THE LIMITS OF LOCAL MANAGEMENT IN THE STRUCTURING OF THE CITY’S TERRITORY: REFLECTIONS ON REAL ESTATE VALUATION

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Abstract: The structuring of urban space is a product of the clash between urban planning and the “invisible hand” of the market, which creates a pattern of urbanization influenced by multiple variables, some manageable at the local scale and others that can be understood and modified only at larger scales, comprehensive, generally inaccessible to local managers. These non-local factors, such as population dynamics, the wage bill and the availability of credit, remain hidden and neglected in local territorial development actions, which undermines their effectiveness. Ignoring what cannot be changed contributes to the construction of territorial diagnoses full of “blind spots” that can guide local instruments and programs that are insufficient to change reality. This article addresses this issue from an exploratory approach to the popular housing market in the Macrometropolis of São Paulo - Brazil with the objective of identifying the non-local variables that contribute to explaining the structure of the real estate market. Understanding the local - non-local relationship can favor the conception of a new generation of territorial instruments to promote local development, which act in a less reactive way, enhance the integration of urban policies and recognize territorial complexity on multiple scales, thus, truly transform cities.

Keywords: Real estate market; Structure of the Urban Territory; Local Development

INTRODUCTION

Is it possible to think about local development only locally? There are several scholars and thinkers who argue that local actors and decisions on this scale are decisive for local development. The Italian territorialist school, studies on degrowth, good living in South America and India’s swaraj (radical ecological democracy) propose the construction of a new social, political and territorial structure that promotes equity, resilience, justice and social well-being, environmental preservation, diversity, democracy and economic and food security based on the local's protagonism. If these experiences touch on utopia in several aspects, they are no less valid or necessary for that reason. On the other hand, considering the various urban projects developed in many cities around the world with different levels of success and/or failure, one also realizes the importance and, almost always, need for leadership from Local Government. From Medellín to Barcelona, from Boston to London, from Berlin to Paris, in São Paulo or Rio de Janeiro, this observation remains. The place is a place for housing, work, leisure, consumption, in short, where life happens. Therefore, it will always be important. Given this, a question arises: what is the place of centralized action or a national policy for local development?

Local instruments, such as the master plan, compulsory installments and use, the progressive territorial tax and the onerous granting of the right to build, the focus of urban intervention actions in recent decades in Brazil, seem insufficient to guide urban development committed to social justice and the right to the city. There are unattainable points for local action, even for the most competent and committed managers.

This article aims to identify some of these points specifically from the perspective of territorial management and real estate appreciation based on an exploratory approach to the popular housing market in Macrometropolis Paulista – São Paulo/Brazil. The attributes of six projects of a similar type produced and marketed by the same developer were qualitatively analyzed to, from this small sample, infer non-local factors that may influence the definition of the offer price of the housing units. From observing the results of this exploration, we suggest guidelines for improving territorial management.
instruments. A deeper understanding of the local–non-local relationship can favor the conception of a new generation of territorial instruments to promote local development, which act in a less reactive way, enhance the integration of urban policies and recognize territorial complexity on multiple scales to this way, truly transform cities.

THE LOCATION AND THE REAL ESTATE MARKET

From the perspective of the central government, what is local? Does it correspond to the limits of municipalities or the territory where close, everyday relationships take place? Is it the space in which a network of social, political and economic dynamics allows the people who live there to have enough to live well? Is it the territory where people with the same customs, values or culture live? Is the location my city, my neighborhood or my street?

This answer is not obvious and is not unique. Depending on the issue being analyzed, the location takes on a specific contour. When proposing “planetary urbanism”, Brenner and Schmid (2015) identify limitations in the epistemology of urban studies and suggest that what was previously identified as a city can no longer be differentiated from the rest of the geographic space. In the 21st Century, the spatial boundaries between urban and non-urban are imprecise, ambiguous and, at times, incomprehensible.

Urban legislation, which needs to be pragmatic to meet the effectiveness and transparency requirements essential to public policies, adopts defined physical limits, which normally correspond to the borders of the municipality or administrative region. For the “invisible hand” of the real estate market, however, these limits are indeterminate and diffuse.

The structure of the real estate market is close to monopolistic competition, in which there are many sellers offering similar products, although not identical or perfectly substitutable for each other. The isolated action of an agent is not enough to change prices, products are always assigned a price and there is mobility to sell and buy.

