting for the project known as “*Enseada da Gamboa*.” In combination with other interventions scheduled for the port district, the project involves occupation of a brownfield owned by *Rede Ferroviária Federal* (the federally-run railroad) covering roughly sixteen hectares close to Rio's business center.

The project had intended to restore the urban fabric, to improve access to the rest of the city, to revitalize adjacent neighborhoods and blend them to the surrounding landscape, and to take advantage of the area's proximity to the shores of Guanabara Bay.

While arrangements were being made for the city to purchase the land, the basic urban design was developed. The plan contemplates urban development parameters, project implementation steps, and land use categories.

Combination occupancy buildings were planned. They would be five-story buildings erected around inner courts for residential, business and service purposes, stressing the goal of multifunctionality and encouraging residential usage in the inner city. The plan called for construction of 2,500 residential units to house approximately ten thousand people, in addition to schools, health care and recreational facilities designed according to the expected new resident community.

The two port terminal warehouses owned by the old railroad *Estrada de Ferro Central do Brasil* would be preserved for their unique architectural features. They would be employed for commercial purposes, and for facilities such as childcare centers, schools and others.

Project “*Enseada da Gamboa*” was disclosed at *Feira da Casa Própria 1997* (Home Buyers' Fair) sponsored by *Caixa Econômica Federal* (the National Savings Bank). At the time, application forms were made available to anyone wishing to purchase property

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<sup>10</sup> The report refers to the Administrations of Mayor Luiz Paulo Conde (1993-2000).

in the area. The applications provided input to a market survey and a feasibility study to back up the development. The number of applicants far exceeded all expectations, evidencing a demand for new housing in the inner city. Once a profile of future residents was outlined -predominantly lower middle-class families - the housing units were allocated according to the number of bedrooms. Of the 1,688 applicants, 1,351 chose one-bedroom apartments, 164 selected two-bedroom and 173 chose three-bedroom units.

The development attracted the interest of building contractors as well as of various businesses and associations wishing to move into one of the lots or redeploy part of their offices to the buildings.

City Hall, together with public water, sewage, power, gas, and telephone utilities, began looking into development partnerships for construction design and implementation cost sharing. The government would take on the actual urban planning for the site, landscaping, public lighting, infrastructure systems, visual communication and urban furniture, plus determination of urban design and building specifications, and construction design approval.

Private partners were charged with the engineering design and construction works in the built area, as well as landscaping the common areas of each block's inner court according to the specifications laid out by City Hall.

In spite of the positive response found in both the public and private sectors toward the project, there is no agreement yet on the transfer of property ownership to the city government, and at the moment negotiations are at a standstill.

### **7.5. Impacts of the Free Market and Poor Urban Regulation. Selective Access to Urban Goods and Services in Quito**

Roughly one-fifth of the 20 thousand hectares contained within the official municipal perimeter of Quito are vacant. Land served by urban infrastructure, facilities, services, and proper access is either not used or under sub optimal use.

However, the issue is not just one of city expansion costs: urban growth encroaches more and more on environmentally protected areas, and urban usage increasingly competes for high-yield farmland. A real estate market ruled by the rationale of rent seekers gives rise to the phenomenon known as 'land fattening' (*engorde de tierras*).

Despite the efforts made by the local government to improve urban land management tools, technical goodwill alone is not enough to confront the powerful lobbies. In practice, the pressures exerted on the local Administration for real estate on the one hand, and the pressures coming from citizens movements on the other, result in *ex-post* government action. In other words, officials ultimately just legalize de facto situations existing outside an urban regulatory framework. Actually, City Hall acts as a "facilitator" rather than as regulator, legitimizing the formal market and indirectly also the informal one.

In the case of Quito, idle lands are effectively perceived as a problem, especially in an environment of tight financial constraints and rapid city growth. Making use of existing vacant land now would provide housing to roughly 60 percent of the current population, in addition to reducing social inequities and cutting local service and maintenance costs.

