Rental Housing Wanted

Policy Options for Latin America and the Caribbean

Andrés G. Blanco, Vicente Fretes Cibils, and Andrés F. Muñoz

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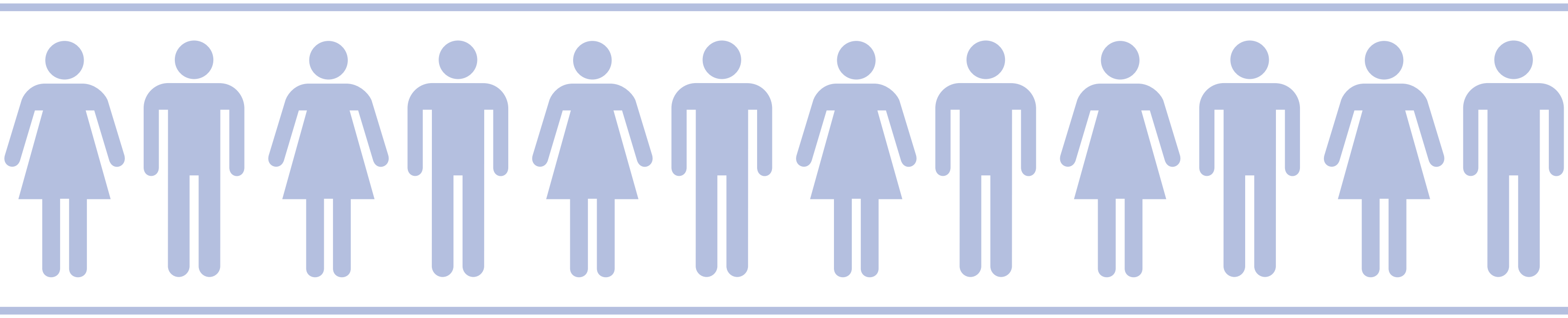


Executive Summary

The rental market is significant in the Latin American and Caribbean (LAC) region: currently, one out of every five households rents their home, despite the bias of public policy toward homeownership. This proportion has continued to increase over the last 10 years in most countries and is greater in urban areas, especially in the largest cities, where it is more than 40 percent. This is crucial in a region where today the urban population exceeds 80 percent and is expected to increase further in the coming years. Rental housing has better conditions in terms of infrastructure and construction materials than informal housing, and similar conditions to those of homes in the formal economy, even for the population in the lowest income brackets. **Renting may thus become an efficient and effective alternative in terms of cost to address the quantitative and qualitative housing deficit that currently affects almost 40 percent of the region's households.**

The rental housing supply is diverse, private, and small-scale, and consists mostly of individual owners of the same social extraction as their tenants. **A greater dynamism in the sector could not only increase the supply but also help landlords improve their incomes. Additionally, there is an opportunity to be explored in large-scale private commercial supply.**

Rental housing in the LAC region is not just an option for the poorest. In fact, in some countries, this type of housing tenure increases with household income, while in others it is concentrated in the middle-income

sector of the demand. This phenomenon is explained by the high rates of informality in the housing sector, which allow low-income households to become homeowners, even though the homes may be poorly built and located. **Rental housing is predominant among some of the more dynamic population groups, such as young people, one-person households, and divorced people. For this reason, support of the rental market could be a better way to satisfy the greatest demands and increase residential mobility.**

The most centrally located, densely populated, and consolidated areas within cities have greater concentrations of rental homes. **For this reason, a rental housing**

policy linked to the appropriate planning and zoning instruments would help mitigate low-density peripheral growth and the resulting segregation, to create denser, more accessible, and more compact cities.

The institutional framework and the rental housing market, especially the formal housing market, are constrained by regulations, information asymmetries, and high transaction costs. This means that, with a few institutional changes, the market for rental housing could become more dynamic. **For example, decreasing repossession times or creating a system of rent guarantees could expand effective supply. It is also possible to stimulate supply through incentives aimed at incorporating vacant homes into the housing market in the region**—which, in some cases, are up to 20 percent of the total. This would help mitigate the shortage of good quality housing in good locations.

Thus, the rental market could become a key instrument of housing policy in the region. Governments can complement existing policies that support homeownership with measures geared towards incentivizing this type of tenure. With regard to supply, governments could support the provision of small-scale rental housing and promote the creation of large-scale commercial production. As for demand, governments could consider direct subsidies and explore other alternatives that combine rent and ownership, such as leasing. Lastly, with regard to the institutional framework, governments should eliminate excessive rent controls, ensure a more timely repossession process, improve market information, and link urban planning to rental policy.

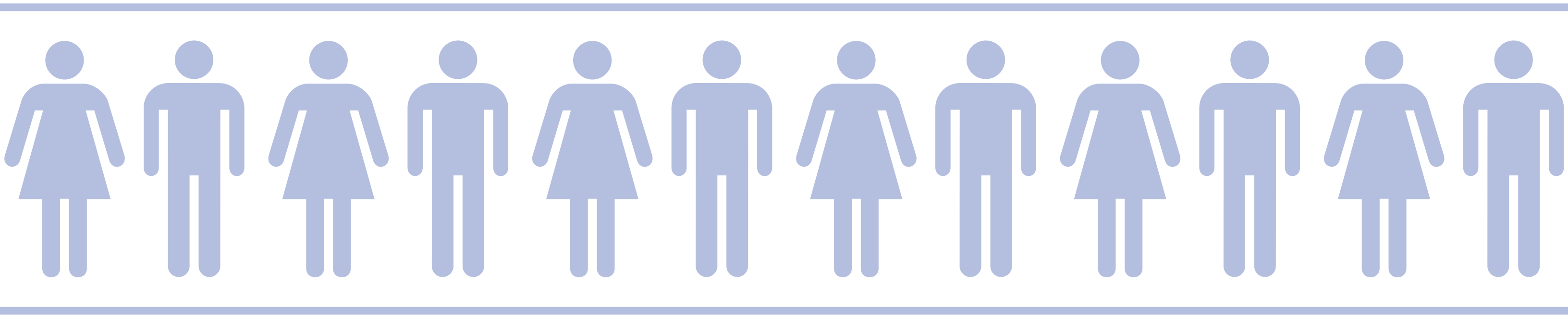
These interventions should be understood to be part of a general and comprehensive framework of housing and urban policies based on the concept of housing as a service, which impartially offers a range of options that address the preferences and needs of different segments of the market. In this way, rental housing policies must complement property ownership, respond to the context, and be incremental so as to be appropriate for specific spaces and locations. Moreover, any policy decision should be accompanied by cost-benefit studies of the programs to be implemented, in order to underpin them with an operative and financial management framework that is both efficient and sustainable.

About the Authors

Andrés G. Blanco is a senior specialist in urban development and housing at the Inter-American Development Bank (IDB). His work centers on economic aspects of planning in areas such as housing and land use. He has a licentiate degree in economics and a master's degree in regional development planning from the University of the Andes in Bogota and a Ph.D. in urban and regional planning from Cornell University. Andrés has worked as a researcher and consultant on a variety of projects related to urban planning, urban economics, and evaluation of public policies for organizations such as the United Nations Development Programme, the Lincoln Institute of Land Policy, and various governments of the Latin American and Caribbean (LAC) region and the United States. He was also a professor in the Urban and Regional Planning Department of the University of Florida. Currently, Andrés works on the design of urban planning and housing policies in various LAC countries, in particular on topics related to rental housing and land value captures.

Vicente Fretes Cibils is the head of the Fiscal and Municipal Management Division of the Institutions for Development Sector of the IDB, where he has been working since 2007. He began his career as an economist in 1987 at the World Bank, where he held several positions, among them chief economist in the Operations Department for the Andean Countries; lead economist for Venezuela, Colombia, and Mexico; and lead economist in the Economic Management and Poverty Reduction Sector of the Andean Countries Department. He has been a university professor in Argentina and the United States, and has published on topics in finance, applied econometrics, public finances, international economics, and development economics. Vicente finished his undergraduate work at the National Northeastern University of Argentina and his post-graduate work at both the University of Pennsylvania and North Carolina State University. He has a master's degree in business administration and doctorate in economics.

Andrés F. Muñoz is a senior associate in the Fiscal and Municipal Management Division of the IDB, which he joined through the Young Professionals Program in 2009. He has worked as a consultant to the United Nations Development Programme and the District Secretariat of Finance of Bogota, as well as a researcher and teaching assistant in public finance and democratic governance in developing countries at the Wagner School of New York University (NYU). Andrés has a licentiate degree in economics and a master's degree in public administration from the University of the Andes in Colombia. He is currently a doctoral candidate in public administration at NYU.



Introduction

Housing as a Set of Services[1]

Undoubtedly, there is no one who has not dreamed of owning a home, nor a politician who has not promised to provide one. Providing shelter to one's family is a reasonable objective. However, because housing is actually a service more than a mere dwelling, renting is a valid—and often preferable—alternative to owning.

Housing is a combination of many services. Choosing a place to live involves selecting a piece of property with certain characteristics of size and quality, a specific location within an urban setting with particular attributes of access, a neighborhood with certain given externalities of proximity, and possibly a financial investment that can be capitalized by virtue of these other factors and the evolution of the housing market. This choice can also be weighed based on individual preferences and available resources. This conceptualization can be summarized in one of the three laws of housing inspired by the work of John Turner (1976: 5): "what is important about housing is not so much what it ***is*** as what is ***does*** for people's lives."

This concept is pertinent for public policy because it implies that there is no universal ideal of desirable housing. On the contrary, the ideal solution depends not only on the particular preferences and economic possibilities of each household; it also evolves over time with changes in family composition, income, and needs. In the Latin American and Caribbean (LAC) region, governments have opted to view housing as a capital good, mostly disregarding its other services.

This is why the fulfillment of this need has consisted primarily of the provision of new homes for ownership. However, the exclusive and excessive promotion of homeownership can reduce the flexibility of the

[1] The findings presented in this publication are the result of a research project financed by the IDB (Inter-American Development Bank) in which a comparative research methodology was utilized, combining quantitative and qualitative methods as well as case studies in 19 metropolitan areas in 9 countries within the region: Argentina (Buenos Aires and Rosario); Brazil (Sao Paulo, Curitiba, and Salvador); Chile (Santiago, Valparaiso, and Concepcion); Colombia (Bogota, Medellin, and Barranquilla); El Salvador (San Salvador and Santa Tecla); Jamaica (Kingston); Mexico (Mexico City and Guadalajara); Peru (Lima and Trujillo); and Uruguay (Montevideo). A more detailed version of the results and case studies is presented in Blanco, Fretes Cibils, and Muñoz (forthcoming).

market in meeting the actual housing demands, affect worker mobility, increase financial risk by concentrating assets, accentuate low-density development on the periphery, and negatively impact public finances because it is a costly and difficult option to scale up massively, particularly for low-income housing.

Housing policy should thus be based on the concept of service rather than on type of tenure, and should aim to increase access within a market that offers variety, quality, and opportunity. Renting can be a critical component of an effective, flexible, and inclusive system of housing service provision. Thus, the main purpose of this publication is to promote an open discussion about how to develop and expand this market in the LAC region.

This Monograph is divided into three sections. The first section describes the housing problems in the LAC region, specifically, the quantitative and qualitative gaps and difficulties related to affordability and segregation. It also identifies the potential benefits of rental housing as a more fiscally sustainable low-income housing alternative, as a flexible option that better satisfies the preferences of certain segments of demand, and as an opportunity to provide better locations and disincentivize low-density peripheral development.

The second section describes the current state of the rental housing market in the LAC region. It concludes that, although the region is mainly made up of homeowners, ownership was not always the main form of housing tenure in urban areas, and renting continues to be a better option for some segments of the demand. It affirms that the probability of renting does not decrease with the incomes of those seeking housing; that rental housing is not of poor quality and is usually more centrally located, in areas of greater population density, and more accessible; and that the supply is diverse, private, and small-scale. Nonetheless, the formal market is constrained by regulation, information asymmetries, and high transaction costs.

The third section contains a series of policy recommendations for LAC governments, including the following categories: (i) supply, which specifies some incentives for increasing the provision of small-scale rental housing and creating large-scale commercial production, (ii) the demand, which describes incentives such as direct subsidies, rent with option to buy, and other alternatives that combine rent and ownership, and (iii) the legal framework, which presents some suggestions relating to rent control, the repossession process, information asymmetries, transaction costs, and urban planning. These suggestions are differentiated according to household income (high, middle, and low), because they are segmented markets that respond to different incentives.

1

The Problem of Housing in the LAC Region: Deficit, Affordability, and Segregation

Deficit: Informal Settlements

The housing deficit continues to be a problem in Latin America and the Caribbean. In 2009, 37 percent of households—nearly 54 million families throughout the region—suffered from some type of housing problem. Most of this deficit is qualitative: 12 percent of homes are built with inadequate materials, 6 percent are overcrowded, 21 percent have infrastructure deficiencies, and 11 percent have problems related to security of tenure (Bouillon, Medellin, and Boruchowicz, 2012).

The quantitative deficit is 6 percent, meaning that nearly nine million households either lack housing services or their houses are inadequate. The majority of these percentages have been decreasing since 1995: the quantitative deficit has declined by two percentage points, the deficit in materials and overcrowding by four points, and the infrastructure deficit by seven, while the deficit related to security of tenure remains unchanged. However, in absolute numbers the deficit has increased in all categories, with the exception of materials and overcrowding, where it has remained constant (Bouillon, Medellin, and Boruchowicz, 2012; Rojas and Medellin, 2011).

These averages tend to obscure the considerable variation among countries, rural and urban areas, and income segments. For example, the total deficit ranges from 18 percent in Costa Rica to 78 percent in Nicaragua. Likewise, the urban deficit is 32 percent, while the rural deficit rises to 60 percent, with variations from the minimum of 12 percent in urban areas in Costa Rica to its maximum of 98 percent in rural Peru. In terms of income, the total deficit for the region in the poorest urban quintile is 52 percent compared to 16 percent for the highest income quintile. This disparity is maintained in each component of the deficit and proves that although the housing problem is more accentuated in lowest-income segments, there are also problems among the high-income segments. In fact, of the 32 percent of urban households with deficits, only one-fourth live below the poverty line (Bouillon, Medellin, and Boruchowicz, 2012; Rojas and Medellin, 2011).

Although the exact figures may vary according to how the deficit is defined and which methodology is used, there is a problem of access and housing deficiencies. Additionally, in spite of the decrease in the rate of population growth, this situation will continue in the future due to the increase in demand caused by the reduction in the size of households, the rise in the rates of separation and divorce, and the increase in life expectancy (Gilbert, 2012). Even discounting the effects of greater economic growth and housing policies, the deficit is estimated to reach 36 percent in 2015—that is, one percentage point lower, but five million homes more, than in 2009 (Bouillon, Medellin, and Boruchowicz, 2012; Ruprah, 2009).

Meanwhile, annual housing production rate barely covers a quarter of the need caused by the accumulated deficit and the formation of new households (Ruprah, 2009). In these circumstances, it is likely that informal settlements—the traditional response to housing problems, characterized by deficiencies in infrastructure, social services, titles, and construction licenses—will continue to grow.

In the typical pattern that gives rise to this type of housing developments, a household gains access to land informally, whether by trespassing on land or acquiring subdivisions illegally, and a process of progressive self-help housing construction begins.[2] In the main cities in the region, a large percentage of the population, sometimes up to 60 percent, lives in informal housing (Gilbert, 1998). Many of these settlements have benefited from regularization programs that include legalization, titling, and provision of infrastructure and services a posteriori. However, in the short term, this dynamic will increase the number of homes with qualitative deficits, while in the long term it may end up incentivizing the development of new informal settlements (Abramo, 2003).

Affordability: Housing Prices through the Roof

Formal housing in Latin America and the Caribbean is expensive. Some sources suggest that the relationship between price and income can be up to three times greater than in the United States.[3] This becomes even more serious if one takes into consideration the higher incidence of poverty and informality in a region where close to one-third of households are poor and 57 percent of urban workers are informal: 24 percent independent and 33 percent wage earners (Ruprah, 2009; Perry et al., 2007). Urban inequality also contributes to this panorama: in a sample of 24 cities in the region, 18 had Gini coefficients above 0.5 (UN-Habitat, 2012), and mortgage interest rates reach annual averages of 11.4 percent nominal and 8.1 percent real, versus 4.3 percent and 3.2 percent, respectively, in OECD countries (Rebucci et al., 2012).

It is estimated that in order to access a basic house of 40 square meters (price: US$15,000, with a 10 percent down payment and a 20-year mortgage at 6 percent interest), close to 20 percent of homes in the 18 most representative countries in the region would have to spend more than the recommended international standard, which is 30 percent of income. If considering those households that could pay but, in so doing, would fall below the poverty line, the proportion would rise to 22 percent. If the current interest rates offered by the formal banking sector in each

[2] Within this document, the terms "self-build", "incremental", "irregular", and "informal" are synonymous.