Abramo (2007) points out that the three main distinguishing characteristics of the real estate market are the territorial immobility of the property, its high individual value and its long period of depreciation. A property cannot be moved to another place (or another market). The acquisition of real estate is always very expensive for families and, by compromising their future income, it imposes restrictions on the consumption of other goods and services over a long period of time. The long life cycle of a property, where the same family can live for decades, explains why housing demand is strongly conditioned by demographic phenomena (life expectancy, family structure and migration, for example).

The market acts on the landscape, whether through destruction, transformation or construction, to create spaces and, from there, form new identities and benefit from the principles of locational valorization. Agreeing with Sousa (2006), the real estate market must be the social mechanism for coordinating individual location decisions with land use, in order to reconcile individual freedom of action with the efficient use of society’s resources. Maciel and Biderman (2013), based on the location theory initiated by Johann Heinrich von Thünen and the construction of a hedonic price model, state that the value of a property reflects urban complexity and is a function of its intrinsic characteristics, distance to the center and the considered choice between amenities (“urban services package”) and travel (accessibility).

For Abramo (2007), considering the traditional urban economy, family choices
for the location of their homes are products of the decision between consumption of accessibility (proximity to urban facilities) and consumption of quantities of urban land (area). Villaça (2001) points out that there are two values in urban space: the first, which comes from the products (buildings, streets and infrastructures) themselves; and the second is the result of the location that inserts the product into the agglomeration that constitutes the urban area.

The real estate market adopts several strategies, which normally involve a cycle of creating new uses and spaces and devaluing old ones, so that demand is always growing. For Harvey (2005), with regard to geographic expansion, surplus capital can be absorbed in two ways. One of the ways is appropriation, that is, finding a space and declaring it yours. The other way to have surplus capital absorbed is to export the capital, which moves elsewhere and starts new industries. As a consequence of this capitalist process of territorial expansion, old neighborhoods are becoming spatially obsolete or, according to Gonçalves (2018), unable to guarantee the maintenance of high and satisfactory levels of land income, profits and interest rates. Families then look for new launches to obtain better locations, the stock of old properties increases, which causes the prices of these properties to fall and the old neighborhoods to depreciate, increasing the value of new developments even more.

Market dynamics are, in a simplified model that does not respond to all the complexity of contemporary cities, the result of intra-urban appreciation and devaluation resulting from fluctuations in prices and property stock caused by real estate investments. This process shifts demand, causing effects of attraction and repulsion of groups of similar people, creating a pattern of urbanization characterized by segregation.

For Bourdieu (1994), segregation constitutes a mechanism of “hierarchical spatial distinction” that spatially reiterates the class divisions and socioeconomic stratification of society. Villaça (2001) states that this segregation allows the concentration of benefits (greater availability of amenities in quantity and quality and reduced travel) in certain sectors of the city, which are occupied by the dominant classes who control the production of urban space through three mechanisms: the market (of an economic nature), the State (of a political nature) and ideology. Thus, agreeing with Villaça (2001), planning and urban legislation, which must oppose this process of predation on the territory but have already been captured by market interests, are not very effective and have reactive and untimely action.

LOCATION LIMITS AND REAL ESTATE MARKET STRUCTURE

The visibility (or strength) of this pattern of urbanization promoted by the real estate market allows important aspects not managed at the local scale to remain hidden and neglected in local territorial development actions. Concerned with the most apparent processes, local planners and managers minimize the impact of structures perceived and administered at other scales, such as demographic dynamics, changes in wage income and credit regimes.

Figure 1, which shows the evolution from 2009 to 2019 of the average appreciation of properties in Brazil, calculated and published by the Brazilian Association of Real Estate Developers – ABRAINC in association with the FIPEZAP website, in relation to variations in salary income, GDP, savings and CDI, shows that the behavior of the real estate appreciation curve is close to the salary income variation curve, demonstrating the existence of a correlation between property value and family income. It is important to point out...
that the salary income variation curve, drawn for this article based on information from the Family Budget Survey - POF and the National Household Sample Survey - PNAD from the Brazilian Institute of Geography and Statistics - IBGE, surveys that suffered methodological changes and discontinuity of the series during the period of analysis, deserves review and/or confirmation as it is not free from failure or error resulting from the compilation carried out. Information on GDP variation was also obtained from IBGE while savings and CDI variations were consulted on the Central Bank of Brazil website.