Although legislation provides for tax penalties against owners of vacant land, the law has numerous exceptions. In addition, the tax is not effective because rates charged on real estate are so low that they fail to encourage landowners to build. These lands carry high social costs particularly for the poorest inhabitants, who are pushed further and further to underdeveloped fringes by a fictitious land shortage.

### **7.6. The Case of Greater Metropolitan Lima**

Numbering about 6.5 million people living in 66,452 hectares in 1993, Lima grew fast<sup>11</sup> at a low-density rate, except toward its fully consolidated downtown hub (Calderón, 1999). The city expanded mostly thanks to a shift from farming to urban land occupancy driven by the changing attractive of returns on investments. In fact, this growth occurred in three different directions: from the city to its outskirts, from the outskirts toward the city, and between outlying districts, leaving several areas vacant.

Two circumstances caused urban income to supersede rural income: on the one hand, an increase in income at urban and peripheral areas due to the consolidation of the shantytowns known as *barriadas*; on the other, a decrease in income at farming areas as landowners feared enforcement of the new Land Reform Act.

The Land Reform Act (Law 17716 of 1969) focused on properties larger than 150 hectares in irrigated areas, and set a five-year target for the urban development of eligible outlying areas. Since then, Agricultural Production Cooperatives (CAP) have been established in large land holdings, and the deeds signed over to member farmers. Because it stemmed speculative property ownership practices, the law gave rise to a fear of expropriation and large landholders sought the illegal real estate market to sell their properties.

On the other hand, the formal market<sup>12</sup> developed under the umbrella of a highly concentrated land ownership structure: farming land around the consolidated city area was in the hands of just sixty-six families who became the brokers of the real estate market, especially during the nineteen-sixties<sup>13</sup>.

From 1980 on, the cooperatives were allowed to subdivide their land, which again changed the land ownership structure. Large areas could be parceled out into small properties, and this created a new class of stakeholders: the *parceleros*, or sharecroppers. Unsupported by production incentive policies, these new players became even more vulnerable to the pressures of urban expansion. They joined the illegal property market

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<sup>11</sup> Its population increased 10.4 times from 1943 to 1993.

<sup>12</sup> The market for solvent buyers, while the urban poor were confined to shantytowns known as *barriadas*.

<sup>13</sup> In fact, of the 66 large landholders, 41 went into to the real estate development business.

and simply ignored the rule stipulated by the 1976 Law 21419 whereby farming land was declared untouchable.

The Land Act of 1995 (Law 26505) lifted the protection granted to untouchable farming land authorized development of government-owned land, encouraging a certain *laissez faire* attitude toward land management. The immediate consequence was the faster deterioration of farmlands, not only in Lima but also in several other Peruvian cities.

Thus, the existence of vacant land in Lima can be explained by the response of urban land market stakeholders to changes in the regulatory framework. The loose enforcement of urban rules, sanctions and taxes has caused regulation to be driven by the actions of real estate players. The practice of leapfrogging strengthens those who hold on to land in expectation of its appreciation.

At present, vacant land accounts for little over 10 percent (6,895 ha) of the total surface area. Nearly half of it belongs to the private sector (urban developers and small farmers known as *parceleros*, or sharecroppers); 45 percent are owned by the government (vacant land not suitable for farming); peasant communities located mostly in the northern—and fastest growing—section of the city own the remaining 5 percent.

Vacant land provides an opportunity to improve the housing deficit in Lima via a number of policies involving, first and foremost, realistic redefinition of farming areas to be preserved, and implementation of policies to stimulate or compensate the *parceleros*.

Efficient management of vacant land contemplating close cooperation between the central and local governments and a review of local tax laws with the introduction of tax recovery incentives for improvements generated by public and community investments are essential for materialization of a balanced urban environment.

Given the above, encouraging a higher land occupancy rate to increase the supply of developed parcels for lower income families – for example, through a partnership between small owners, real estate developers and the State focusing on lower income citizens – would be a feasible alternative to expand legal access to urban land and homes.