[3] The coefficient between average income and average price for the region is 7.25, whereas for the United States it is 2.82 (NUMBEO, 2013). NUMBEO is a website that provides housing information collected by volunteers in different countries. Although not official, the figures are similar to those estimated by other sources that deem this value to be 13 for Brazil, 4.94 for Colombia, and 2.49 for the United States (HOFINET, 2013). HOFINET (Housing Finance Information Network) is a database administered by the Wharton School at the University of Pennsylvania, the International Financial Corporation, and the Entrepreneurial Development Bank.

country were used instead of the 6 percent assumed above, the number would rise to 24 percent. When affiliation in pension funds is used as a criterion to estimate real access to mortgage credit, the gap reaches 45 percent. These numbers can increase even more if one takes into account that the minimum price of private, nonsubsidized housing could be 60 percent higher than that of the reference scenarios used for the previous calculations (Bouillon et al., 2012).

Governments in the LAC region have tried to solve the problem of cost with policies aimed at broadening access to credit and granting demand subsidies to purchase homes,[4] generally of new construction. Two of the countries that have advanced the most in this regard are Chile and Mexico. In those countries, the mortgage market represents 20 and 10 percent of GDP, respectively, compared to the 5.5 percent average for the region as a whole (Rebucci et al., 2012). Nonetheless, even in these cases, cost continues to be a problem. In Chile, although the proportion of households with incomes lower than what would be necessary for purchasing the cheapest home has fallen, the figure was still 61 percent in 2003, mainly in the lowest quintiles (Ruprah and Marcano, 2007). In recent years, however, the policy has been directed to favor the lowest quintile through subsidies that allow access to housing at practically no cost (Sabatini, Brain, and Mora, 2012). In Mexico, despite the fact that between 2000 and 2009 the number of mortgages tripled, the first income decile cannot make the monthly payments on their loans for a standard private solution, while those in deciles 2 and 3 would have to allocate 80 and 50 percent of their incomes, respectively (Salazar et al., 2012).

Segregation: North and South

One of the starkest signs of the inequality that characterizes Latin America and the Caribbean can be seen in the spatial structure of cities. The typical pattern of distribution of urban space in most countries in the region consists of the elite living in a sort of "high-income cone" that begins at the center of the city and extends out in one direction into the periphery (Sabatini, 2003). This area contains most modern services, as well as formal infrastructure and housing. In the rest of the city, the inner urban rings comprise formal, middle-class developments and others that began as informal settlements that have been consolidated through improvement programs and that generally have adequate infrastructure and services. The new informal settlements are concentrated in the outer rings, where families with few resources live in substandard conditions.

This pattern creates a dynamic of macro-segregation in which social groups are separated into specific areas. Consequently, factors such as income, poverty, ethnicity, and level of education, among others, tend to appear concentrated in certain spaces. In Brazil, for example, achieving ethnic homogeneity in the main cities would require resettling between 37 and 48 percent of the population (Telles, 1992).[5]

Whereas in some cities, such as Curitiba, there is a clear and statistically significant trend toward spatial concentration of incomes, in Bogota there is a marked spatial concentration of socioeconomic strata (Macedo, Blanco, and Cannon, forthcoming). The causes of this phenomenon lie in the functioning of the land market and the effects of specific regulations. The concentration of positive neighborhood externalities, infrastructure, and amenities in the formal city increases the value of land and acts as a barrier to access for low-income households. Likewise, norms governing minimum lot size and infrastructure requirements can prevent lower-income groups from competing for space through densification (Smolka, 2003; Jaramillo, 1999).

Due to the possibility of land invasions, and in some cases the development of public housing projects in wealthier neighborhoods, it is possible that a degree of heterogeneity may come about within the high-income sectors (Sabatini, 2003).[6] However, given

[4] Referred to as savings, bonds, and credits (SBC) policies.

[5] This compares positively to the range of between 69 and 87 percent for the United States (Telles, 1992).

[6] This has contributed to the proliferation of closed neighborhoods and condominiums within a complementary pattern of "micro-segregation" or segregation on the scale of the urban projects.

the increasing scarcity of land, informal access is more and more common via illegal subdivisions on the periphery of low-income areas, which means that the predominance of substandard housing in these areas make them more homogeneous.

Policy interventions have also contributed to spatial segregation by creating incentives for the construction of low-income housing on the outskirts of cities. In Chile, the success of the subsidy policy has meant that 8 out of every 10 houses have been acquired with assistance from the public sector. However, this policy was not accompanied by regulatory mechanisms for the land market or by incentives for building in more centralized locations. This is why the supply of housing targeted at the most vulnerable groups has been built on the periphery, where land is cheaper.[7] Between 1994 and 2004, the average price of low-income housing in Santiago increased by 53 percent, the average size stayed the same, and the average distance to the center of the city increased from 20.6 to 25.4 kilometers. Only 8 percent of houses built between 2006 and 2011 for the poorest quintile were located within the metropolitan area of the capital (Sabatini, Brain, and Mora, 2012).

In Mexico, the growth rate of housing has surpassed that of the population due to the proliferation of loans granted by public entities. In 2009, for example, close to 900,000 loans were granted—the majority of them for the purchase of new homes—while only 600,000 new housing units were supplied. These units, in some cases poorly built, are generally located on the outskirts of cities. For this reason, one-quarter of all housing units acquired through public entities are vacant (Salazar et al., 2012).

The tendency for low-income households to concentrate in the periphery—whether informally through illegal subdivisions, or formally through low-income housing subsidies—has perverse effects on human development. It not only impedes social mobility, but it also affects access to education, security, and information. This phenomenon also conditions the development of the region's cities, which, although relatively dense by international standards, already show signs of low-density peripheral growth, contributing to an increase in energy consumption, commute times, and inefficiencies in land use habits.

The Advantages of Renting: A New Perspective

Financial Sustainability for Low-Income Housing

Renting is one of the primary alternatives for low-income households throughout the world, especially in developed countries. Among those who rent out of necessity include those whose income levels are not sufficient to access the formal housing market, informal workers, recent immigrants who are unable to prove that they have regular incomes in order to obtain mortgage loans, and borrowers who have not been able to repay their loans, among others (Peppercorn and Taffin, 2013). In the United States, for example, the proportion of low-income households that rent (57.4 percent) is practically two times the average in the rest of the income segments (Downs, 2008).

On the other hand, in the LAC region, informality has enabled many poor families to purchase their homes. Some argue that resolving the housing problem through informal settlements can have certain benefits by enabling low-income households to turn labor into capital through self-help housing construction (Turner, 1976), to expand their homes as the household grows (Abramo, 2007), to generate income from renting[8] or commercial activities (Gilbert, 1999), and to facilitate access to social networks and reciprocal economies (Friedman, 1992). Nonetheless, this is often an inefficient option based on the quality of the construction, land use, and public expenditures.

However, solving the problem with public investment through policies aimed at ownership does not seem like a feasible or desirable option either, since it would be equivalent to almost 8 percent of GDP in the

[7] The price of land in the Metropolitan Region of Santiago grew 250 percent in real terms, while in the more central areas the increases reached 1,000 percent (Sabatini, Brain and Mora, 2012).

[8] There is a dynamic rental housing market in informal settlements, as the next section will present.

Informality Is Expensive

Access to informal land is costly: a single square meter can be worth one-quarter of the minimum wage, and can be between three and four times more expensive than the adjacent land for rural use (Smolka, 2002). Even when the land has been acquired through invasion, the self-help housing construction process requires an initial capital expenditure and a workforce specialized in these tasks, which not all families necessarily have access to (Miraftab, 1997).

On the other hand, informality leads to the formation of ghettos where the lack of infrastructure and noncompliance with the minimum urban regulations is predominant. The ghettos are usually located in high-risk areas or areas that are not incorporated into the city (Smolka, 2003). Even when regularization programs are implemented to alleviate these conditions, the stigma of marginalization can remain (Ward, 2003).

It is worth noting that these programs are also costly because they revert the technical sequences of urban development. In fact, depending on the complexity of the intervention, the installation of infrastructure after the fact can be between three and eight times more expensive than in a planned development (Aristizabal and Ortiz, 2002; Abiko et al., 2007). For these reasons, perpetuating the cycle of informality/regularization is not a viable way to resolve the problems of deficit and accessibility in the region.

region. In the case of the poorest alone it represents 1.4 percent of GDP. Both figures are greater than the 1 percent of GDP that governments in the region currently allocate on average to urban development and housing (Bouillon et al., 2012). It is estimated that in order to resolve the accumulated deficit and the new demands from now through 2015 through savings, bonds, and credit (SBC) programs, current expenditures should increase by an average of 14 times. This does not seem politically or fiscally viable, especially in the poorer countries, which are the ones with the greatest deficits (Ruprah, 2009).

Moreover, this alternative of promoting ownership would, on the one hand, need to be accompanied by policies to generate well-located urbanized land in order to avoid the problems of segregation described above. On the other hand, it should be accompanied by financial aid to the poorest households in order to maintain the homes in good condition. Otherwise, there are two risks: first, a deficit could occur due the deterioration of the houses—which is what has happened in Chile, where, according to Ruprah and Marcano (2007), 12 percent of households living in inadequate conditions were previous beneficiaries of housing programs—and second, the households may have to sell their homes at a value below that of the subsidy because they lack the ability to pay the costs associated with the property (UN-Habitat, 2003).

This last point relates to one of the problems of homeownership: financial risk. The high cost of housing in relation to income means that a house is generally a family's largest asset. This can create problems since, contrary to what is generally believed in the region, the value of real estate can fall because of its susceptibility to economic crises (Blanco et al., 2012a).

A good lesson in this regard is the case of the United States, where the rate of property ownership increased from 64 percent in 1990 to 69 percent in 2005 due to the reduction in mortgage requirements and the diversification of creditor risk through mortgage securitization (Downs, 2008). Nonetheless, as a result of the mortgage crisis that began in 2006, residential property prices have fallen by more than 30 percent, nearly 10 million families have accumulated mortgage debt that exceeds the current value of their homes, almost five million households have lost their homes through foreclosure, and US$4 billion in real estate assets have vanished (Landis and McClure, 2010).

These risks indicate that solving deficit and affordability problems through policies based exclusively on ownership, especially for the lowest-income segments, is not merely unviable, but also undesirable. Notwithstanding the alleged benefits that certain literature and policy measures attribute automatically to private property, "at some point the marginal benefits to society derived from increasing property ownership might not compensate for the costs" (Landis and McClure, 2010: 320).

For all of the aforementioned reasons, expanding rental housing is a solution worth exploring, since it could increase access to quality housing for low-income households at less financial risk (Section 2). It is also true—as will be seen in Section 3—that low-income rental housing offers several opportunities for the private provision of housing, which would alleviate the financial burden and improve the allocation of public resources. In fact, before policy measures aiming at stimulating property ownership were adopted, the demand for low-income housing was largely met through the private rental supply (Section 2). Even today, a significant part of the demand from low-income families in developed countries is absorbed by the private or cooperative sectors, which are supported by state subsidies that are much lower than what would be required to purchase a home.

Greater Flexibility

Most people have been or will be tenants at some point in their lives, even though not all of them will be so out of necessity; some simply prefer renting (UN-Habitat, 2003). Among the latter are those who are not prepared to commit to long-term alternatives: young households that have only recently entered the housing market; students; and other temporary residents, divorced people, and couples that want to decrease their spending on housing after their children have left home, among others (Peppercorn and Taffin, 2003). In the United States in 2005, where approximately one-third of households were renting their homes, almost half of all singles rented, as did more than 60 percent of households with members under the age of 35 and 70 percent of people who relocated for financial or employment reasons (Belski and Drew, 2008). The case of the LAC region is similar (Section 2).

The underlying explanation for this dynamic is financial. Even in markets where housing values are appreciating, renting can be a better alternative when people intend to stay for only a short period, since the possible capital gains would not compensate for the transaction costs—closing fees, insurance, and commissions paid to real estate companies—associated with the acquisition and sale of property (Belski and Drew, 2008). Even in developed economies, these costs can be substantial: in the United States they represent up to 9 percent of the value of a home (O'Flaherty, 2005). In Latin America, the percentage can be higher: 11 percent on average, calculated for 16 countries, with a minimum of 6 percent in Argentina and a maximum of 16 percent in Guatemala[9] (Global Property Guide, 2013).

Additionally, homeownership requires outlays for maintenance and taxes. In the United States, a home can depreciate up to 2.5 percent per year if it is not properly maintained (Rosenthal, 2008), while property taxes can amount to up to 2 percent of the real value of the home (Mills and Hamilton, 1989). This latter value, however, is lower in the LAC region, given outdated real estate registries, low tax rates, and weak tax administration, invoicing, and collection (Bonet, Muñoz, and Pineda, forthcoming). Moreover, when the property is not owned long enough, the costs of ownership can exceed the financial benefits. Thus, there is a greater incentive to choose rental housing when relocation is temporary, the transaction and maintenance costs are greater, and the rate of appreciation in the housing market is lower. It can be deduced from the above that renting also allows families to have greater residential mobility, since high transaction and maintenance costs can be avoided.

While it is true that in purchasing a home one acquires an asset, at the same time one faces immobility (Blanco et al., 2012a). In the United States, for

9 These figures include legal and registration costs, taxes, and payments to real estate intermediaries.

example, only 10 percent of property owners have moved within the last year, compared to 40 percent of renters (Downs, 2008). The case of the LAC region is similar, since the price elasticity of demand is lower for property owners, which means that they have fewer possibilities to respond to changes in price (Bouillon et al., 2012). In some cases, property owners have left their homes in order to rent elsewhere. For example, in Seoul, South Korea, over 18 percent of homeowners live in rented housing in other districts in order to have access to better schools or jobs (Peppercorn and Taffin, 2013).

Immobility can have a greater effect on low-income households, since they cannot afford to relocate. In Chile, the average time that a household remains in a subsidized home is 23 years, despite the fact that 42 percent of owners would like to relocate to a better home or neighborhood (UN-Habitat, 2003). In Mexico, some households are leaving their subsidized homes because of problems related to quality and access in order to relocate to a rented home, which has doubled the number of repossessed homes in the last year (Eulich and Villagran, 2013). Selling an informal home can be even more complicated given the difficulty of accessing credit on the part of the potential demand (Gilbert, 1999) and the stigma associated with substandard neighborhoods (Smolka, 2002).

The benefits of greater residential mobility go beyond just housing, and include enabling the labor market to adjust quickly to changing demand. Indeed, there is evidence suggesting that unemployment grew in some developed economies between 1960 and 1990 due to the increase in homeownership rates (Oswald, 1996). The positive effect of the rental housing market on employment is not only significant but may even be more important than other factors, such as tax rates and labor regulations (*The Economist*, 2009). The need to increase labor mobility is important in the LAC region, where most of the unskilled labor force is informal and unstable, while in the more specialized segments, the labor market is more mobile as the economies of the region integrate into global production chains.

Renting and Environmental Sustainability

More centrally located rental housing can be beneficial for the city as a whole, because city centers tend to be denser and thus discourage the use of automobiles in favor of alternative transportation methods. This, in turn, decreases energy consumption and greenhouse gas emissions (Holtzclaw et al., 2002).

Greater density also promotes a wider variety of use and social classes within urban spaces. Indeed, neighborhoods with greater proportions of rental housing are not only less segregated but also tend to maintain this characteristic over the long term (O'Flaherty, 2005).

Density and Better Location

Rental housing is often more centrally located than privately owned homes. In the United States, for example, 42 percent of renters live in the center of metropolitan areas, versus 23 percent of homeowners (Downs, 2008). Indeed, the average distance of rented homes from the center is 32 percent lower than the distance of owned homes (Belsky and Drew, 2008). This shows that ownership is more common in suburban areas, a phenomenon also seen in the LAC region (Section 2).

Because of its association with more central locations, rental housing can be a better option for low-income households. This is especially true in the LAC region, where the downtown areas of cities still offer a significant percentage of unspecialized employment.[10] Moreover, these locations offer benefits in terms of access to urban services and public transportation. In Mexico City, for example, mothers who are heads of households and work in the informal sector prefer renting in a central location to becoming

[10] This contrasts with some cities in the United States, where unspecialized employment is found in the suburbs. This situation could present an additional challenge due to the lack of job opportunities in the centers (Belsky and Drew, 2008).

homeowners in an informal settlement on the periphery. By doing so, they save time in commuting and maximize the time that they spend with their children (Miraftab, 1997).

