

# Rental Housing Wanted

Options for Expanding  
Housing Policy



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# Prologue

*Santiago Levy*

In these times of rapid global urbanization, Latin America and the Caribbean is the developing region with the highest percentage of urban population. In this context, one of the main challenges the region faces is to reduce the quantitative and qualitative housing services deficit. It is important to explore alternative ways to meet this challenge, and this book offers proposals for doing so.

This publication expands on the monograph “Rental Housing Wanted: Policy Options for Latin America and the Caribbean” presented at the seventh session of the World Urban Forum (WUF7), held in Medellín in April 2014. The book includes the results of a comprehensive study of the rental housing market in Latin America and the Caribbean, complemented by case studies from nine countries in the region. The Fiscal and Municipal Management Division of the Inter-American Development Bank led the study, which includes the contributions of both local and international experts who are working to find solutions to urbanization that will benefit all citizens. The analysis highlights the challenges and possibilities for both public and private intervention in the region’s housing market.

Homeownership rates in the region are very high, and it is therefore unsurprising that housing policies prioritize and encourage this type of housing tenure. However, the rental housing market is still significant; between one and five households in the region live in rented accommodations, and this figure rises significantly for certain segments of the population. Moreover, analysis of the data over the last two decades indicates a growing trend for renting over homeownership, especially in countries

such as Argentina, Bolivia, Colombia, Mexico, and Peru. This evolution and the conditions of rapid urbanization indicate that the rental housing market will continue to grow, meaning that it should be incorporated into housing policies. This book suggests the need to find effective and long-term alternatives that help to solve the region's housing deficit by demonstrating that renting is a valid and viable option for expanding housing services for the region's growing urban population.

Furthermore, sensible housing policy design must consider the impact on other socioeconomic areas. When evaluating the different tenure options, it is important to consider the housing market's impact on the labor market, given that a balanced housing market, in terms of tenure options, permits greater labor mobility. By offering lower transaction costs and times, renting offers greater flexibility for workers to move should a viable job opportunity arise. This book helps to dispel some of the myths regarding renting and other forms of tenure in Latin America and the Caribbean. First, there is no correlation between the development level and the structure of tenure; in other words, a developed country does not necessarily have higher homeownership indices. Second, contrary to the belief that only poor people rent their homes, this option is transversal and is present at all income levels, particularly among the middle-income sectors. Renting also depends on the cycle of life, given that the groups most likely to rent are young people and single-person households, which indicates that this is the preferred option for those seeking greater flexibility. Third, the quality of rented property is usually superior to that of informally owned property in terms of infrastructure, materials, and overcrowding. In fact, the quality is often similar to that of formal homes, which discredits the myth that all rental housing is poor in quality. A considerable share of privately owned property in the region is informal, and it is not necessarily of better quality than rental housing.

The choice to rent also offers the chance of finding a home in a better location. There are proportionally more homes for rent in central areas than out on the periphery. Renting, therefore, offers the chance of living in a higher density, well-integrated area, which is closer to socioeconomic activities. Rental housing can thus decrease commute times and costs as well as energy consumption. By presenting renting as an important alternative in terms of housing services, this book provides the basis for a well-informed debate on public housing service policy and presents options for developing the rentals market for both the public and private sectors.



# Executive Summary

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

For anyone who has ever made a decision about where to live, housing is a service or, more precisely, a combination of multiple services. Various aspects come into play when choosing a dwelling: the property's size and quality; its location within the wider urban structure, and its particular attributes with regard to accessibility; a neighborhood's externalities, such as proximity and convenience, and perhaps also a financial investment that can be capitalized depending on all these factors individual preferences and possible resource limitations will also affect the choice.

For these reasons, the specialist literature characterizes housing as a network of services. The most frequently employed analysis methodologies, such as hedonic regression models, attempt to break down the incidence of each factor on prices or preferences (O'Sullivan, 2009; O'Flaherty, 2005; Mills and Hamilton, 1989). One of Turner's three laws of housing—"what matters about housing is not so much what it *is*, as what it *does* for people's lives"—sums up this conceptualization (Turner, 1976: 5).

