Land Governance for Land Markets

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SUMMARY

Enemark and Williamson (2010) showed that one of the most important instruments for an adequate land administration is good information on its land markets. Many countries have the rural and the urban land markets very much segregated, so they do not have consolidated information on prices and still less information on transactions. So every action or policy linked to the land markets needs a new valuation research and mostly they are questioned at the courts, both raising the need of large amount of resources. For most developing countries the lack of a good and affordable valuation system is a big challenge for taxation, for expropriation, for land consolidation and for other policies.

The literature in these issues is rather large, but the main ways to evaluate land and other assets available are based on: market value, net income value and cost value. And between the land market prices valuation the key ones are: hedonic prices, residual pricing method and appraisal methods .

In this article we will show a case that uses market valuation, hedonic prices and takes in account the appraisal method of the qualitative indicators. One of the most important issues was its low cost.

The model applied a methodology to explain and forecast rural land prices per hectare in some specific markets in Brazil. The data was obtained with questionnaires with the around 30 land buyers per group of municipalities. The methodology is based on a multiple regression model, with the logarithm of the rural land price per hectare as a dependent variable and, as explanatory variables, a group of variables related to physical aspects (soil, climate, landscape), production (systems of production, location, approach), infrastructure of the property and expectations (regional situation, local investments).

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This model provided an explanation for 70% of the variance in price per hectare of rural land and attended all assumptions of the multiple regression models. The statistical, economic and econometric evaluation of the models proved to be satisfactory for the forecasting of rural land prices per hectare in the Homogeneous Zone in question. The model has been used by the Brazilian Ministry of Agrarian Development to establish limits for buying land through the different land credit programs all around the country.

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