It is true that in expanding cities, the proportion of rented homes located in the traditional city center compared to the total number of rented homes within the city has fallen, as in Mexico City, where it decreased from 27 to 20 percent between 1990 and 2000 (UN-Habitat, 2003). However, this phenomenon affects every form of housing tenure. The overall proportion of people who live downtown falls because cities grow toward the periphery. The important point is that the percentage of rental housing is still greater in the center than on the periphery. Notwithstanding the above, establishing direct causalities between rental housing and centrality/density is not a simple task. Thus, it cannot be concluded that this type of tenure would automatically create more compact cities or that more compact cities would create more rental housing. Nor can it be said that rental housing would necessarily be multifamily housing or centrally located, or that owned homes would be by definition single-family and suburban. Nonetheless, within the regulatory framework and the existing market, this is exactly what is occurring. Indeed, it has been argued that in the United States the preference for homeownership may actually be a desire for a single-family home, and thus may have nothing to do with a specific preference to rent or own (UN-Habitat, 2003). Thus, taking advantage of the fact that rental housing tends to be found in more centrally located and densely populated areas may contribute to solving the problems of segregation, divestment in downtown areas, and low-density peripheral growth in the LAC region.

In Search of a More Balanced Tenure System in the Housing Sector

The preceding discussion does not mean that renting a home is intrinsically superior to owning one. Indeed, each of the benefits mentioned can be seen as a limitation if analyzed from the point of view of other segments of the demand. For example, the possibility of accumulating wealth can be, and has been up to this point, highly beneficial for the majority of households, including low-income households that opt to own informal homes. Many families that own their homes have also benefited from remaining in the same location for a long time, since this enables them to put down roots, have an identity, and form social networks. Others have been able to better satisfy their preferences for more open space in low-density peripheral locations where homeownership is predominant.

But it is exactly this difference in the benefits of the different types of housing tenure, and the fact that these benefits are defined according to the preferences of the demand, which suggests the need to design a housing policy that promotes a balance between owning and renting. Neither of these options is good or bad per se; it all depends on the particular characteristics of the consumer of the housing service. This is why it is important for the housing market to offer the possibility to choose between different types of tenure in the interest of satisfying consumer preferences in a more efficient and balanced way. In any case, rental housing will continue to be the first option for many households based on their life cycle stage, employment situation, or specific preferences (Retsinas and Belsky, 2002). This is the origin of the need for a dynamic rental market to satisfy the growing demand for housing in the region.

2

Description of Rental Housing[11]

In a World Dominated by Homeowners, the LAC Region is not Lagging Behind

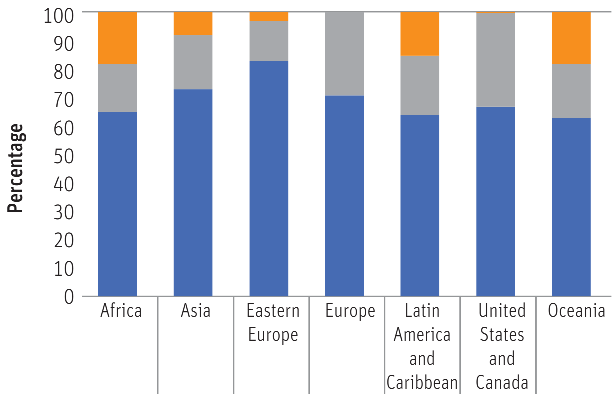
The rate of homeownership in Latin America and the Caribbean is close to 64 percent. This figure may appear high when compared to other more developed regions, such as Europe, with 71 percent; North America (minus Mexico), with 67 percent; and Oceania, with 63 percent. But this is not an isolated case. Ownership is the predominant type of housing tenure across the world. On average, among 81 countries in different regions, close to 7 out of every 10 households own their homes. Even countries with development levels that are similar or lower than the levels of LAC countries have higher rates of homeownership; for example, in Africa the rate is 65 percent; in Asia, 73 percent; and in Eastern Europe, 83 percent (Figure 1).

There is a marked variability in the rate of homeownership among countries. Globally, the rate ranges between 3 percent in Botswana to 96 percent in Romania, with considerable differences within each region. In Africa, it ranges between the 3 percent already mentioned for Botswana and a maximum of 87 percent in Mauritius; in Asia between 55 percent in South Korea and 92 percent in Cambodia; in Eastern Europe between 58 percent for Montenegro and 96 percent for Romania; in Western Europe between 44 percent in Switzerland and 86 percent in Iceland; and in the LAC region, between 50 percent for Bolivia and 86 percent for Venezuela. Moreover, homeownership rates vary among countries in the LAC region and Europe; for example, Bolivia, Colombia, Germany, and Switzerland all have low rates of homeownership, whereas Iceland, Norway, Spain, and Venezuela have high rates (see Figure 2).

The rate of homeownership does not appear to increase with the degree of development of a country. If there is any relationship between these variables, it appears to be negative. The correlation

[11] The quantitative analyses that support parts of this section were carried out with the support of Jeongseob Kim, who provided valuable assistance in the formulation of the econometric models.

FIGURE 1. Type of Housing Tenure by Region



	Africa	Asia	Eastern Europe	Europe	Latin America and Caribbean	United States and Canada	Oceania
Other	18.11	8.26	3.30	0.00	15.36	0.20	18.12
Rentals	16.99	19.00	13.77	29.25	20.91	33.26	19.08
Ownership	64.90	72.74	82.93	70.75	63.73	66.55	62.80

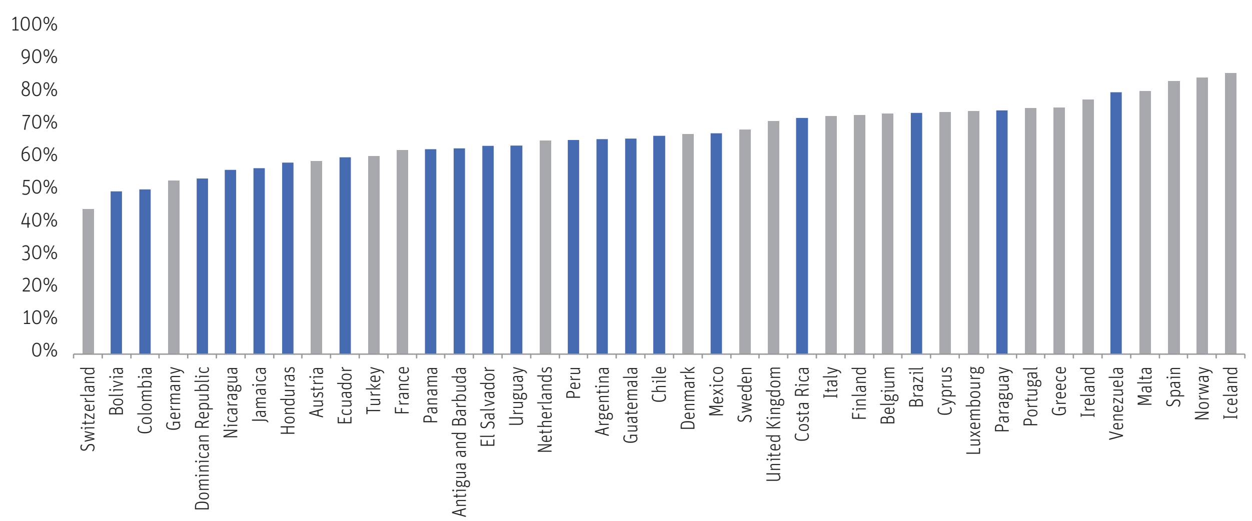
Source: Prepared by the authors.
Note: The figure compiles information on housing tenure in 81 countries for the last available year between 2000 and 2011 according to the source. The information on Africa covers 11 countries and comes from the UN Statistics Division, as do the data on the 10 Asian countries. For Eastern Europe, the information covers 14 countries and comes from Statistics on Income and Living Conditions Euro and the UN. The source for the 21 countries of Europe is SILC Euro. The information on the United States is from the American Community Survey from 2006, while for the three countries of Oceania and Canada it comes from the UN. For Latin America and the Caribbean, the data were compiled from MECOVI-Improvement of Surveys on Homes and Measurement of Living Conditions (2006) for 18 countries and from the UN for the other two. MECOVI is a harmonized database of household surveys in the countries within the region administered by the IDB.

between the rate of ownership and per capita GDP[12] worldwide is –0.2, but it is not statistically significant. This means that homeownership shows a weak tendency to decline as income rises, but that its variance is considerable. When the degree of correlation between ownership and per capita GDP is calculated for each region, it ranges between negative values in Asia and Eastern Europe and positive values for the LAC region and Africa. Moreover, there does not appear to be a positive relationship between the size of a country's population and the rate of homeownership. This correlation is –0.1 for the entire sample, while it varies between negative values for Africa and Europe and positive values for North America and Oceania.

There is no single variable that explains the differences in rates of ownership between countries. Various cross-sectional econometric models used to try to explain the rate of ownership based on macroeconomic, social, housing market, and institutional

[12] Data on per capita GDP with purchasing power parity (PPP) comes from the International Monetary Fund (IMF).

FIGURE 2. Homeownership Rates in Latin America and the Caribbean and Europe

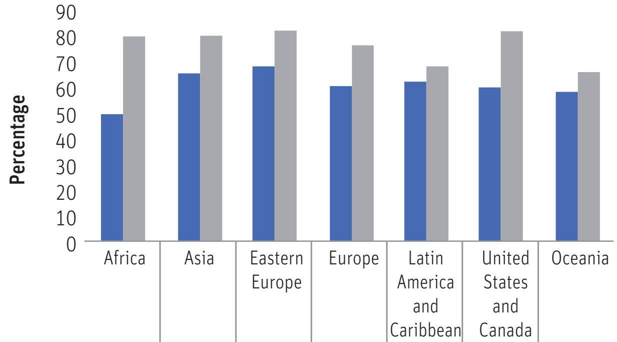


Source: Prepared by the authors.
Note: The source for the 21 countries of Europe is SILC Euro. For the LAC region, the data were compiled from MECOVI-Improvement of Surveys on Homes and Measurement of Living Conditions (2006) for 18 countries and from the UN for the other two. MECOVI is a harmonized database of household surveys in the countries within the region administered by the IDB.

variables yield results that are not very conclusive.[13] The models are unstable, given that the size, sign, and significance of their coefficients are particularly sensitive to different specifications. However, the majority of them show the importance of two variables: degree of urbanization and legal tradition. With regard to degree of urbanization, the results suggest that the greater the rate of urban population in a country, the lower the rate of homeownership. This is related to a trend repeated in every region: the rate of rural homeownership is always greater than that of urban homeownership. In the 52 countries for which disaggregated information on housing tenure exists, the average rate of rural homeownership reaches 79 percent while the urban figure is 63 percent, that is, a difference of 16 percentage points. In Africa, the difference is 31 percentage points (Figure 3). Only seven countries have higher rates of urban than rural homeownership; the four cases in which the difference is greater than 10 percentage points are city-states such as Hong Kong and Macao and small countries with a high degree of consolidation of the urbanization process, such as Israel and Uruguay, where the urban population is as high as 92 percent.

A number of factors could explain the negative correlation between the rate of homeownership and the rate of urbanization. On the one hand, it could be due to a greater scarcity of land in urban areas, conditions under which access to homeownership would be more expensive (UN-Habitat, 2003). Another possibility is that, given that in the initial stages growth in cities is mainly the result of massive rural/urban migrations, these are negatively correlated with the rate of homeownership because of the greater mobility of the newly-arrived populations. Even though this argument is related more to the pace of urbanization than to its actual rate, it could partially explain why the differences in the rates of rural and urban property ownership are higher in Africa—where urbanization is growing at an accelerated rate—than in Latin America, where the rate of growth of the urban population has been declining in recent decades.

FIGURE 3. Rates of Urban versus Rural Ownership



	Africa	Asia	Eastern Europe	Europe	Latin America and Caribbean	United States and Canada	Oceania
Urban ownership	50.86	67.02	69.85	61.88	63.64	61.56	59.61
Rural ownership	81.78	82.00	84.08	78.37	69.94	83.78	67.44

Source: Authors' elaboration.
Note: The figure compiles information on housing tenure in 52 countries for the last available year between 2000 and 2011 according to the source. The information corresponding to Africa and Asia comes from the UN Statistics Division. For Eastern Europe the information comes from SILC Euro and from the UN. The source for European countries is SILC Euro. The information on the United States is from the American Community Survey from 2006 while for Oceania and Canada it comes from the UN. For the LAC region the data were compiled from MECOVI-Improvement of Surveys on Homes and Measurement of Living Conditions (2006) for 18 countries and from the UN for the other two. MECOVI is a harmonized database of household surveys in the countries within the region administered by the IDB.

With respect to legal traditions, the models yield results that are consistent and statistically significant, indicating that the countries with a German tradition tend to display a lower rate of homeownership (52 percent on average) than in those with an English common law tradition (65 percent on average), with the latter being the reference point. Likewise, the countries of the former communist bloc tend to have a higher rate (86 percent on average) than those in the reference case.

[13] For the models, different combinations of times and variables were utilized, including macroeconomic factors (income per capita, employment, introduction to the mortgage market, government expenditure, interest rate, inflation, etc.); social factors (population by age, life expectancy, migration, and percentage of urban population, among others); factors related to the housing market (relation of housing price and income, relation between price and level of rent, housing inflation, rates of return for landlords, among others); and institutional factors (times and costs for obtaining construction permits or registering property, index of respect for private property, and legal tradition, among others).

Other Key Factors that Explain Differences in Homeownership Rates

Factors relating to economics, culture, and public policy contribute to the marked differences in the rates of property ownership among countries. For example, measures such as rent control and incentives for expanding mortgage credit are key to the consolidation of high rates of homeownership in the world, and their particular success in each country is critical to explaining the differences in the rates of housing tenure.

Economic and cultural factors such as the greater tendency of young people to remain with their parents until they marry—in countries such as Italy and Spain, for example—can also help to understand the characteristics of the demand for different types of housing tenure. This is why in these countries fewer people will rent their homes than in other countries—the United Kingdom and United States, for example—where young people tend to leave home permanently when they go to college (UN-Habitat, 2003).

Likewise, the particular context and the way in which the process of urbanization developed in each country are crucial in understanding the differences in housing tenure worldwide. In the LAC region, for example, the high rates of homeownership cannot be explained without mentioning the dynamic of informal urbanization. Even without ignoring that a good part of those who live in this type of settlement rent their homes, it is certain that the progressive self-help construction of informal housing has allowed many families not only to have access to their own home but also to receive titles through regularization programs. The fact that a significant part of homeownership in the region is explained by the dynamic of informal urbanization will have fundamental implications in terms of both quality and access.

Countries that follow the French civil law tradition—including all Latin American countries—and those that follow the Scandinavian tradition tend to have higher rates of homeownership than those that follow the English tradition, with averages between 69 and 71 percent respectively, although the results are not statistically significant.

For countries that follow the German legal tradition, the lower rate of ownership is associated with a legal framework that, similar to the Swiss, provides legal protection to tenants, eliminates the tax advantages of homeownership, and provides incentives to institutional investors to increase the rate of return and control risk (Peppercorn and Taffin, 2013).

In the case of the former communist bloc, the higher rate of ownership is associated with the privatization of public rental housing, which dominated housing tenure since the fall of the Berlin Wall. This is how, in the 1990s alone, in the Russian Federation, homeownership rose from 33 to 60 percent (UN-Habitat, 2003). Moreover, the municipalities there tend to view existing public rental housing as housing that has not yet been privatized (Peppercorn and Taffin, 2013).

Homeownership in Cities: A Recent Phenomenon

The high rates of homeownership in LAC cities are a relatively recent phenomenon. Ownership was the exception more than the rule in urban areas until the mid-20th century (Gilbert, 2012). Instead of changing the accelerated urbanization experienced in the region from the beginning of the last century, this pattern seemed to be reinforced initially by growth in cities, especially the large cities in the Southern Cone. There, the massive influx of European immigrants generally settled in rental housing, often in apartment buildings located downtown. Table 1 shows that the rate of ownership was low, and often the lowest, in the main cities in the region until the 1950s, when the urban population in the region was already 41 percent versus 25 percent a quarter century before (Cerrutti and Bertoncello, 2003).

Starting in the 1950s, this situation began to change radically to the point that toward the 1970s, in most cities, homeownership predominated or was projected to predominate. By the 1990s, between 60 and 70 percent of homes were owned in the main urban areas of the region. Between the 1950s and 1990s, the rate of homeownership had increased by more than 27 percentage points in the selected cities. In Mexico City and Santiago, the growth reached 45 percentage points. The magnitude of this change is even more significant if one considers the magnitude of the urbanization process during these years. By 1975, the urban population of the LAC region was 61 percent, while toward the end of the 1990s it reached 75 percent (Cerrutti and Bertoncello, 2003).