### **7.7. Vacant Land and Recovered Land: Integrating the Former Canal Zone to Panama City**

The gradual transfer of the Canal Zone to full Panamanian jurisdiction started in 1979, and was both an opportunity and a challenge - a unique experience in urban management (Uribe 1999). While on the one hand it is indeed an opportunity to bring some relief to the overcrowded Panama City thanks to the new supply of land equipped with infrastructure, facilities and services, on the other, both the local real estate developers and the Panamanian Government find themselves treading on alien territory: a vast urbanized publicly-owned area not ruled by the usual market forces.

In the local private sector's agenda, urban land has long been targeted as a potential monopoly. The old speculative approach prevails, combining private stakeholders and government *laissez faire* regarding urban land use.

Lacking any past experience in the management of such extensive and valuable urban property, and at a time when it no longer exercised its previous planning role, the Government at first did nothing more than place the newly available land on sale in the market as a middleman. However, real estate prices skyrocketed to such an extent that it became virtually unaffordable to private developers. The State was left as the biggest landowner and therefore responsible for developing the land single-handedly.

Along the first decade after the Torrijos-Carter Treaties, back in the 1980s, government authorities failed to act except for environmental preservation initiatives (creation of national parks).

As the year 2000 drew nearer (when the Treaties would be finalized) the need was felt to be more proactive in the management of the land returned. An agency was set up in 1993 to oversee the area - the Interoceanic Region Authority (ARI)<sup>14</sup> - and land use plans were developed. The Study Program for Development of the Interoceanic Region began the same year. It consists of a Regional Plan, a Master Land Use Plan, and a Metropolitan Plan. Each such plan limits participation of the public sector to regulating developments carried out primarily by private players. In fact, the two largest private sector developments in Panama City ever in all its life are Costa del Este (300 ha) and Punta Pacífica (65 ha), both located outside the Canal Zone. They started in 1992 and 1999 respectively, when land in the returned areas was already available as concessions rather than under full ownership title.

From the citizens' perspective, the balance of these past years following the full transfer in December 1999 has been positive. Although much of the returned urban land is still public property, it is being used profitably and gradually becoming part of Panama City. One might say that the returned area does not constitute vacant land.

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<sup>14</sup>Through a technical cooperation agreement signed between the Inter-American Development Bank (IDB) and the National Government

## 8. Conclusions

Among the many conclusions stemming from the International Seminar on Vacant Land perhaps the most important one was determining that speculation pure and simple was not the only reason for the existence of urban vacant land. A number of underlying causes were amply illustrated, ranging from shortage of resources for land development to environmental considerations that prevent optimal use of urban spaces, in addition to legal obstacles and political pressure.

The presence of vacant areas in urban settings constitutes a problem both because they are a barrier to fair and equitable urban development, and because they drive their surroundings into physical and social degradation.

In terms of opportunities, the possibilities for redevelopment of vacant land are plentiful. They include an increase in the supply of new facilities and improved environmental protection; and industrial, commercial, and farming land use. Finally, they lay the groundwork for new applications. From a public administration standpoint, this whole set of possibilities means a boost to the taxable base, and more broadly speaking, to sustainable urban development. In other words, the fact that they exist can be interpreted as a positive prospect.

There is a marked difference, however, between the impact of vacant land areas in a context of urban stagnation—a reflection of shrinking investments in building—and their existence in a dynamic setting of booming development and growth. In the latter case, vacant land has a clear role as an asset to the entire community. Here, vacant land can help regulate the real estate market and improve land-use control. It can further determine the direction of urban growth and therefore the concentration (or dilution) of public and private investments.

Of particular relevance is the opportunity to develop vacant land to give lower income families more access to land and homes. Illegal occupancy and use of city land is a perverse scenario. On the one hand, the poor are caught between extremely high property prices and overregulation of certain sections of the city; on the other, they are driven either to outlying areas with virtually no infrastructure, or to environmentally protected areas. Here, due to deregulation and lack of enforcement (intentional or otherwise) of city rules, informal settlements are absorbed and then legalized later at much higher financial and social costs than would be the case had they been earmarked for low-income development from the start.