This concept is significant for public policy because it underscores the fact that there is no such thing as a universal ideal home and that the potential virtues of a home will evolve according to the changes that take place within each household. Despite this, governments in Latin America and the Caribbean (LAC) have generally conceptualized housing primarily as a capital good above all the other services it offers and have tended to view homeownership as the sole solution for housing. This shift in the conceptualization of housing as a form of service provision to one that promotes only one form of ownership has a number of potentially negative

consequences, including: reducing the market's flexibility to address housing demand, reducing worker mobility, increasing financial risk by concentrating assets, promoting low-density development on the periphery, and adversely impacting public finances in view of the expense and the difficulty of scaling up massively when applied to social housing.

Governments should therefore base housing policy on the concept of service provision rather than on a particular type of tenancy. Good housing policy should prioritize access within a market that offers variety, quality, and opportunity. The rental housing market can be a key component of an effective, flexible, and inclusive system of housing service provision.

The main purpose of this publication is to promote open discussion about how best to develop and expand the rental housing market in LAC by analyzing the current state of rental housing in the region, learning lessons from international experience, and putting forth policy proposals. The publication presents the findings from a research project financed by the Inter-American Development Bank (IDB), which consisted of an analysis of case studies in 19 metropolitan areas in nine countries in the region.

This research showed that renting is a vital component of the housing system in the LAC region. Presently, one in five households lives in a rented dwelling, and this proportion has grown over the last ten years in most countries of the region. This trend is more pronounced in urban areas, where more than 40 percent of the population in cities such as Bogotá, Cali, and Santo Domingo rent their homes. This is particularly significant in a region in which the urbanized population has risen to 82 percent and is expected to rise even further in the coming years.

The evidence gathered led to the conclusion that, contrary to what normally occurs in more developed countries, renting is not restricted to the poorest segments of the population. In some countries in the region, renting increases commensurate with increases in household income, and in others it is concentrated in the middle segments of the demand. This phenomenon can be explained by the high rates of informal housing, which enable lower-income households to purchase a home even when the property does not offer the best conditions of quality and location. In fact, the rented dwelling often provides better conditions in terms of infrastructure and building materials than an informally owned property, and it displays characteristics more akin to those of a formally owned property, even for the lowest income quintiles. This means that it is an efficient and cost-effective alternative for resolving the qualitative and quantitative deficits that currently affect 37 percent of households in the region.

Furthermore, the study revealed that rental housing is the predominant mode among the fastest-growing segments of the population, such as young people, single-person households and divorced people. This alternative can therefore help satisfy demand preferences and create greater residential mobility. The study also found that rented housing is concentrated in the more centrally located, consolidated, and densely populated areas of the cities. This suggests that housing policy that is linked to better planning and improved territorial organization can help mitigate low-level growth on the periphery and the segregation that it causes, and can lead to cities that are denser, more compact, and more accessible.

Another finding of the study was that the rental housing supply is diverse, privately owned, and small-scale, and provided mainly by individual owners from the same social strata as their tenants. Therefore, greater dynamism in the sector would not only augment supply, but would also supplement the owners' incomes. Because of market regulation, information asymmetries, and high transaction costs, relatively simple changes, such as reducing the time required to repossess a property and creating a system of rent guarantees, could expand the effective supply considerably. Such changes would incentivize owners to put a considerable portion of the region's vacant housing on the market—which in some cases makes up 20 percent of the total—thereby mitigating the lack of good-quality, well-located rental housing.

This publication is divided into three parts. The first three chapters present a comparative analysis. The first chapter describes the quantitative and qualitative shortcomings of housing in the region, as well as problems of affordability and segregation. It identifies the potential benefits of rental housing as an alternative form of more fiscally sustainable social housing, a flexible option that can better satisfy the preferences of certain segments of the demand, and an opportunity to provide better locations and discourage the development of informal housing in the periphery.