Bias in Favor of Homeownership: Housing Policies, Informal Urbanization, and Rent Control

The accelerated growth in the rate of homeownership throughout the second half of the 20th century is related primarily to three factors: housing policies, the growth of informal urbanization, and the establishment of rent controls (Gilbert, 2012).

With regard to the first factor, public mortgage-granting entities were created in some countries in the region after the crisis of 1929, before the withdrawal of foreign capital from this sector. Colombia was one of the first countries to implement this policy successfully with the creation of the Caja de Crédito Agrario in 1931 and the Banco Central Hipotecario in 1932. It is also one of the countries where the rates of homeownership began to grow earlier, to the point where by 1950 about half of all housing tenure in the main cities—Bogota, Medellin, and Cali—was owned (Table 1). In other countries in the region, this type of measure did not materialize until the 1960s and 1970s, where such entities began to be an important source of subsidized credit, allowing for a good part of the nascent middle class to access their own homes. For example, by the beginning of the 1980s, the SHF (Sociedad Hipotecaria Federal) in Brazil, founded in 1964, had already financed close to 70 percent of the new houses built starting in 1970 (Gilbert, 2012).

However, the fact that access to these types of credit agencies was limited to those with sufficient and regular incomes led governments to create public institutions to finance and build social housing on a large scale. In Colombia, the Instituto de Crédito Territorial (created in 1938) became one of the main builders from its foundation until it was liquidated in the 1990s. In those years, the Institute built some 120,000 units in Bogota alone. The Caja de la Vivienda Popular, a municipal entity, built another 30,000 homes. The importance of the role that these institutions played can be

TABLE 1. Growth in Rates of Property Ownership in Selected Cities by Decade (*in percent*)

City	1950s	1970s	1990s	2000s	2010s
Mexico City	25	43	70	74	70
Guadalajara	29	43	68	68	64
Bogota	43	42	54	46	42*
Medellin	51	57	65	54	48*
Cali	53	58	68	51	40*
Santiago de Chile	26	57	71	73	63*
Rio de Janeiro**	38	54	63	70	74***
São Paulo**	41	62	71	75	78
Buenos Aires**	27	61	62	67	57
Kingston	n/a	n/a	44	45	46

Source: Data taken from Gilbert (2012) compiled based on information in Gilbert (1998), Salazar et al. (2012), McHardy (2012), Moya (2011), Torres (2012), and Pasternak and D'Ottaviano (2012). *Data taken from MECOVI 2010 for Colombia and MECOVI 2011 for Chile. For Chile, the final value includes the Region of Santiago. **Corresponds to the central city and not to the metropolitan area. ***Data corresponding to 2010 taken from the base, IPUMS (Minnesota Population Center, 2013).

seen in the fact that in 1993, the houses that they had built represented almost 13 percent of all homes (formal and informal) in Bogota. It is worth noting that, as distinct from what occurred in more developed countries, public housing in the LAC region was not built to be rented but rather to be ceded for ownership to selected families. Indeed, in the few cases where it was built for rental purposes, such as in Colombia, Mexico, and Venezuela, ownership was granted to tenants around the middle of the 20th century (Gilbert, 2012).

The growth of informal housing developments is another key factor in the increase in the rate of homeownership in the region's cities. Informal self-help housing construction, which was scarce at the beginning of the 20th century, enabled a considerable percentage of households to have their own homes starting in the 1950s, although they were not of the best quality or in the best locations. In Lima, the proportion of the population in these neighborhoods went from 8 percent in 1956 to 38 percent in 1989, in Mexico City from 14 percent in 1952 to 60 percent in 1990, and in Caracas from 21 percent in 1961 to 42 percent in 1991 (Gilbert, 1998). Although the causes of this phenomenon are related to the exponential increase in the demand for housing due to rural-urban migration and the inability of the formal sector to meet it, they are also the result of complacent, or at least neutral, treatment by the region's governments.

Indeed, shortly after the informal settlements were designated as a form of "social cancer," politicians and bureaucrats began to view informal housing as an escape valve for the pressure of the demand and as a solution to the housing problem (Gilbert, 1998). In some cases, such as during the leadership of the military government of Manuel Odría in Peru in the 1950s, squatting on public lands was actually encouraged for political advantage (Gilbert, 2012). The popularity of Turner's (1976) ideas, according to which informal urbanization was an "architecture that works", and the implementation of regularization programs, would contribute to the creation of incentives for the consolidation of these types of settlements, despite some sporadic episodes of repression in some cities in the region (Gilbert, 1998).

The rent controls implemented before the 1950s are another important factor in the growth of the rate of homeownership; this measure strongly disincentivized the production and supply of rental housing, particularly as a medium- and large-scale commercial activity (Blanco et al., 2012a). Starting at the turn of the century, when rental housing predominated in the region's cities, governments began to introduce regulations regarding quality and overcrowding. Added to this, in the 1920s, price controls were introduced in several countries in Latin America to counteract social unrest, and were strengthened in the 1940s, this time to control inflation (Gilbert, 2012).

The growth in the rate of homeownership seems to have reached its highest point in the 1990s and 2000s and has recently started to decline. For the cities mentioned in the previous analysis, the difference between the highest point and the last reported value demonstrates that, on average, the rate of ownership has fallen by 8.5 percentage points, while in cities such as Bogota, Cali, Medellin, and Buenos Aires, the decline has been more than 10 points (Table 1). In more general terms, the rate of urban homeownership, which had grown by an average of 61 percent by 1990 to 68 percent by 2000, declined to 66 percent by 2006 in 13 countries in Latin America.[14]

Although it may be premature to conclude that the growth in the ownership rate has entered a period of reversal, there are indications that the period of exponential growth has come to an end. Three factors account for this. First, current housing policies based on subsidies and regularization are unsustainable from a fiscal standpoint, insufficient to meet the demand, and inefficient in terms of the land use patterns that they create. Second, city growth has increased the scarcity of urban housing in good locations, which makes

[14] The data come from the Division of Statistics and Economic Projections at CEPAL (ECLAC, n.d) and are based on the special tabulations of the housing surveys in each country.

housing even less affordable. Third, demographic changes—declines in average household size, increases in divorce rates, and the growth in the number of one-person households (which currently represent between 10 and 20 percent of the total in the Southern Cone countries)—added to greater labor mobility associated with more flexible and globalized economies, mean that households opt not to acquire their own homes (Gilbert, 2012).

Needless to say, the deceleration in the rate of growth of homeownership seems to be a global phenomenon (UN-Habitat, 2003), evident even in countries such as Singapore, where policies promoting homeownership have been most effective. There the percentage of homeowners, which grew from 29 percent in 1970 to its highest point of 92 percent in 2000, declined to 87 percent in 2010 (Peppercorn and Taffin, 2013).

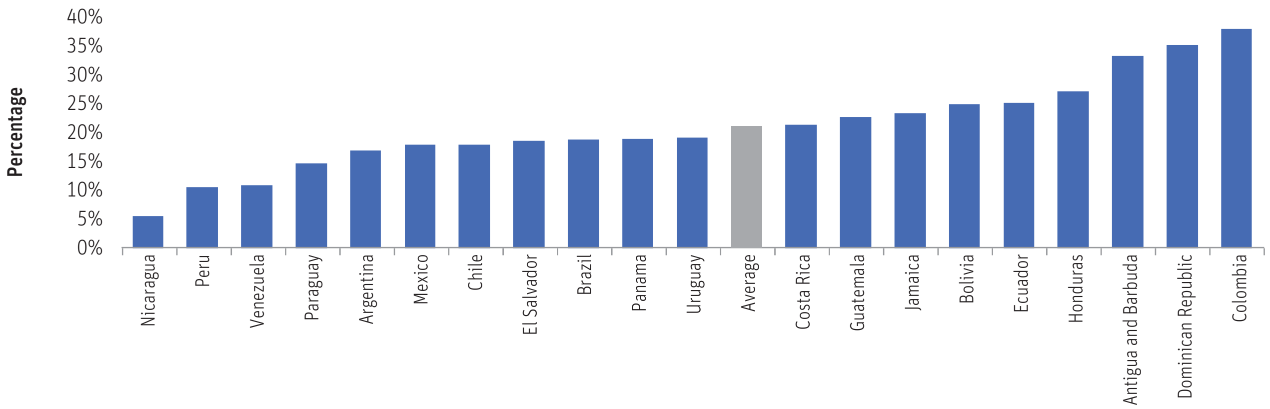
Rental Housing: A Question of Preferences

Even though Latin America and the Caribbean is primarily a region of homeowners, renting continues to be significant. As was shown in Figure 1, one of every five households in the region rents its home. In Bolivia, Ecuador, and Honduras, this relationship rises to one out of every four, while in Antigua and Barbuda, the Dominican Republic, and Colombia, it reaches one of every three (Figure 4).

It is worth noting that even though the rate of homeownership grew rapidly in the second half of the 20th century, in absolute numbers, the number of households living in rented homes has increased in recent decades in most countries of the region. In Argentina, it rose from 1 million in 1980 to 1.8 million in 2010; in Brazil from 5.7 million in 1990 to 10.5 million in 2010; in Chile from 640,000 in 1982 to 917,000 in 2002; in Colombia from 1.2 million in 1985 to 2.8 million in 2005; in Mexico from 2.5 million in 1980 to 4 million in 2010, and in Peru from 481,000 to 980,000 in 2007. In Argentina and Colombia, this growth represents an increase in the proportion of tenants within the period indicated: from 15 to 16 percent in the first and from 24 to 31 percent in the second. Likewise, and in keeping with the aforementioned changes in urban housing tenure toward the end of the 20th century, the proportion of households living in rented homes has increased in the last decade in all of these countries except Chile (Gilbert, 2012).

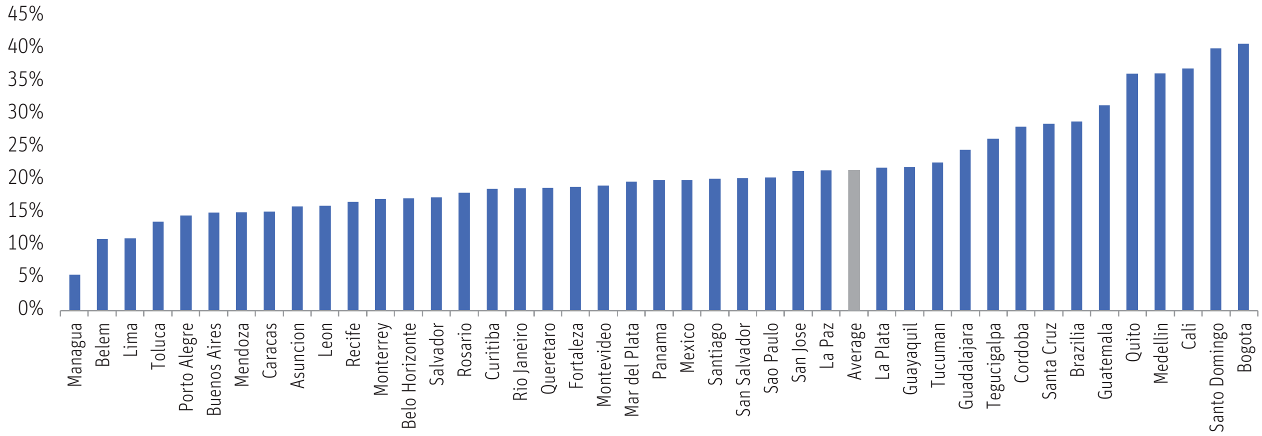
In the main cities of the region, rental housing rates are higher. In a sample of 42 cities with a population over one million, the average number of households living in rented homes reaches 22 percent. Only in Managua is this figure below 10 percent, while in 22 cities it ranges between 10 and 20 percent, in 14 it ranges between 20 and 30 percent, in 4 it ranges between 30 and 40 percent, and in 2 it exceeds 40 percent (Figure 5).

FIGURE 4. Rental Housing Rates in Latin America and the Caribbean



Source: Prepared by the authors based on MECOVI (2006), except for the cases of Antigua and Barbuda and Jamaica, whose figures correspond to the year 2001 and come from the UN.

FIGURE 5. Rental Housing Rates in the Main Cities of Latin America and the Caribbean



Source: Prepared by the authors based on MECOVI (2006).

Consistent with international theory and evidence, rental housing in the LAC region is even more generalized among certain social groups, such as young people, divorced people, and migrants. Statistical models[15] used to analyze housing tenure decisions in six of the largest countries in the region—Argentina, Brazil, Chile, Colombia, Mexico, and Peru—find that the social variables related to age, type and size of home, marital status, and type of employment have a significant effect on the probability that a household would choose the option of renting over becoming a homeowner.[16]

The results show that the ***age*** of the head of household***,*** for example, significantly decreases the probability of choosing to rent, even though the relationship is not perfectly linear: the rate of decline of this probability slows in older ages and even reverses toward the end of the life cycle.[17] In comparing the relative probability of renting versus purchasing, going by age range of the head of household, the 15 to 24 year age group is found to be between 5 and 14 times more likely to rent than the 65 or older age group, this being the point of reference (Figure 6). Together, these findings show that renting is more important for young people and less so for older people.

In the six countries mentioned above, household size significantly reduces the probability of renting, which reflects the preference of larger families for owning their own homes. The ***type of household***[18] also notably affects housing decisions. In Argentina, Chile, Colombia, and Peru, the likelihood of extended households living in rental housing is significantly lower than for nuclear families. This is not surprising if one takes into account that in larger households, several members of the family tend to share a house belonging to someone in the family (grandparents or aunts and uncles, for example). In all of these countries,

[15] The models correspond to logistical multinomial regressions in which the probability of each one of the three types of housing tenure is identified (property, renting, and other) based on variables such as income, type, and size of household; age, gender, level of education, civil status, and work situation of the head of the household; type of household; and, in some cases, location. The MECOVI database is the source for each country besides Argentina, whose data correspond to urban areas, and all figures correspond to 2011 with the exception of Mexico, whose figures correspond to 2010.

[16] The income of the head of household, the type of housing, and the location also turned out to be significant, as will be seen in the corresponding sections.

[17] The non-linearity is confirmed with the simultaneous inclusion of age and age squared in the regressions. For all of the cases, the two variables were significant at 1 percent.

[18] MECOVI includes the following types of households: nuclear (couples and their children and single-parent homes); extended (a nuclear household with another family member); compound (a nuclear household and another person who is not related); one-person, and cohabitation (formed by two or more people without familial relation).

TABLE 2. Probability of Living in Rental Housing, by Type of Household

Country	←←←← Lower probability	Reference	→→→→ Greater probability		
Argentina	Extended	Nuclear	Compound	one-person	cohabitation
Brazil	*Extended*	Nuclear	One-person	compound	cohabitation
Chile	Extended	Nuclear	Compound	one-person	cohabitation
Colombia	Extended	Nuclear	Compound	one-person	cohabitation
Mexico		Nuclear	*Extend. comp.*	one-person	cohabitation
Peru	Extended	Nuclear	*Compound*	one-person	*cohabitation*

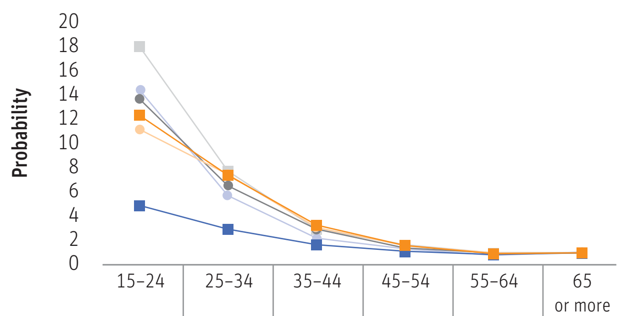
Source: Prepared by the authors based on statistical analysis of data from MECOVI (2010 and 2011).
Note: The information is based on the coefficients of regression. The non-significant cases at 1 percent appear in italics. The order of the sequence represents the comparison of the magnitudes of the coefficients.

one-person households are more inclined to rent than nuclear families, while households with people who cohabit are the most likely to rent, although the latter group did not turn out to be significant in the case of Peru (Table 2). Since this analysis controls for income, age, household size, and marital status, these results may suggest that one-person households and cohabiting households consider their situation to be temporary.

In most cases, gender was not a significant factor in housing tenure decisions. This could be due to the fact that the effect of this factor on such decisions is correlated to other factors such as income, type of household, and marital status. Likewise, this effect can manifest itself differently in the formal and informal market. Other studies have found that male-headed households tend to display greater rates of informal ownership and renting than female-headed households (Bouillon et al., 2012; Miraftab, 1997). With regard to ***civil status***, among widows the tendency to rent is lower, while among divorced people it is higher. The differences between singles and married people—the latter being the reference variable—were minimal and generally not significant (Table 3).