Still observing Figure 1, the volatility present in the property's average valuation curve stands out, in which annual variations reach an appreciation of 24.9% in 2011 and 0.9% in 2015, with a negative variation of 0.5 % in 2017. It is not possible to explain this intensity of variation solely by the components of the property price formula presented above. Over a period of one year, it seems impossible for changes in physical characteristics, amenities and/or location to justify an average variation of more than 20%. There are other factors that explain these variations and Figure 1 shows that one of them must be related to family salary income.

Other evidence of the influence of unmanaged factors at the local scale in the structuring of the real estate market can be seen in Table 1, which compiles information on the supply in May 2021 of apartments sold under the Casa Verde e Amarela Program (which replaces the Minha Casa Minha Vida Program). All properties selected in the sample are new and never inhabited, have completed construction, have similar types of implementation and residential units, are located in Macrometropolis Paulista (São Paulo/Brazil) and were produced by the same construction company (MRV) with similar construction methods (structural masonry). These are residential units sold to families with a monthly income between R$2,000.00 and R$7,000.00, who do not own another property, through direct sales from the construction company under the conditions of the Casa Verde Amarela Program, that is, with a subsidy and bank financing with resources from the Length of Service Guarantee Fund – FGTS. The largest subsidies are allocated to lower-income families and can reach R$47,500. Monthly installments are limited to a 30% commitment of monthly income and the financing term is up to 360 months. According to data from the FGTS Budgetary Execution (SICNL, 2021) and considering the effectiveness and speed of commercialization, these conditions appear to be attractive: all resources allocated in the program's annual budget have been fully consumed since 2009. Credit restrictions may make it difficult (or even prevent) the production and commercialization of projects aimed at the popular housing market.

These conditions allow us to infer that production costs are similar, that is, the material, human and financial resources necessary for the construction of projects belong to the same production chain, with similar availability in quantity and prices. The attributes of the typology are also similar in terms of form (apartment with two bedrooms, living room, kitchen and bathroom), the area of the housing unit and the provision of amenities within and nearby the condominium. In short, the real estate product offered, in terms of building characteristics, accessibility and surrounding amenities, is the same.

The variation in the offer price of the “apartment” real estate product in the various projects studied reaches 64% between the highest (R$ 229,500.00) and the lowest (R$ 139,800) offer price, with a standard deviation of 21% in relation the average. This explains
Figure 1: Valuation _ Average Property in Brazil and Savings and CDI Income. Source: elaboration based on information from IBGE, the Central Bank and ABRAINC/FIPEZAP.

<table>
<thead>
<tr>
<th>Offer</th>
<th>Neighborhood and Municipality</th>
<th>Typology</th>
<th>Price (R$)</th>
<th>Price per m² (R$/m²)</th>
<th>Proximity</th>
<th>Access ways</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential: Nascente do Riacho</td>
<td>Pirituba - São Paulo</td>
<td>Apartment with living room, two bedrooms, kitchen and bathroom Private area: 42.74 m²</td>
<td>229,500</td>
<td>5,370</td>
<td>Next to CPTM Piqueri Station, close to Tietê Plaza Shopping, Supermercados Pastorinho, Faculdade Anhanguera, Praça Thomas Dias, Parques Jardim Felicidade, Cidade de Toronto and São Domingos, CTEEP, Supermercado Extra and McDonald’s.</td>
<td>Rod. dos Bandeirantes, Av. Marginal Tietê, Av. do Anastácio, Via Prof. Simão Faquenboim, Rod. Anhanguera, Rod. Castelo Branco and Marginal Pinheiros.</td>
</tr>
</tbody>
</table>
Table 1: Apartments on offer in the Macrometropolis of São Paulo in May 2021. Source: own elaboration based on information published on www.mrv.com.br in May 2021.