In seeking solutions to the problems caused by the existence of vacant land or in design of preventive policies, a discussion of instruments available revealed a broad range of alternatives, each involving advantages and disadvantages.

The property tax—whether progressive or not—is a key urban policy tool, but it requires adequate assessment as well as up-to-date and reliable registries for proper enforcement. Improved transparency in their application, i.e., clear evidence that taxes collected indeed

benefit the community, would certainly reduce both tax evasion and the hazard of political pressures.

Regulatory instruments such as zoning, transfer of construction capabilities, building bonds, index auctions, and piggyback transactions (or any variant thereof) are available in the urban laws of most Latin American cities. These instruments must be employed to foster urban development and not merely as a form of punishment, however. There is also a need for mechanisms to render them more flexible to withstand economic downturns, political turmoil, institutional weakness, etc.—in short, the problems shared by Latin American cities.

Developing public-private partnerships and alliances between the several tiers of public administration is increasingly instrumental to the successful rehabilitation of brownfields. They can take the form of concerted actions for urban development and city management.

The road toward a solution or solutions to the vacant land issue seems to involve both consideration for local social culture when defining redevelopment strategies, and a reliable local administration. Creating special agencies to manage the operation of new developments on vacant land brings more transparency and greater efficiency, provided that the agencies involved are sufficiently empowered to plan out their actions. A good example of this is the Puerto Madero renewal in Buenos Aires. Here, there was the dovetailing of a favorable environment for private investment, and an effort to link up the local and national governments (the latter through the newly-created Corporación Antiquo Puerto Madero S.A. management agency). The effort resulted in the rehabilitation of an area considered as an obstacle between the city and the River, in spite of being centrally located and easy to reach.

Even when there is a material project and urban planning agencies have direct (public lands) or indirect control (the power to rule on occupancy criteria) over the land, huge areas go undeveloped for lack of managerial and/or executive capabilities to implement the project. Recent experience in most Latin American cities reveals a track record of failures marked by the gap between intentions to develop vacant land and effective skills for actual implementation and/or attraction of the players involved (Smolka, 2002). An example is the Gamboa cove development in Rio de Janeiro, where efforts to negotiate the land purchase failed to bring the project to life.

The much-needed agreement among the several stakeholders involved in determining how to restore each vacant lot to a productive/public utility function must take into account at least the following elements: the production players occupying urban land (legally as well as illegally); the different interests of large and small landholders; real estate speculators; and policymakers. It should be pointed out that political will is a *sine qua non* for successful implementation of land rehabilitation/redevelopment efforts.

In this regard, the *Franja Costera* project in Asunción, Paraguay, is a paradigmatic example of a comprehensive renovation project—equipped with the required management capabilities, of proven economic feasibility, and fully funded—that came to a deadlock for lack of agreement on policy priorities between the local and national



public authorities. It is quite clear that the lack or shortage of financial resources—so often blamed for failing to develop vacant land—may not be the main obstacle in every case. Despite its proven economic feasibility and a signed funding agreement, the venture never materialized. This, in turn, belies another common fallacy, i.e., that project financing is the key constraint barring implementation of vacant land development.

Although speculation is still the main reason for land standing idle in Quito, the example of Metropolitan Lima points to other underlying factors. On the one hand, the competition for it between rural and urban uses; on the other, a planning framework vulnerable to the pressure of stakeholders in the real estate market (formal and informal).

Finally, the unique situation of the former Canal Zone in Panama illustrates the numerous possibilities of changing land-use rules far beyond residential applications.

The balance between constraints to and opportunities for development of vacant land seems to be clearly positive. Without losing sight of the barriers to development initiatives, both the successful efforts and the lessons learned from failed attempts offer fresh and tangible prospects of integrating vacant land into the dynamics of Latin American cities.

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