Level of education does not appear to have any effect on housing tenure decisions when controlling for other factors, as has been demonstrated in other studies.[19] The results related to educational achievement vary without any apparent pattern in any country, and in most cases are not significant (Table 4).

FIGURE 6. Ratio of the Relative Probability of Renting by Age of the Head of Household



	15–24	25–34	35–44	45–54	55–64	65 or more
Argentina	12.118	7.248	3.222	1.582	0.903	1
Brazil	4.803	2.905	2.889	1.097	0.853	1
Chile	17.655	7.597	2.889	1.609	0.968	1
Colombia	10.948	7.298	3.062	1.574	0.994	1
Mexico	14.158	5.609	2.153	1.274	0.763	1
Peru	13.439	6.451	2.916	1.386	0.995	1

Source: Prepared by the authors based on the statistical analysis of MECOVI data (2010 and 2011).
Note: The rate of relative probability represents the quotient between the relative probability (odds ratio) of renting versus being an owner within a specific age group with relation to the group 65 years of age or older. Thus, a ratio of 12,118 for the group 15 to 24 in Argentina means that the probability of a home being rented within this age group is 12,118 times greater than the probability of a home being rented in the group aged 65 or older. The relative probability is calculated by including within the regression those age groups as dummy variables. Given that the analysis is sensitive to the manner in which the age groups are defined, some coefficients do not end up being significant.

With regard to ***type of employment***, the results also vary, but they show that wage earners are more likely to rent than the other groups (Table 5). This may

[19] For a summary of the literature on this particularity, see Bouillon et al., 2012.

TABLE 3. Probability of Renting, by Marital Status

Country	Lower probability ←←←←		Reference	→→→→ Higher probability	
Argentina		Widow	Married/Union	*Single*	*Divorced*
Brazil	Widow	Single	Married/Union	*Divorced*	
Chile		Widow	Married/Union	*Single*	Divorced
Colombia		Widow	Married/Union	*Single*	Divorced
Mexico		*Widow*	Married/Union	*Single*	Divorced
Peru	*Widow*	*Single*	Married/Union	*Divorced*	

Source: Elaborated based on statistical analysis of data from MECOVI (2010 and 2011).
Note: The information is based on the coefficients of regression. The non-significant cases at 1 percent appear in italics. The order of the sequence represents the comparison of the magnitudes of the coefficients.

TABLE 4. Probability of Renting, by Level of Education

Country	Lower probability ←←←←			Reference	→→→→ Higher probability		
Argentina				Primary	*University*	Without education	Secondary
Brazil	*University*	Without education	*Secondary*	Primary			
Chile				Primary	*University*	Without education	Secondary
Colombia	*University*	*Secondary*	Without education	Primary			
Mexico				Primary	*Without education*	*Secondary*	*University*
Peru			*Without education*	Primary	*University*	*Secondary*	

Source: Elaborated based on statistical analysis of data from MECOVI (2010 and 2011).
Note: The information is based on the coefficients of regression. The non-significant cases at 1 percent appear in italics. The order of the sequence represents the comparison of the magnitudes of the coefficients.

be due to the fact that they are able to provide proof of regular income, one of the most common requirements in the rental market, as will be seen further on.

The Likelihood of Renting a Home does not Decline as Income Rises

Contrary to what is occurring in more developed regions, in Latin America and the Caribbean the likelihood of renting does not decline as income rises (Downs, 2008; UN-Habitat, 2003). In the six countries analyzed, renting does not follow a specific pattern.[20] In Chile and Peru, renting seems to follow the opposite pattern of that of the developed countries, increasing along with income. In Brazil and Argentina, there is no clear relationship between these two variables, whereas in Colombia and Mexico the pattern is a sort of inverted U, in which renting is less common in the low-income deciles, more common in middle-income deciles, and less so again for high-income deciles (Figure 7).

Nor is there a linear relationship between income and the percentage of ownership. In Argentina and Chile, it seems to increase sharply, although in middle-income segments there is a less accentuated trend toward ownership than in those of lower incomes. In Colombia and Mexico, and to some extent in Peru, the relationship between income and ownership is U-shaped, where in the middle classes there are fewer households with this type of housing tenure. In Brazil, there does not seem to be any pattern.

[20] The percentage of households per decile and per type of housing tenure (owner, renter, and "other") are analyzed. This last category mainly includes homes with leases and, to a lesser degree, other types, such as homes paid for by employers and inherited homes, among others.

TABLE 5. Probability of Renting, by Type of Employment

Country				Lower probability ←←←←	Reference	→→→→ Higher probability
Argentina		Boss	Self-employed	Unemployed	Wage earner	*Non-salaried*
Brazil	Non-salaried	Self-employed	Unemployed	*Boss*	Wage earner	
Chile		*Non-salaried*	Unemployed	Self-employed	Wage earner	*Boss*
Mexico	Unemployed	Self-employed	Boss	*Non-salaried*	Wage earner	
Peru	Self-employed	*Wage earner*	*Unemployed*	*Boss*	Wage earner	

Source: Prepared by the authors based on statistical analysis of data from MECOVI (2010 and 2011).
Note: The information is based on the coefficients of regression. The non-significant cases at 1 percent appear in italics. The order of the sequence represents the comparison of the magnitudes of the coefficients.

The third type of housing tenure ("other") appears to behave in a more linear fashion: in general it decreases as income rises, even though the pattern is not as clear in Peru. This diversity in the relationship between income and housing tenure was also seen in other LAC countries (Rojas and Medellin, 2011).

The models described in the previous section enable confirmation of this finding whenever controls are implemented for other factors, such as characteristics of the household and the dwelling. The results show that in all countries, except in Peru, income in some way significantly affects the probability of opting for renting as a form of housing tenure, instead of owning, although this effect is not linear and its pattern differs in each case (Figure 8).[21]

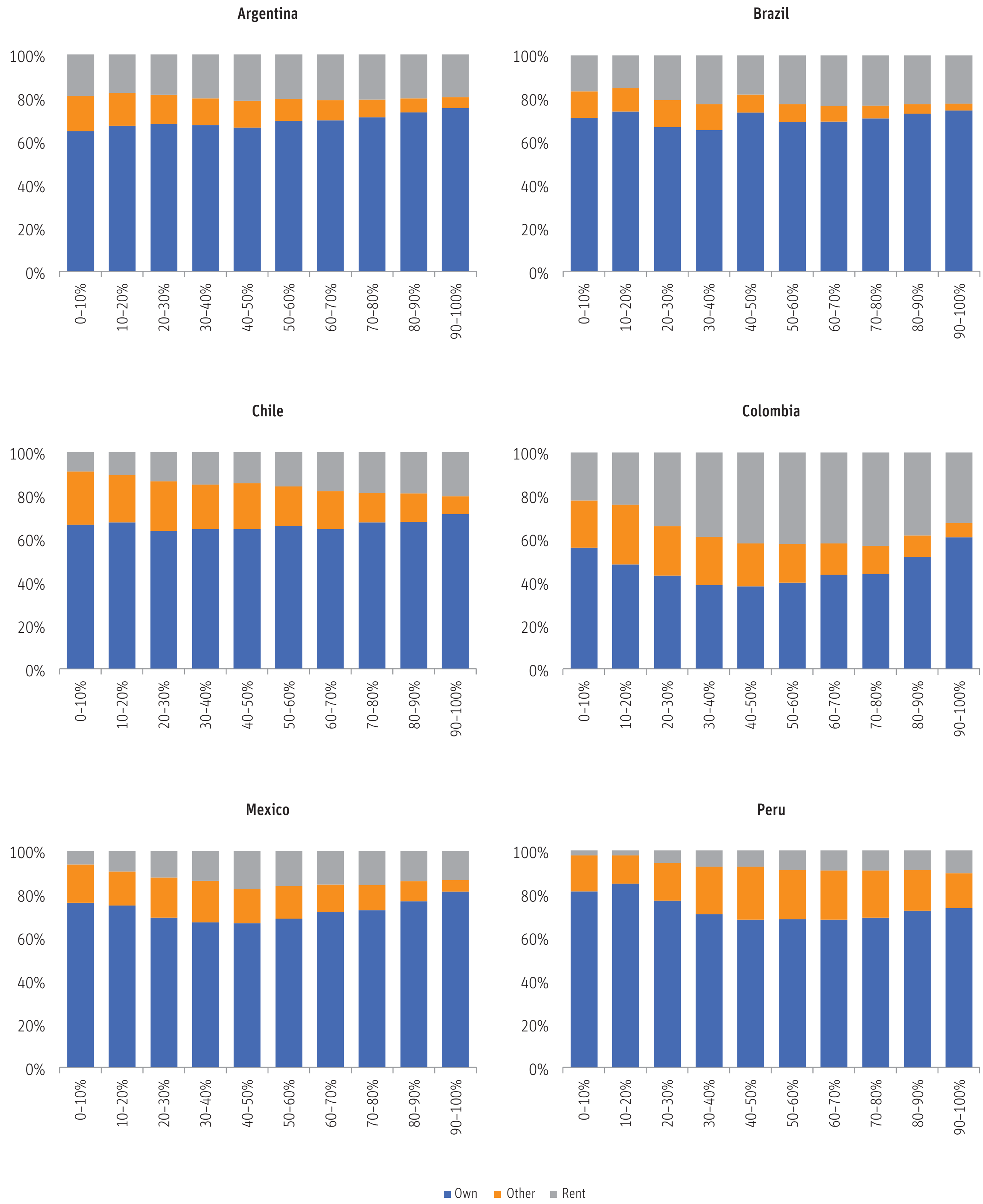
As distinct from what occurs in more developed countries, in Argentina, Chile, and Peru, the relative probability of renting versus owning increases as income rises. In Argentina and Chile, the effect is more consistent and falls in the higher deciles, slightly in the first case and more notably in the second. In Peru, the trend is subject to tipping points and increases for the last decile. In Colombia and Mexico, an inverted U can be seen according to which households most inclined to rent are middle class, while at either end of the income distribution, the relative probability of opting for this type of housing tenure is lower. Brazil follows the same inverted U tendency, but the variations between deciles are not as marked as in Colombia and Mexico.

The fact that in all of the countries the households with the lowest incomes are the least likely to rent versus those with medium or high incomes relates to the effect of informal settlements on the first group: self-help housing allows access to homeownership. In Chile—the country with the lowest incidence of informal settlements in the region—this pattern may be more related to the success of the housing policy, at least with respect to meeting the demand of the two lowest quintiles through subsidies.

The difference between owning a home that one is currently paying for and a home that is completely paid off provides indirect evidence on the important role of informality in explaining the high rates of homeownership in the lowest income deciles. The probability of opting to purchase a house on credit increases with higher income, given that this tends to be formal and acquired through mortgage lending. On the contrary, housing that is fully paid for—a category that includes informal housing—tends to decrease as income rises. Since the modality of housing for which payments are being made for is the least prevalent, in effect the overall pattern is for houses that are paid in full. Moreover, when homes without titles are used as a proxy variable for the informal economy in Argentina, Mexico, and Peru, it is evident that these decrease as income rises in the three countries, representing 10 percent of homeownership in the first quintile in the first country, close to 40 percent in the second, and 60 percent in the third.

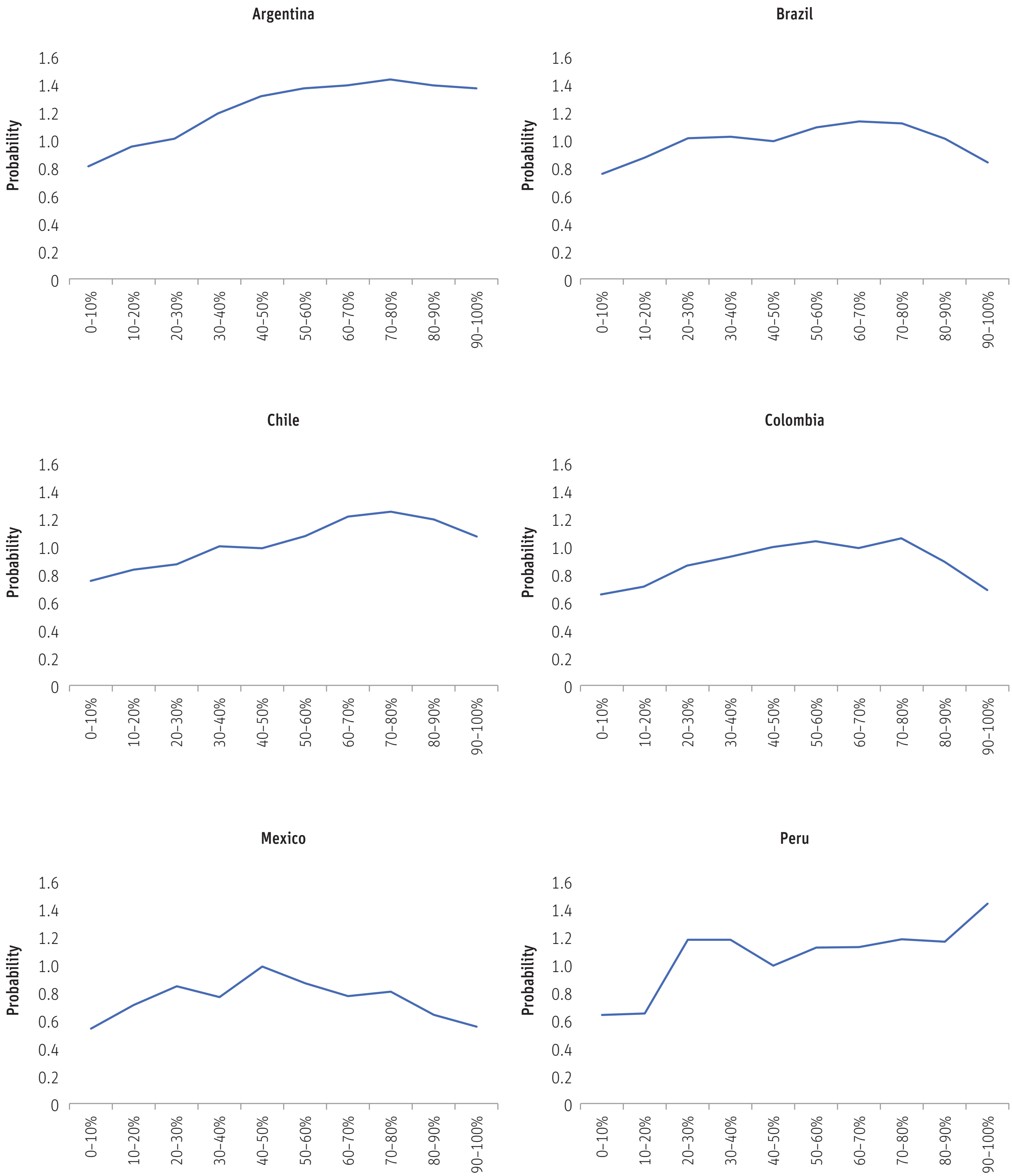
21 The nonlinearity is confirmed with the simultaneous inclusion of income and income squared in the regressions. For all of these cases, the two variables were significant, at 1 percent, with the exception of Peru, whereas the income in the table was significant for Brazil.

FIGURE 7. Housing Tenure Type per Income Decile



Source: Prepared by the authors based on MECOVI (2010 and 2011).
Note: Argentina only includes urban areas.

FIGURE 8. Ratio of Relative Probability of Renting, by Income Decile



Source: Prepared by the authors based on statistical analysis of data from MECOVI (2010 and 2011).
Note: The rate of probability represents the quotient between the relative probability (odds ratio) of renting versus being an owner for a specific income decile with relation to decile 5. Thus, a ratio greater than 1 means that the probability that a home within this range of incomes would rent is greater than the probability for a home in decile 5. The relative probability is calculated by including the regression with the income deciles as dummy variables. Given that the analysis is sensitive to the manner in which the age groups are defined, some coefficients do not end up being significant.