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</thead>
<tbody>
<tr>
<td>County</td>
<td>São Paulo</td>
<td>Saint Andrew</td>
<td>Campinas</td>
<td>Guarulhos</td>
<td>Sorocaba</td>
<td>São José dos Campos</td>
</tr>
<tr>
<td>Offer Price of the Property Study (R$)</td>
<td>229,500</td>
<td>229,500</td>
<td>194,000</td>
<td>183,000</td>
<td>141,200</td>
<td>139,800</td>
</tr>
<tr>
<td>Casa Verde and Amarela Program Limit in May /2021 – (R$)</td>
<td>240,000</td>
<td>240,000</td>
<td>230,000</td>
<td>240,000</td>
<td>230,000</td>
<td>230,000</td>
</tr>
<tr>
<td>GDP per capita IBGE 2018 (R$)</td>
<td>58,691.90</td>
<td>40,489.21</td>
<td>51,417.44</td>
<td>44,897.70</td>
<td>52169.13</td>
<td>55,603.18</td>
</tr>
<tr>
<td>HDI M 2010 - IBGE</td>
<td>0.805</td>
<td>0.815</td>
<td>0.805</td>
<td>0.763</td>
<td>0.798</td>
<td>0.807</td>
</tr>
<tr>
<td>IBGE Estimated Population 2021</td>
<td>12,396,372</td>
<td>723,889</td>
<td>1,223,237</td>
<td>1,404,694</td>
<td>695,328</td>
<td>737,310</td>
</tr>
<tr>
<td>% Unoccupied Private Households - 2010 Census</td>
<td>9.00%</td>
<td>10.30%</td>
<td>10.10%</td>
<td>9.55%</td>
<td>10.92%</td>
<td>11.48%</td>
</tr>
<tr>
<td>Distance to the City Center (km)</td>
<td>20.5</td>
<td>5.9</td>
<td>7.6</td>
<td>16.7</td>
<td>12.8</td>
<td>14.3</td>
</tr>
<tr>
<td>Distance to the City Center (minutes)</td>
<td>32</td>
<td>13</td>
<td>14</td>
<td>23</td>
<td>20</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 2: Attributes Considered in the Comparison Made. Source: own elaboration.
why the price of the same apartment, which has the same physical characteristics (typology, area and location) and similar conditions of proximity and provision of amenities, can be so different within a territorial radius that does not exceed 120 km from the center of the Macrometropolis of São Paulo? If the intrinsic characteristics of the enterprise (production costs, typology, amenities and surroundings) are not sufficient to explain this variation, what other aspects can explain it? Answering these questions is not a simple task, but it is relevant for urban planners and planners responsible for territorial management.

From an exploratory approach to the information organized in Tables 1 and 2, it is possible to identify some clues. There are structuring elements of the real estate market such as the size of qualified demand for acquisition (higher in cities with larger populations), competition (for other new developments, used units or other housing solutions, also higher in larger markets), financing conditions (the rules of the Casa Verde and Amarela Program establish different limits for the value of the property financed between the cities studied) and available income (higher the average income of the population, higher the prices), which can help to clarify the issue.

In the small sample studied, prices are higher in cities with a larger population: São Paulo has higher prices than Campinas, which has higher prices than São José dos Campos and Sorocaba. As it is a real estate product aimed at a specific public and marketing depends on financing granted under the conditions of the Casa Verde Amarela Program or the Minha Casa Minha Vida Program, the absolute prices are close to the limits imposed by the rules of the housing programs, which vary among the cases studied. Therefore, for this sample, we can infer that the offer price reflects the financing conditions more than the composition of production costs.

Considering the results of the exploratory approach, the logic behind the formation of urban property prices appears to follow a composition of factors related to the local and non-local, which together define the final price charged. We can list as factors identified at the local scale: aspects related to the production costs of the real estate asset; the characteristics of proximity and accessibility, which influence family travel times; the availability of amenities and infrastructure; and the adjustment factor related to the stock of similar properties that multiplies or reduces prices depending on the monopolistic competition structure of the real estate market.

On the other hand, among the factors identified with the non-local scale are some population and demographic aspects, such as the size and growth dynamics of the population. The larger the population, the larger the market (greater possibility of demand and greater supply of real estate products) and, therefore, the higher the prices charged (Table 2).

The behavior of the wage bill and, consequently, family income is also non-local (Figure 1). The wage bill is impacted by economic dynamics that are established on broader, sometimes global scales, and family income is mostly taxed by the central government.

The third factor identified with non-local refers to the availability of credit for the production (construction) and commercialization (purchase of properties) of real estate. In the cases studied, the Casa Verde e Amarela Program fulfills this role. The volume of credit feeds the real estate production cycle: as properties in themselves correspond to significant financial values for developers and families, there is a need for financing at both ends of the process, that is, in construction and sales. Credit is linked, in
turn, to basic interest rates set by the central government and practiced by financial agents. One of the important aspects of this dependence on credit is related to the fact that, in the absence of access to credit under subsidized conditions, some formal markets are not even able to exist, stimulating the formation and/or expansion of informal markets, which develop along the way. Despite laws and technical standards.

