How do international development projects affect property values?

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When looking to buy a home or other property in the U.S., location is typically at the top of the list—many buyers value properties with access to amenities like schools, parks, and an easy commute. But is that value shared by home buyers in developing countries? University of Illinois economist Hope Michelson looked at property transactions in Kenya near what she assumed would be a highly desirable location and found the real estate mantra, "location, location, location," wasn't necessarily the guiding principle there.

"A rich literature in environmental economics has studied how property values change within area, or basin, of some kind of investment," says Michelson. "A house or a piece of property has a bundle of characteristics. We can't know how people value a new amenity, such as a beautiful park built just down the street, because there isn't a price for it. But proximity to the park is one of the characteristics in the bundle that homeowners purchase when they buy a house close by. Crudely, if two properties are alike in every other way, we can look at the difference between those values and put a value o that park or other amenity."

In this case, the amenity in Sauri, Kenya was living in the area around one of the towns in the Millennium Villages Project—a large anti-poverty effort that began in 2005 and was based out of Columbia University's Earth Institute, where Michelson was a post-doctoral researcher. The project operated in 12 villages in 10 countries in Sub-Saharan Africa, investing in education, infrastructure, healthcare, and agricultural systems with the goal of using an integrated project and investment approach to achieve the Millennium Development Goals in the sites—including eradicating extreme poverty and hunger by 2015. The project is area-based, meaning that households living within a defined geographic area are the immediate beneficiaries of, for example, fertilizer subsidies, improved schools and health clinics, and access to project agricultural extension and health workers.

"We thought, with all of the money invested into these Millennium Villages to improve health, infrastructure, and education, as well as all of the publicity and project activity, people might want to move into that area so they could access the improved amenities," Michelson says. "In areas with functioning land markets, shouldn't we see some change in the prices of the properties there?

"It's a relatively obvious thing to do, but no one has ever done it in developing countries or with respect to evaluating how a project impacts households' behavior - specifically household decisions about whether to live in a project area. Do people seem to be trying to move into the area and are they placing a higher value on a property based on its location inside or near the area of project activity?"

The analysis required good land market data. She and her collaborator hired a local resident to visit the local land office and transcribe all of the land transactions including the locations and the dates beginning in 1999 and through 2013. This gave them data starting about five years before the Millennium Village project began.

"We didn't see much of a price change over time in village properties that we can attribute to the project," Michelson says. "There was a huge amount of monetary investment in these villages, a huge increase in public goods provision by the project. To some extent that's good; poor people aren't being pushed out by any inflationary pressure on land being caused by the project.

"But why didn't the land prices go up? It may be that the benefits of the village were available to those living nearby. If they could come in and get healthcare, for example, maybe that was just as good as living directly in the project area. There were certain subsidies that only people living inside the area received. But it could be that people weren't convinced that the benefits would be sustained, so why move?"

Another theory is that residents nearby are holding onto their land to see if property values go up and then sell. "They're waiting because they aren't sure what the true value of their land will be. So perhaps if we came back in another 10 years, we'd see a difference," Michelson says.

Michelson says she sees value in the technique they used to learn how people decide where they want to live with respect to large development programs.

"This method has a lot of promise to complement expensive, big-impact evaluations in places where the land markets are thick enough and you can access reliable historical data on land transactions," Michelson says."So, in some ways, the results are a little unsatisfying, but in another, it's very intriguing. And the analysis is a nice demonstration of the way that such a method might complement standard methods of impact assessment elsewhere."

More information: Hope Michelson et al, The Millennium Villages Project and Local Land Values: Using Hedonic Pricing Methods to Evaluate Development Projects, *World Development* (2017). DOI: 10.1016/j.worlddev.2017.06.002

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