Rental Housing is not Poor Quality Housing

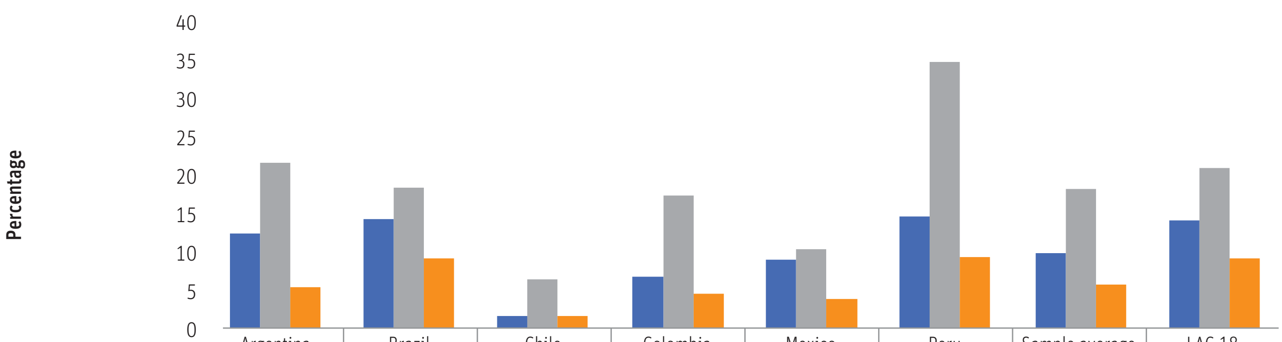
The fact that a significant portion of homeownership in Latin America and the Caribbean is informal suggests that this type of housing tenure is not necessarily of better quality than rental housing. Indeed, compared to homes without titles, rental housing has better conditions in terms of infrastructure, materials, and overcrowding. Even if compared to housing with titles, the condition of rental units is often better in terms of infrastructure, similar in terms of materials, and inferior only in terms of overcrowding. In effect, rental housing is generally in better condition in terms of infrastructure (access to drinking water, plumbing, and electricity) than homes with or without titles (Figure 9).

Once again, this dynamic originates in informal settlements, which not only explains why homes without titles have the most marked deficiencies—since they are generally recent informal developments—but also why homes with titles have worse deficits than rental housing, since this category includes informal housing that has already benefited from regularization programs. The only exception to this pattern in the sample is Chile, the country with the lowest rates of informal settlements and where the percentage of homes with an infrastructure deficit in rental housing is equal to that of owned homes with titles (although it continues to be better than homes without titles).

With respect to the deficit in construction materials—which includes homes with basic roofing and wall structures made of non-permanent materials and with dirt floors—rental housing continues to offer better conditions than owned homes without titles. The same is true when compared to homes with titles: the conditions are similar, although slightly inferior (Figure 10). The latter may be related to a greater period of consolidation of the houses of informal origin, since they have titles, and to the progressiveness of the self-help construction process. Even so, in Argentina, Colombia, and Chile, the percentage of households that reside in rental housing with a deficit in construction materials is similar to that of owned homes with titles. In Brazil it is even lower, which confirms that rental housing offers access to homes of better quality than informal homeownership and of similar quality to formal homeownership.

In terms of the overcrowding deficit—calculated as the percentage of homes with more than three people

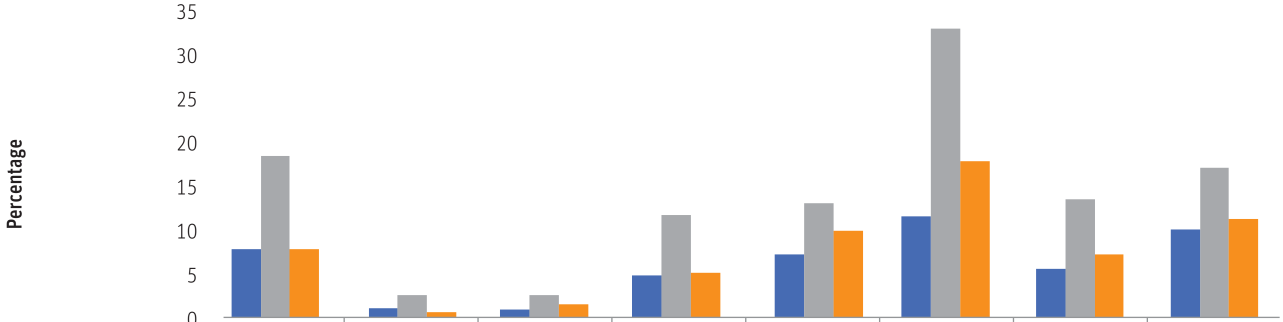
FIGURE 9. Deficit of Infrastructure According to Type of Housing tenure



	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Sample average	LAC 18 average
Own, with deed	12.6	14.4	1.6	6.7	9.1	14.8	9.9	14.2
Own, without deed	21.9	18.6	6.4	17.5	10.5	35.3	18.4	21.3
Rent	5.4	9.2	1.6	4.5	3.9	9.4	5.7	9.3

Source: Prepared by the authors based on Blanco et al. (2012a) and Rojas and Medellin (2011). These authors utilized data from housing surveys for each country according to MECOVI (2006). In addition to the six countries in the sample, the LAC 18 average includes: Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic, Uruguay, and Venezuela.

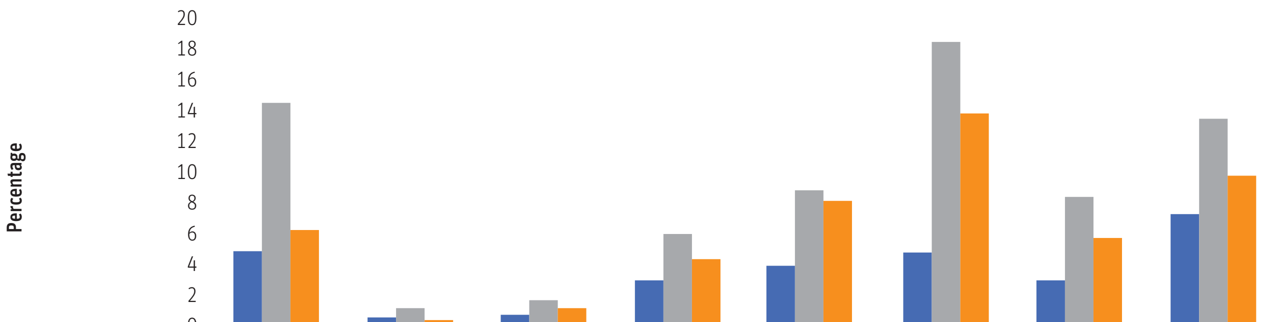
FIGURE 10. Deficit of Materials According to Type of Housing Tenure



	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Sample average	LAC 18 average
Own, with deed	7.9	1.1	0.9	4.8	7.2	11.7	5.6	10.2
Own, without deed	18.6	2.6	2.6	11.8	13.2	33.3	13.7	17.3
Rent	7.9	0.6	1.5	5.2	10.0	18.0	7.2	11.4

Source: Prepared by the authors based on Blanco et al. (2012a) and Rojas and Medellin (2011). These authors utilized data from housing surveys for each country according to MECOVI (2006). In addition to the six countries in the sample, the LAC 18 average includes: Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic, Uruguay, and Venezuela.

FIGURE 11. Deficit from Overcrowding, According to Type of Housing tenure



	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Sample average	LAC 18 average
Own. with deed	4.8	0.4	0.6	2.9	3.8	4.7	2.9	7.2
Own. without deed	14.5	1.0	1.6	5.9	8.8	18.5	8.4	13.5
Rent	6.2	0.3	1.0	4.3	8.1	13.8	5.6	9.7

Source: Prepared by the authors based on Blanco et al. (2012a) and Rojas and Medellin (2011). These authors utilized data from housing surveys for each country according to MECOVI (2006). In addition to the six countries in the sample, the LAC 18 average includes: Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic, Uruguay, and Venezuela.

per room—conditions are better in rental housing than they are in homes owned without titles, but worse than they are in homes owned with titles (Figure 11). The marked overcrowding in rental housing relative to that of the homes owned with titles could be due to the high proportion of small units—rooms for tenants or neighboring houses—dedicated for rental housing. The above demonstrates that what determines the quality of the housing is not the type of housing tenure but rather the degree of informality or consolidation. In any case, as other authors have indicated (UN-Habitat, 2003; Gilbert, 2012), the general idea that the quality of a rented home is substandard does not apply in the LAC region.

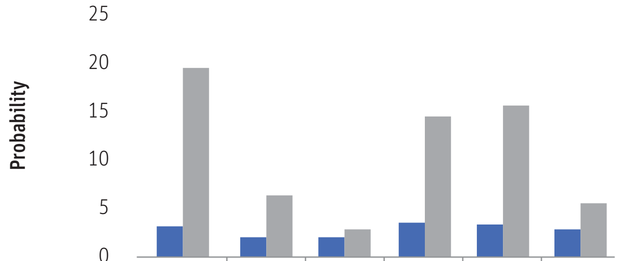
Other Advantages of Renting: Central Location, Density, and Access

Factors relating to supply, such as the higher price of land in centrally located areas, and factors relating to demand, such as the tendency of households to become suburban as incomes rise, mean that rental housing becomes more common in multi-family structures located close to city centers.[22] The econometric models for selecting housing tenure for this study show that housing such as apartments and “other” (primarily rooms) are more likely to be rented than single-family homes (Figure 12).[23] In the case of apartments, the probability is 3 times greater on average, while for rooms it increases to 11 times. In each case, Argentina, Colombia, and Mexico register above-average values. This does not mean that the majority of rental units are rooms or apartments. In fact, in the six countries, rooms and apartments represent, on average, 9 and 27 percent of rental housing, respectively.

Econometric models scaled to the city confirm the greater likelihood of renting homes in centrally located areas than on the periphery. In the case of Santiago, for example, a dummy variable for location was added to a model similar to those previously described, except this time it was applied to the 32 communes of Greater Santiago, defining as centrally located areas the 16 communes that are completely contained within the Américo Vespucio ring road.[24] The results of the variables related to age, type of home, marital status, and type of work were consistent with the results of the models at the national level described above. The variable of centrality, for its part, was significant and showed that the likelihood that a household located in the central communes would opt to rent is twice as high as the option of owning.

The central areas tend to be denser because land is more expensive, and developers substitute this production factor with capital through vertical construction. In the specialized literature, greater densities have been associated with better social integration, less use of automobiles, and more efficient energy consumption. The relationship between density and the proportion of rented homes for the delegations and municipalities of the Metropolitan Area of Mexico City is positive, demonstrating that the greater the density, the greater the tendency to rent.[25] Likewise, denser areas are also those located closer to the center of the city (Figure 15). In general, the relationship between density and greater prevalence of rental housing was also seen in the other cities included in this study.

FIGURE 12. Probability of Renting Apartments and Other Types versus Single-Family Homes



	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Apartament	3.209	2.030	2.075	3.568	3.342	2.848
Other	19.426	6.360	2.844	14.457	15.556	5.546

Source: Authors’ elaboration based on statistical analysis of data from MECOVI (2010 and 2011).

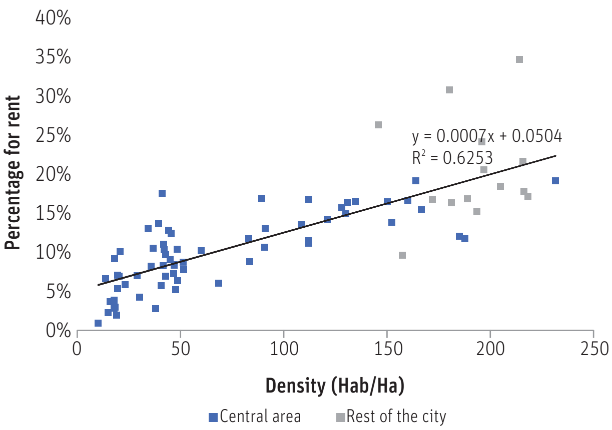
22 This does not imply that there are no single-family rental homes on the periphery. As will be seen in the following section, the rental market follows the spatial logic of the land market and thus it is possible to find this type of tenure in any part of the city. Nonetheless, rooms, apartments, and other locations that are more central have a greater probability of being rented.

23 Based on the significant coefficients of the regression. It is important to add that location in an urban area was also significant. In particular, an urban location makes renting 6.54 times more likely than ownership in Brazil, 3.60 in Chile, 3.87 in Colombia, 5.40 in Mexico, and 6.25 in Peru.

24 These are: Cerrillos, Cerro Navia, Conchalí, Estación Central, Independencia, Lo Prado, Macul, Ñuñoa, Pedro Aguirre Cerda, Providencia, Quinta Normal, Recoleta, Renca, San Miguel, San Joaquín, and Santiago. The authors thank Pia Mora, the coauthor of the study on Chile, for suggesting this criterion. The data are for the year 2002, and come from the IPUMS database (Minnesota Population Center, 2013), which are also taken from the National Statistics Institute of Chile.

25 The central delegations are: Benito Juárez, Cuauhtémoc, Miguel Hidalgo, Venustiano Carranza, Álvaro Obregón, Azcapotzalco, Coyoacán, Gustavo A. Madero, Iztacalco, Iztapalapa, and La Magdalena Contreras. The central municipalities are: Ecatepec, Naucalpan de Juárez, and Tlalnepantla de Báez.

FIGURE 13. Relationship between Density and Rented Homes in the Delegations and Municipalities of the Metropolitan Area of Mexico City



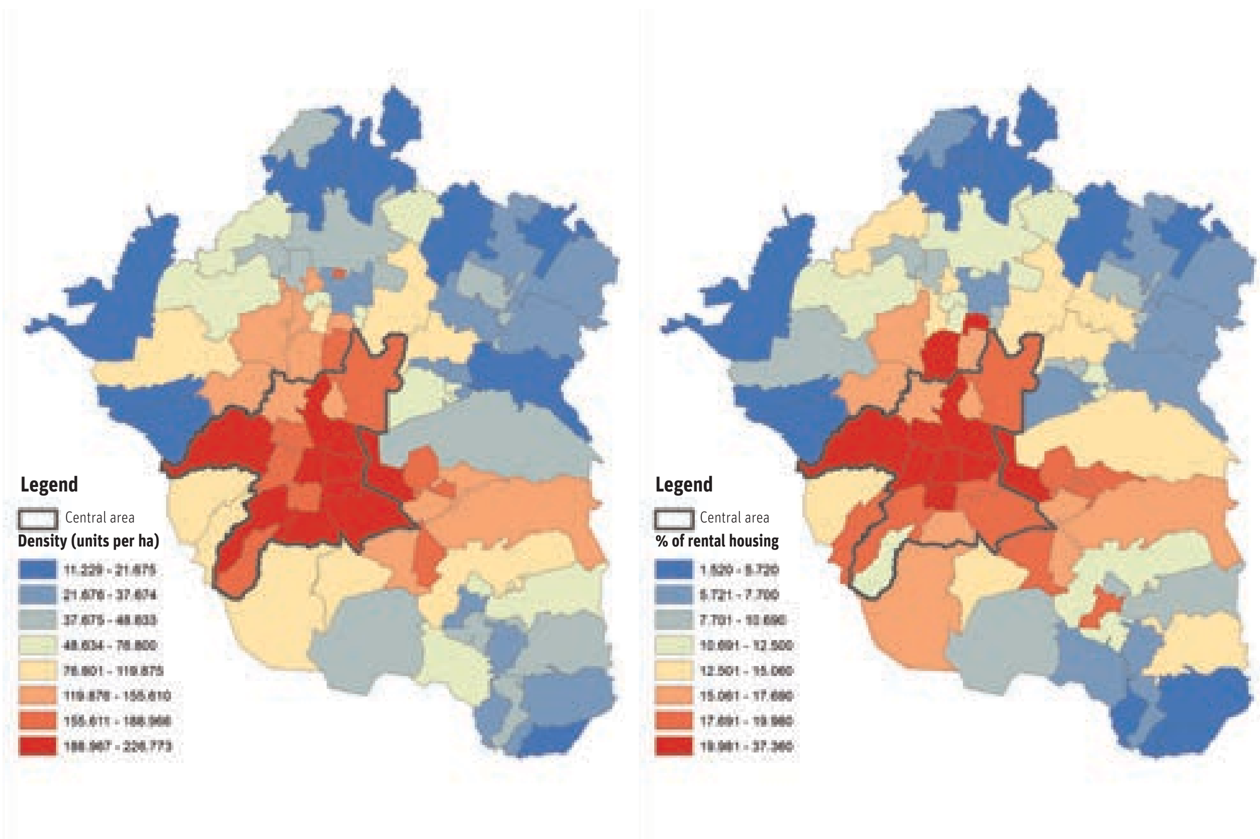
Source: Prepared by the authors based on figures from the National Census of Mexico 2010.

Rental Supply: Varied, Private, and Small-Scale

Given that the demand for rental housing in LAC countries is not limited to any specific level of income, the supply of rental housing is present in all segments of the market. Although the central areas have a greater proportion of rental housing, it is possible to find it anywhere in the city. Indeed, as with any other real estate submarket, the rental market follows the spatial logic of the land market (Calderón, 2012).

