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Can Markets for Development Rights Improve Land Use and Environmental Outcomes?

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This paper will examine the potential for transferable development rights (TDR) markets to achieve environmental and land use goals. The first part of this paper will review and extend the literature on the theory of TDR markets and how they would be best used to achieve environmental goals. Case studies of existing TDR programs will explore the economic and institutional factors that allow the market to work in some cases and not in others. Key elements of design and implementation that make TDR markets effective will be assessed. The second part of this paper develops a land use model of economic development for an urban area that will eventually be used to analyze the effectiveness of different TDR program designs. The components of the model—housing demand by consumers, a decision model of farmers to sell or hold land, and a developers model—are each described. This paper will show that all three groups are integrated into a model of land use change as the urban area grows over time. Next steps for analysis of the effects of TDR markets and other policies using the model will be discussed.