**IMPROVING LOCAL INSTRUMENTS BY RECOGNIZING THE NON-LOCAL**

Failure to recognize the factors that constitute the structure of the real estate market that are not manageable on a local scale implies a reduction in the capacity to direct and operate local development policies. For example, there will hardly be progress in the construction of a more humane city if financing is available for an urban project capable of destroying natural and/or cultural heritage that represents the identity of the place. Local development policies that ignore the territorial dimension, structured by local and non-local conditions as defended in this article, end up, inexorably, contributing to aggravating urban problems that are evident in economic, social and political exclusions and disparities.

Glaeser and Gyourko (2008) argue that, against common sense, the least volatile markets and, therefore, with better conditions for management, are those with fewer regulations and greater simplicity in requirements, favoring the offering of a greater quantity of real estate products to smaller prices. It therefore values market mechanisms such as expanding supply and reducing transaction costs to the detriment of regulatory complexity. The projections on which zoning is based carry a lot of uncertainty and, therefore, must be continually monitored. Once a change or new trend is noticed, adjustments must be made quickly, in order to minimize harmful effects and enhance beneficial effects. In other words, legislation (local and non-local) must be simple, understandable by everyone and address a few easily identifiable items in the landscape and territory, in order to enhance the social control exercised by everyone and not just by public agents. This also applies to non-local scales, especially with regard to the provision of credit, remuneration for work and taxation.

Alvim and Castro (2012) highlight the importance of the stages of formulation, formalization and implementation of methodologies for evaluating urban policies through the definition and monitoring of a set of indicators that make it possible to gather, from a territorial approach, environmental elements, economic, social and political-institutional. Considering the extensive life cycle of assets and real estate investments, it will be necessary to adjust and/or redirect actions and programs over time until the objectives defined in the policy are achieved, which is achievable and effective only if there is a set of indicators measured and reliable. What is not known cannot be managed. It is essential to maintain monitoring systems that guide necessary corrections in a timely manner. These systems must be comprehensive and include variables such as population dynamics, wage bill and credit availability.

Bertaud (2018) states that planners must invest time, human resources and physical-financial resources to fully understand market mechanisms. Every planning department must monitor the spatial distribution of changes in property prices. Attention must be paid to the supply side, including the elasticity of land supply, the productivity of real estate industries, and the reduction of transaction costs imposed on building permits and property title transfers.
Similar to fiscal responsibility, it is possible to create urban planning responsibility, which links urban planning parameters, especially quantitative ones, to legal diplomas with pre-defined validity and mandatory publication on determined dates for all levels of government, such as the Multi-Year Plan or the Annual Budget Law.

Urban policy instruments act reactively and are always behind market movements, which are more agile and powerful. They are aimed at capturing the gains made, compensating for the damage caused or restricting productive action, when they could dare and seek to induce new businesses and behaviors committed to social interest and human-nature integration, articulation with actions and programs managed at other scales and, finally, the transformation of the territory based on the forces and conditions that structure this territory, making it less unequal and fragmented.

Paraphrasing Harvey (2014), the right to the city is greater than the right to what exists. Promoting the right to the city necessarily includes the right to build and recreate a space or a city that eradicates poverty, minimizes social inequality and restores the degraded environment.

FINAL CONSIDERATIONS

The observation of a small set of popular housing projects presented in this article explains the existence of non-local aspects that interfere with prices charged in the local real estate market and, consequently, impact the city’s territory. The study presented is initial, limited and does not achieve scientific validity, although it intends to test relationships and arguments that are still little explored in urban studies. Based on the observation of evidence collected in market offers, it suggests guidelines for improving territorial management instruments.

Ignoring factors that cannot be modified locally contributes to the construction of territorial diagnoses full of “blind spots” and insufficient to guide local instruments and programs capable of changing reality. If non-local aspects, such as population dynamics, the wage bill and the availability of credit, remain hidden and neglected in local actions of popular housing and territorial development, intended territorial movements may not be achieved and past mistakes may be repeated, worsening problems urban issues that must be resolved, such as precariousness, informality, fragmentation and spatial segregation.

Recognizing that the structuring of urban space is the product of urbanization influenced by multiple variables, some manageable on a local scale and others that can be understood and modified only on broader scales, generally inaccessible to local managers, contributes to the creation of a new generation of more effective territorial management instruments that are more articulated with sectoral policies and programs administered at other levels of government. Public housing, studied in this article, is an example of a sector that can benefit from understanding and bringing together local and non-local.
REFERENCES