With regard to landlords, the supply is divided up into many private, small-scale providers, and the absence of large commercial, institutional, and public investors in the market is notable. In Chile, for example, 80 percent of landlords only have one property and an additional 10 percent have only two. Only 27 landlords

MAP 1. Relationship between Density and Rented Homes in the Delegations and Municipalities of the Metropolitan Area of Mexico City



Source: Prepared by the authors based on figures from the National Census of Mexico 2010.

had more than 50 properties, and together they represent approximately 4,000 units, which is less than 0.4 percent of the supply (Sabatini, Brain, and Mora 2012). This situation is typical of other cities such as Sao Paulo, where 82 percent of landlords have only one property (Pasternak and D'Ottaviano, 2012). In Colombia, it is worth noting that only 1 percent of the supply is managed by specialized firms (Torres, 2012), while in El Salvador only 3 percent of landlords possess five or more properties (Vance, 2012).

The operational logic of these small-scale landlords appears to be guided primarily by the desire to supplement their income or to provide themselves with a pension, more than the pursuit of the best return on investment. Indeed, in Argentina, Chile, Colombia, and El Salvador the average age of the landlords is relatively older than the general population. On the whole, these are couples whose children have left home, retired couples, and/or widowed persons who are seeking to supplement their regular incomes.[26] Moreover, in Chile and Colombia the earnings received from rent represent barely a quarter to a third of the total incomes of the landlords, whereas in El Salvador they represent the main source of income only for less than a quarter of the same group (Gilbert, 2012; Pasternak and D'Ottaviano, 2012; Reese et al., 2012; Sabatini, Brain, and Mora, 2012; Torres, 2012; Vance, 2012).

Thus, the immediate objective of the landlords seems to be more to generate cash flow than to maximize return on investment. This indicates that it is unlikely that the decision to enter into this market would be preceded by a financial investment calculation in the strictest sense. Indeed, in El Salvador none of the landlords indicated that they had purchased or built their property originally for the purpose of renting it (Vance, 2012). In any case, the landlords consider renting to be a good business, and in Chile, Mexico, and Peru, returns are calculated at close to 10 percent annually, which is greater than the return on a CD (Calderón, 2012; Sabatini, Brain, and Mora, 2012; Salazar et al., 2012). However, it is likely that within this calculation, neither maintenance and property tax expenditures nor risks such as non-payment or depreciation are being accounted for.

Most landlords belong to the same social class as their tenants (UN-Habitat, 2003). In Brazil, almost one-fourth of the landlords live in the same building as the tenants, and at least 50 percent within the same community (Pasternak and D'Ottaviano, 2012). In Jamaica, the proportion that lives in the same building as their tenants is 50 percent (McHardy, 2012). Moreover, the socioeconomic class of the landlords and their tenants largely determines the relationships between them and the degree of formality. In general, characteristics such as source and type of housing, location, the relationships between the actors, and the degree of informality can be associated with a certain rental submarket according to the socioeconomic class of those involved in the supply and demand (Table 6). As with any description, the boundaries between one segment and another are not as clear in practice. Notwithstanding, the idea is that the characteristics of rental housing and the relationships between the landlords and the tenants depend in large part on the market segment.

Informal Renting: Self-Help Housing, Absence of Contracts, and Tax Evasion

The diversity in the rental market can be expressed in terms of degrees of formality/informality in three dimensions: origin of the housing stock, the use of contracts, and the payment of taxes (Table 6). The first manifestation of informality comes about when the rent takes place in an informal, self-built home. One of the reasons that informal settlements are considered "architecture that works" (Turner, 1976) is that they allow for the expansion of the installations in order to generate extra income through activities such as renting out rooms, floors, and even semi-independent structures built on peripheral lots with a certain degree of consolidation.

[26] This could also explain, at least in part, why rental housing tends to be located in more consolidated areas.

TABLE 6. General Description of Types of Rental Housing

			Low-income	
	High-income	Medium-income	In informal neighborhoods	Tenure in the center
Origin or real estate inventory	Used or new homes constructed formally for the highest segment of the demand	Standard public or private housing and informal settlements that are completely consolidated and generally legalized	New informal settlements with a certain degree of consolidation	Used housing, generally formal and filtered and subdivided from the highest segments of the demand
Location	In any location within the "high income cone"	In the first metropolitan rings	In the periphery	In the center
Type of housing	Houses or apartments	Houses or apartments	Houses or rooms	Rooms
Relationship between landlord and tenant	The relationship is indirect and mediated through specialized firms.	The relationship is direct; tenant is generally recommended by people she or he knows.	The relationship is direct and generally goes beyond the rent itself, possibly including other types of reciprocities such as caring for children, pets, or household goods, etc.	The relationship is indirect and mediated through persons who are in charge of the general administration; the owner is absent.
Correlation of socioeconomic class of landlord and the tenant	Yes	Yes	Yes	Not necessarily
Existence of contracts	Yes	Not necessarily	No	No
Payment of taxes	Yes	No	No	No
Conflict resolution	Through use of rent warranties	The landlord prefers a personal arrangement to a legal one	Personal arrangement	Complicated; sometimes ending in conflict

Source: Prepared by the authors based on case studies that form part of this research, particularly those of Chile, Mexico, and Peru (Calderón, 2012; Sabatini, Brain, and Mora, 2012; Salazar et al., 2012).

The second type of informality has its origins in the absence of contracts. The incidence of this situation varies among countries. In Uruguay, close to a third of housing is rented without formal contracts, whereas in Chile the proportion reaches 40 percent, in Colombia over 50 percent, and in El Salvador 76 percent (Moya, 2011; Sabatini, Brain, and Mora, 2012; Torres, 2012; Vance, 2012). Within a country, this level of informality also varies by city. In Chile, 70 percent of homes rented in Santiago have a contract, whereas in Coquimbo, a city with more rural areas, the percentage is about 47 percent (Sabatini, Brain, and Mora, 2012). This type of informality is not necessarily related to that derived from the origin of the housing stock, since the absence of rental contracts could be present in any of the submarkets previously described. Nonetheless, its incidence appears to diminish as income rises. For Chile, for example, the proportion of residential rentals without a formal contract in the lowest quintile reaches almost 60 percent, whereas in the highest it is less than 20 percent (Sabatini, Brain, and Mora, 2012).

Renting in Informal Settlements

The literature suggests that the rental market in informal settlements is dynamic and substantial. In a study on Bogota from the 1960s, it was found that one-third of families living in informal housing received income from rent (Doebele, 1977), whereas a more recent study suggests a figure closer to two-thirds (Gilbert, 1999).

Likewise, there is a rental housing stock of informal settlements that have been regularized and consolidated. This type of renting, usually for the higher-income segments, can be found in more central locations and can consist of the entire house or just rooms. For example, in a sample of informal neighborhoods built in the 1970s in Bogota and Mexico City, close to 20 percent of the homes in the first case and 7 percent in the second case was being rented out in 2007 (Ward, 2011).

This third type of informality is related to the non-declaration of rental income in order to avoid paying taxes on it. In Mexico, for example, over 90 percent of homeowners do not pay taxes or provide receipts to their tenants for those payments[27] (Salazar et al., 2012). This type of informality does not strictly correspond to the other two types, and can be present in any segment of the demand. But it can be related to the level of income, given that the majority of the cases in which obligations are met occur in the case of rentals managed by specialized real estate companies that tend to operate primarily in high-income segments of the market (Reese et al., 2012).

Formal Rent: Excessive Regulation, Information Asymmetries, and High Transaction Costs

The main explanation for the causes of the three manifestations of informality relates to the existence of a cumbersome and complex regulatory framework that discourages formal investment in rental housing. Particularly, and in keeping with the specialized literature, control of the level of rents, together with the long and difficult process of repossession, reduces landlords' incomes and increases operating costs, which disincentivizes supply. This in turn reduces the return on investment in a market that is already high-risk (Gilbert, 2012; Jaramillo and Ibáñez, 2002). In fact, apart from the risks and costs of the sector, which may affect any investment in real estate—natural disasters, changes in regulations on land use or taxes, macroeconomic cycles, and the depreciation of real estate—the rental market has other intrinsic risks and costs, such as the probability of vacancy, the risk of deterioration due to misuse or non-payment by the tenant, and the uncertainty of the repossession process (Peppercorn and Taffin, 2013).

Regulatory changes that favored tenants over landlords, including rent control and the lengthy repossession process, were introduced in the middle of the 20th century in response to political pressure. In large part, this pro-tenant regulatory framework has remained, even though in most countries various reforms were introduced in the 1980s which were broadened in the 2000s and which are aimed at leveling the interests of the two groups. In general, the main rules that regulate this market in the countries of the region are now the same as those in the civil code, although in several countries rent increases continue to be regulated. In Colombia, for example, where a new law introduced in 2003 tried to create conditions for an increase in the supply, to this day rent increases cannot be greater than the consumer price index, and as long as the resulting monthly rent does not exceed 1 percent of the market value of the property. Likewise, the landlord cannot request security deposits and can only break the lease voluntarily after four years, or he or she will have to compensate

[27] Anecdotal mention is made of the case of an accountant with 30 years of experience in tax matters who swears never to have registered a client for payment of this tax on residential rent (Salazar et al., 2012).

the tenant monetarily or in months of rent[28] (Torres, 2012). In El Salvador, terminating a contract is even more complicated, since the tenants can remain in the property after its expiration if there is no cause for termination or if the landlord does not manage to legally demonstrate that he needs the home for personal use. In this case, the contract is automatically renewed at the same rate (Vance, 2012).

The repossession process in the case of non-payment has improved but continues to be prolonged, costly, and cumbersome. In Colombia, for example, the repossession time has been reduced from a maximum of five years to a maximum of one year according to the legal modifications introduced in 2003, but it continues to entail delays, taking into account that during this period the landlord cannot collect payments (Torres, 2012). In Peru, the period can be six months but can increase up to four years depending on the cause (Calderón, 2012). In Argentina, repossession can last six months to a year, even though it is uncertain and costly (Reese et al., 2012). In Chile, the decision can take up to a year, but given that the eviction requires certification and accompaniment of law enforcement, the actual repossession can take up to two years (Sabatini, Brain, and Mora, 2012).

In addition, it is very difficult to verify the payment history of the potential tenants, given that in most cases rent payments are not part of the data collected by credit and financial information centers. For these reasons, the landlords in the high- and medium-end segments of the demand opt to increase the requirements for applications and contract specialized real estate firms, which decreases effective demand and increases transaction costs. In Mexico, for example, a tenant who presents an application in the formal market needs to show that he or she has a co-signer who holds property (in some cases within the same city where she or he wishes to rent), proof of regular income, and security deposits equivalent to two months of rent (Salazar et al., 2012). In lower segments, landlords opt to have informal agreements and attempt to mitigate risk by choosing their potential tenants among people they know or who have been recommended to them.

This is how the risk inherent in the market—exacerbated by the regulatory framework—together with the difficulty of resolving information asymmetries and the resulting high transaction costs, create a disincentive to expanding rental housing supply. One result of this could be the high rate of vacant housing in the region. In effect, the proportion of empty units with respect to the total is 18 percent in Argentina, 20 percent in Mexico, 18 percent in El Salvador, and 18 percent in Uruguay. It is true that part of this rental housing stock is located in areas affected by the economic recession and/or violence, and that in many cases it corresponds to housing for secondary or recreational usage. Still, the percentages are high compared to the situation in the United States. There, according to the 2010 census, only 11 percent of the housing stock was vacant in the middle of one of the worst real estate market crises in history. One could also suppose that some of these homes are being offered in the rental or purchasing market. In Argentina, this is the case for close to 2.6 percent of the real estate inventory. Altogether, even discounting these homes, those that are for secondary purposes, or those that have been vacated temporarily, the remaining number surpasses 700,000 units and approaches 6 percent of the total (Reese et al., 2012).

Despite the costs and risks in the rental market, in the majority of the case studies, no pattern of rent increases can be discerned in recent years (Gilbert, 2012). In Chile (Santiago, Concepción, and Valparaíso), housing expenditures for tenants decreased during the 2000s, except for the higher segments of the demand (Sabatini, Brain, and Mora, 2012). In Colombia rent fell in real terms, in El Salvador prices have been constant, and in Jamaica they have declined (Torres, 2012; Vance, 2012; McHardy, 2012). Indeed, the available information does not appear to indicate a structural problem relating to the affordability of rental housing.

[28] Nonetheless, Gilbert (2012a) notes that the effect of this type of controls is still uncertain given that real value of the rent in the end is sometimes lower than what is allowed by law. This would suggest that, at least at present, the rates of returns on the investment are more of an effect of competition than of regulation.

Nonetheless, the interviews of landlords in the region, qualitative information, and the high number of vacant housing units suggest that the rent supply could increase, which would translate into more affordable prices to meet the demand. To that end, the regulatory framework should incentivize a rate of return that is sufficient for the supply and aim at diminishing transaction costs and operational risks.

3

Options for Constructing a Better Rental Market

Measures designed to expand the rental market should be understood to be part of a general and all-encompassing framework of housing and urban policies based on the concept of housing as a service. This means a range of options that are different and impartial, which respond flexibly to the preferences and needs of diverse segments of the demand. Thus, **rental housing policies should complement—not substitute—homeownership**. Likewise, they should be incremental and placed in context in order to meet needs in specific spaces and locations.

The Supply

Stimulating supply is essential in a market characterized by its inelasticity. Estimations for more dynamic real estate markets such as in the United States suggest that the price elasticity in the supply of rental housing is between 0.30 and 0.70 over the long term (O'Sullivan, 2009). This means that the supply of rental housing, as with housing in general, is relatively inflexible and takes time to respond to changes in demand. Therefore, stimuli that do not include incentives to increase supply end up increasing prices. This is what happened in the United States after the implementation of direct subsidies to the demand (vouchers), which increased rent in the low-income segments of the population by up to 16 percent[29] (O'Sullivan, 2009). In the case of the LAC region, stimulating supply is even more important since there are different factors—a longer and more costly production process, greater scarcity of urbanized land, and a lower

[29] This is even more problematic if one takes into account that close to 70 percent of possible beneficiaries do not receive subsidies to the demand due to the existence of financial restrictions. This is how these households are doubly punished for not having subsidies and having to pay higher rent in the market (O'Sullivan, 2009).

ability to pay—that may limit the market's capacity to respond.

The supply of rental housing is segmented; thus, a policy of incentives should be differentiated among the different ranges of income within the demand. Since housing markets tend to satisfy the demand from high-income segments of the population more or less efficiently, for those sectors, modifications to the regulatory or tax framework would be most appropriate. These include measures that incentivize, in the short term, owners of vacant or underutilized housing to put these units on the rental market, and that, in the long term, create the necessary environment for real estate firms to be able to provide and administer a commercial supply at scale.

With respect to low-income housing, and to a certain extent middle-income housing, in addition to regulatory changes, incentives and direct subsidies to the production of housing are needed. The subsidies proposed should be explicit, direct, and transparent, and should figure into budget items that have specific sources of financing. Tax incentive policies (tax credits, exemptions, exonerations, differential rates, among others) should only be used as a secondary option, as they hide the real value of the subsidy and create inefficiency in the collection. Those subsidies that affect relative prices—such as interest rate subsidies—should be avoided not only because they create allocative inefficiencies, thus affecting investment decisions by economic agents, but also because their financial sustainability is difficult to quantify in the long term.

Supply on a Small Scale

The considerable proportion of vacant houses represents an opportunity to broaden the effective supply in the majority of cities in the region in the short term. Moreover, **since the existing supply is the result of operations by small owners/lessors, promoting rental housing can help many families supplement their incomes**. To that end, governments should create the conditions to put vacant units on the rental market. This applies mainly to that part of the potential supply that the owners keep off the market as a capital investment. For those cases, the effective supply could be expanded through a regulatory framework that facilitates the repossession of real estate and thus reduces the financial risk, and through the introduction of banking products that incentivize households whose homes are fully paid for to take on second mortgages to buy and rent units. An example of this is the "Buy-to-Let" program in the UK, implemented in 1996, which contributed to a nearly 60 percent increase in the number of people in private rental housing between 2001 and 2008 (UK Department for Communities and Local Governments, 2010).

Developing a tax framework that balances returns from the operation with other investment alternatives is also crucial. The tax should be levied on net income from the rental unit and should allow deductions for costs such as operating expenses, depreciation of assets, and losses. For example, in Germany, one of the countries with the largest rental markets, these types of policies are applied to benefit small private landlords, who represent close to 60 percent of the supply. In a survey carried out in 2007, they stated that, in their decision to invest, the tax framework was more important than the rate of return or real estate capitalization (Peppercorn and Taffin, 2013).

Another way to increase the supply of small-scale rental units in the short term is to design low-income housing projects in such a way that they could be expanded, and to broaden and complement regularization programs with financial incentives and technical assistance for the expansion of houses for the purpose of building rooms, floors, and semi-independent structures meant to be rented out. A precursor to this idea is the Plan Terrazas, implemented in Colombia. While this initiative was not aimed explicitly at the rental market, it offered a line of subsidiary credit for the subdivision and expansion of homes (Jaramillo and Ibáñez, 2002). A study of 250,000 plots of land in 17 Zone Planning Units in Bogota estimated that over 150,000 two-story homes could be built by taking better advantage of regularized infrastructure and consolidated economic networks. Likewise, this policy could also help reduce vulnerability to seismic events with appropriate technical assistance.

Large-Scale Commercial Supply

In the longer term, the options described above would probably need to be accompanied by incentives to stimulate the construction of housing built specifically for the rental market. This is because, although there is no solid information in this regard, it would seem appropriate to suppose that a considerable portion of the vacant housing stock comprises homes for high-income groups, given that the supply in these segments tends to be greater. Additionally, the regularization of informal settlements and their potential for providing good-quality rental housing through financing and technical assistance have to be accompanied by prevention strategies that not only produce formal and affordable housing but also eliminate the incentives for creating new informal settlements. It is true that programs such as the "Buy-to-Let" program can incentivize construction by increasing demand on the part of future landlords. But it is also true that **complementing the small-scale supply with commercial operators that build in order to rent on a large scale could increase the dynamism of the sector and the market as a whole**. Two of the main restrictions on the supply of large-scale rental housing are the complexity of managing these operations and the lack of specific financing for an activity in which the risk and the maturation period of the investment could be significant. These factors were cited in all of the case studies carried out for this publication as two of the key reasons underlying the lack of interest by the private sector in increasing the commercial supply. On the other hand, difficulties in operating the business have meant that many of the public rental housing initiatives have been considered inefficient and unsustainable. The reason is that governments generally have not been effective at collecting rent and maintaining the housing units.

For these reasons, in more developed countries, the cooperative sector is more and more important in the production and operation of rental housing, especially that which is aimed at low-income households. For example, by 2001, low-income housing entities represented two-thirds of rental housing in the UK, whereas in Denmark they were nearly half, and in Ireland three-quarters (UN-Habitat, 2003). Supporting these cooperatives and non-governmental organizations through financial incentives and training could be a valuable opportunity to develop a supply of rental housing, since these entities accumulate specialized knowledge and could achieve economies of scale, making the operation more efficient and decreasing costs.

The introduction of real estate investment funds has benefited large-scale supply in various countries, such as the United States, where close to 30 percent of rental properties are managed by large corporations. Real Estate Investment Trusts (REITs) have become a means of channeling capital toward investment in real estate, diversifying risk among investors and incentivizing professional management of rental housing (Peppercorn and Taffin, 2013). Since investors acquire stock and not property directly, these funds provide liquidity to their stockholders and considerable capital stock for investing on a large scale, which creates economies of scale for management. Likewise, to the extent that these funds compete to generate returns for their shareholders, operational and managerial efficiency is key. It is for this reason that they are managed by specialized companies associated with REITs or subcontracted entities (Peppercorn and Taffin, 2013). Thus, real estate investment funds can be a way to increase supply and create sustainable management. In Colombia, for example, incentives have already been introduced to develop real estate investment funds, and tax benefits have even been established for returns originating from new low-income rental housing. Nonetheless, key elements clearly still need to be regulated, such as of the sources of funding (Torres, 2012).

The use of public subsidies to support private operators of rental housing is also common in developed countries. Many of these programs are based on tax exemptions and not on direct and transparent subsidies such as those suggested in these recommendations.

In the United States, for example, the Low Income Housing Tax Credit (LIHTC) is an indirect federal subsidy that, through a competitive process, grants tax refund certificates for urbanization costs (construction, architecture, engineering, and connection of services, among others) in exchange for the fulfillment of certain conditions of affordability. The credits represent 4 or 9 percent of the total cost of development for each year for a period of 10 years. The fact that they can be sold in capital markets allows developers to obtain up to half of the capital necessary to cover the costs of a new project without incurring debt (Hackworth, 2007). The conditions of affordability are maintained initially for 15 years, renewable for up to 30 years, and determine that 20 percent of the residents need to have income equal to or below 50 percent of the average income for the area, or that 40 percent of residents should have an income equal to or below 60 percent of the average income for the area (O'Sullivan, 2009).

The Demand

For low-income households to be able to access these units, supply incentives should be complemented by demand incentives. First, **tax administrations should balance the tax on rental housing with that on homeownership** (UN-Habitat, 2003). It is important to limit mortgage interest deductions, earnings from capital appreciation of real estate, or the so-called imputed rent (i.e., the value of the rent that the owner would be paying if he or she were renting), since they constitute tax treatment that favors ownership and harms tenants as well as disincentivizes rental housing (Blanco et al., 20122a; O'Flaherty, 2005). It is also important to reconsider property taxes, since when they are very low, they may be an additional incentive for homeownership. The case of the LAC region is illuminating in this regard, since revenues on these items represent 0.30 percent of GDP in the region, compared with 1.15 percent in OECD countries (Bonet, Muñoz, and Pineda, forthcoming).

The use of direct subsidies is also necessary. The reason is that whenever one speaks of households with incomes near zero, however cheap the housing may be, it is not enough to reduce the rent for it to be affordable. The case of Brazil confirms this. In that country, is estimated that 9.1 percent of the demand is made up of families with no monetary income, while close to two million families pay more than 30 percent of their income on rent (Pasternak and D'Ottaviano, 2012). For this reason, a direct rent subsidy should be targeted to those who really need it: families in the lowest income quintile, the poor, young people, students, female heads of household, older adults, people in distress, such as the displaced or victims of violence or even homeowners in a state of environmental or financial risk.

Demand subsidies should be complementary to the desire of homeownership, which is a political requirement in a region where most people claim to want to own their own home at some point in the future. For this reason, a household benefiting from subsidies on rental demand should remain mindful of the possibilities of obtaining subsidies for homeownership once they meet certain basic requirements. As will be seen further on, subsidies on demand can be useful to the desire to own a home if they are accompanied by savings incentives or if they are reported to financial risk information centers so that families can build a credit history.

Likewise, demand subsidies should be based on the concept of shared responsibility. This means that those benefiting from subsidies will need to cover a part of the rent, so that they will have incentives to seek access to better housing as their income rises. It is also desirable to include minimum quality requirements so that household living conditions can effectively improve. Moreover, demand subsidies should be linked to supply incentives in order to avoid market distortions and possible price increases that could harm families that are not beneficiaries and reduce the effectiveness of the support to the beneficiaries. The rental assistance program in the United States known as "Section 8" is a good example of this type of intervention. It covers the difference between 30 percent of the household's income and the market rent in the area. By supplementing the rent, it is assured that the beneficiary will share in the effort, while the requirement of a direct contract with the landlord guarantees a minimum of quality and incentivizes private supply. Currently, the program covers 1.2 million units (Landis and McClure, 2010).

The Institutional Framework

Rent Control and the Repossession Process

The negative impact of rent control and the difficult process of repossessing rental housing in the region demonstrate the need to balance the interests of landlords with those of tenants. **In fact, cases such as Germany and Switzerland—where governments have followed housing policies without bias toward type of housing tenure—suggest that it is possible to provide housing tenure security for tenants while offering a reliable environment to the landlord**. The literature suggests that a balanced legal framework could include controls on rent if they are based on market values in the area and adjustable based on inflation. In particular, Peppercorn and Taffin (2013) propose differentiating between new units produced by construction and renovation in which the rent charged would be free within certain established parameters; vacant units in which the rent would not be controlled but rather be subject to reasonable limits (existing values in the area); and units in which the tenant renews the contract where rent increases are indexed to inflation. In any case, the changes should be gradual so as to avoid abuses, flexible in order to respond to market conditions, and accompanied by other measures of support for demand in order to alleviate the effects on tenants.

With regard to repossession, it is important not only to accelerate the process but also to do so in a way that reduces costs to the landlord. Even though it is advisable to introduce alternative dispute resolution and arbitration mechanisms, there should also be incentives and fines established to avoid the tendency of noncompliant renters to evade arrangements prior to the legal decision or eviction and remain in the unit without paying the rent throughout the process.[30] The model applied in the UK beginning in 1993 includes some of these elements, since it allows for a hearing weeks after the case is presented, and it separates the repossession process from that of collecting past due rent. This ensures that landlords will reduce their losses in the short term and will be able to recover part of the rent in a separate legal process (UN-Habitat, 2003).

For the law and settlements to be applied, in the relationship between the landlord and the renter it is advisable to generalize the use of standard contracts in which the unit is described, the duration and rent are set, and the procedures for managing adjustments, delays, and disputes between the landlord and the tenant are set forth (Peppercorn and Taffin, 2013; UN-Habitat, 2003). It should be noted that, in a region where a large part of the rental market is informal, this change would be contingent upon creating necessary incentives for the use of contracts that provide more benefits than costs for the actors involved. Obviously, a learning process regarding the law itself should accompany the modifications, since the case studies found that both tenants and landlords are unfamiliar with the established procedures. It is equally advisable that matters that tend to be sources of conflict, such as maintenance responsibilities, the right to have improvements made, and payments of fees for administration and public services, be set forth in standard contracts. For this last case—one of the main sources of disagreement—it would also be advisable to explore legal modifications that would enable tenants to enter into contracts directly and in their own names for public services from companies that lend such services, as occurs in the United States and other countries.

Information Asymmetries and Transaction Costs

Given the characteristics of the rental market in Latin America and the Caribbean, the difficulties of repossession mean that, in the formal market, landlords

[30] The case of Chile is illuminating in this regard, since barely 40 percent of cases are resolved by settlement agreements, whereas the rest prefer to wait until a legal decision is made in order to "gain time" (Sabatini, Brain, and Mora, 2012).

increase requirements for their tenants, whereas in the informal market, filters are created through personal recommendations. In both cases, higher transaction costs are produced which discourage the dynamism of the sector and harm all of the actors involved. In Argentina, Colombia, and Mexico, for example, in the highest-income segments of the demand, financial companies offer insurance that guarantees the landlords compensation in case of non-payment. Even though this solution involves a cost, it increases certainty, decreases risk for the landlord, and improves access to housing options for the tenant. It is true that this type of recourse has not been made common everywhere; in fact, it is estimated that it barely covers 5 percent of the existing formal real estate inventory in Mexico (Peppercorn and Taffin, 2013). Nonetheless, because of its ease and efficiency, this tool can facilitate the growth and consolidation of the rental market, at least in high-income segments.

For the low-income segments, and even for middle-income segments, some form of state support is recommended, aimed at resolving problems arising from information asymmetry. **The Rental Guarantee Fund (Fondo de Garantía de Alquileres, or FGA), introduced in Uruguay in 2006, is a useful mechanism since it provides payment insurance to the landlord for tenants with low incomes who qualify for the program, according to certain limits in the level of income and the value of the rent**. In exchange, the tenant makes an initial payment equivalent to 24 percent of the rent and monthly payments of 3 percent. If the tenant is delinquent for three months, a repossession process is initiated, during which the FGA continues to pay the rent on behalf of the delinquent tenant. As of March 2010, close to 1,200 contracts had been signed. Of these, 18 percent belonged to delinquents, and only 2 percent of the total had had to go through the eviction process (Moya, 2011).

In addition to rental guarantee insurance, information asymmetries could be reduced if the public sector entities published figures on rents by area, as is done in the United States and Germany. Reporting cases of non-payment of rent to financial information centers could help landlords in screening potential tenants without the need to impose requirements that hinder access to rental housing. The latter measure would also create a greater incentive to make payments, since according to a Mexican insurance company that offers rental guarantees, delays of up to a month have declined from 30 to 5 percent since this information began to be reported (Peppercorn and Taffin, 2013).

Urban Planning

The evidence for Latin America and the Caribbean shows that rental housing tends to be more central, dense, and accessible. This suggests that **linking rental policy with urban and land-use planning could help reduce residential segregation and renew downtown areas.** The LIHTC in the United States is a clear example of the potential of this type of linkage, since in defining the requirements for affordability for up to 40 percent of the units in a property—and not for 100 percent—a great degree of social integration has been achieved at the project level. In fact, although low-income households occupy 85 percent of the units (Rosenthal, 2008), this proportion is better than that of strictly public projects, where there is generally no integration with middle- to high-income families. Moreover, in offering additional points to developers who participate in the competitive process of allocating tax credits by factors such as more central locations or proximity to public transportation, LIHTC projects have achieved greater spatial integration, since close to half of the units are located in both high- and middle-income census tracts (Rosenthal, 2008). Indeed, several studies have found that, compared to those of other public housing programs, LIHTC locations tend to disperse poverty (Newman and Schnare, 1997) and offer better access to work centers, as well as to social and commercial services and other urban amenities (Blanco et al., 2012b).

In addition to these incentives, in the United States regulatory mechanisms have been applied to the use of land to increase the supply of affordable rental housing in areas where the demand is greater.

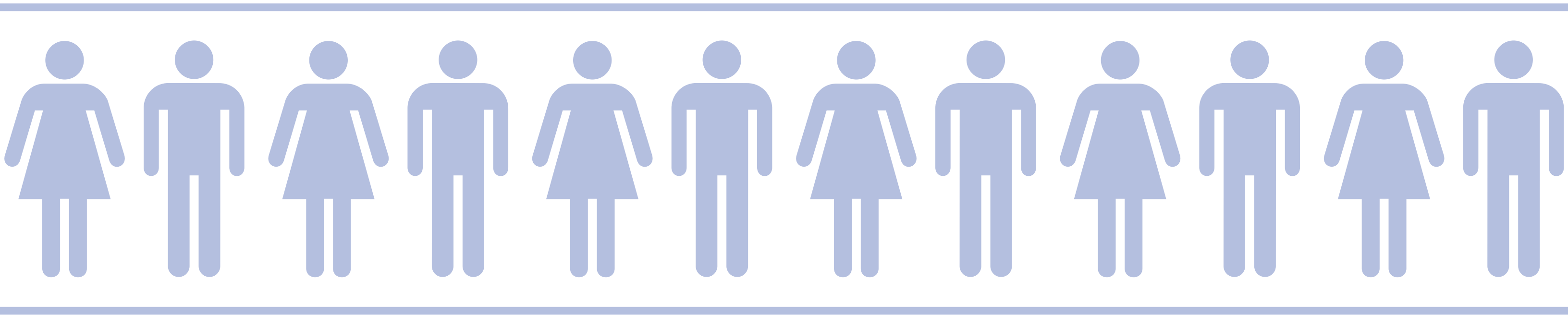
For example, inclusive land use (inclusionary zoning) is a tool that requires developers to incorporate a percentage of low-income housing units in projects meant for the highest-income segments of the demand. Even though in some cases it is predicted that developers will be released from the obligation to meet this requirement in exchange for cash payments, this type of ordinance has produced at least 90,000 units in the country and even more if one takes into account that 30 local governments in California alone reported close to 34,000 units built because of such ordinances (Pendall, 2008).

The formulation of a rental policy should be explicitly linked to urban planning tools. Such linking, through mechanisms such as inclusive land-use planning, would not only help reduce social segregation, but would also incentivize the efficient use of well-located land for the production of low-income housing. At the same time, this linkage could help address the scarcity of urban land, a constraint that has been traditionally identified as the most important impediment to housing construction for low-income families and one of the main causes of informal development (Smolka, 2003).

Conclusions

The rental housing market can be a key instrument in Latin American and Caribbean housing policies since it is a valid low-income housing alternative with greater potential for fiscal sustainability, a flexible option that can respond to the preferences of certain sectors of the demand, and an opportunity to offer better locations and disincentivize low-density peripheral development. The findings herein show that, although the LAC region is comprised mainly of homeowners, ownership was not always the main form of housing tenure in urban areas, and renting continues to be significant, particularly for certain segments of the demand. Likewise, the study found that rental housing does not decline with household income; is not of bad quality; is more centrally located, dense, and accessible; and offers a diverse, private, and small-scale supply to meet the demands. The study also confirms that the formal market is limited by regulations, information asymmetries, and high transaction costs.

For these reasons, the governments of the region should include rental housing as an additional option in their housing policies. This form of housing tenure should be understood to be part of a general and integrated framework of housing and urban policies based on the concept of housing as a service that impartially offers a range of options that respond flexibly to the preferences and needs of different segments of the demand. Thus, rental housing policies should be a complement, not a substitute, to homeownership, and, during implementation, it is important to consider the specific contexts and be incremental in order to respond appropriately to specific spaces and places. In this way, renting can become part of the solution to the housing problems that continue to affect the region.



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This study emphasizes the importance of the rental housing market and its potential as a tool for solving the main housing problems in the Latin American and Caribbean region, such as quantitative and qualitative deficits, limited affordability, and spatial segregation. Currently, one out of every five households in the region rents their home, with greater prevalence among some of the fastest growing population groups, such as youth, one-person households, divorced people, and the elderly. This suggests that support of the rental housing market may be a better way to satisfy the housing demand and increase residential and labor mobility.

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