The second chapter describes the current status of rental housing in the region and finds that although LAC is a region of homeowners, this has not always been true in urban areas, and that renting continues to be significant for certain segments of the demand. It demonstrates in this regard that the chances of renting do not decrease with rising household income; that rented accommodations are not of poor quality, but rather are often more centrally located, denser, and more accessible; and that the supply is more diverse, privately-owned, and smaller-scale despite, as previously mentioned, the constraints of regulation, information asymmetries, and high transaction costs.

The third chapter reviews the characteristics of the global rental housing market, underscoring the role that it plays in each country's housing system and the lessons that Latin American governments might learn based on these experiences. To this end, it describes policy frameworks and outcomes from the second half of the twentieth century, with examples from Africa, Central and Eastern Europe, China and South Asia, North America, and Western Europe.

Part II of the publication consists of nine chapters that correspond to case studies from Argentina (Buenos Aires and Rosario), Brazil (São Paulo, Curitiba, and Salvador), Chile (Santiago, Valparaíso, and Concepción), Colombia (Bogota, Medellín and Barranquilla), El Salvador (San Salvador and Santa Tecla), Jamaica (Kingston), Mexico (Mexico City and Guadalajara), Peru (Lima and Trujillo), and Uruguay (Montevideo). Each case study describes the structure of ownership as well as its evolution and explanatory factors, the prevalence of housing deficits, the current situation in the rental housing market in terms of supply and demand, and restrictions on the development of the rental housing market, and offers policy recommendations.

Part III of the publication presents a series of policy recommendations for the region's governments, grouped into the following categories: (i) supply, which includes incentives for increasing the availability of rental property on the small scale as well as large-scale commercial production; (ii) demand, which describes incentives such as direct subsidies, rent with option to buy, and other alternatives that combine renting and ownership; and (iii) legal framework, which presents suggestions related to establishing fixed rents, the process of repossession, information asymmetries, transaction costs, and urban planning. These are differentiated according to household income levels (high, medium, and low), since each market segment responds to different incentives. Finally, the annex provides details on the databases and methodologies used in the quantitative analysis, as well as the results.

# Preface

*Alan Gilbert*

No country in the world is exempt from housing problems. Although the situation is most serious in poorer nations, there are homeless people and people living in unfit dwellings in all countries, and most people continue to struggle to pay for housing. The market fails on two fronts: on the one hand, a large segment of the demand does not earn enough to acquire a decent home, and on the other, the difficulties and the costs of the productive process, exacerbated by speculation in the land property market, act as a brake on the supply of housing even where there is buoyant demand.

In view of the limitations of the market in terms of creating a fair and balanced system, the State has been forced to intervene even in the most liberal capitalist systems. Governments have introduced a wide variety of policies that operate in different ways: from imposing rent control, building public housing, and expanding the mortgage markets to providing subsidies for the less privileged segments of the demand and creating fiscal incentives for the higher and medium segments, as well as intervening in land markets via planning regulations and providing infrastructure to encourage particular forms of housing production.

Although there is general agreement on the need for the State to intervene, state intervention has often been inefficient. One of the reasons for this, as with any kind of policy, is that in the housing sector these interventions are largely the result of ideological biases, political commitments, and/or pressure exerted by interest groups. Moreover, once policies have been introduced, they generally continue to be applied for years, even

when evidence suggests that their effectiveness is limited, such as in the cases of rent control or mortgage-interest tax deductions.

Political inertia, reluctance to admit past errors, and continuous pressure exerted by beneficiaries are all factors that can hamper change. On the one hand, it is common for governments to offer housing subsidies or mortgage-interest deductions to groups that do not need them. On the other, it is rare for fair taxes to be levied on earnings from the appreciation of land and property values, with the consequent loss of fiscal revenues that could have been used for investment in infrastructure and services. There are abundant examples—especially in developed countries—where the government decries the high costs that hamper access to housing, while at the same time introducing policies that promote speculation in property. Finally, there are very few occasions on which governments offer fiscal incentives that encourage people to reduce the size of their dwellings or to rent out available space, which might go some way toward alleviating the housing shortage. Overall, when it comes to property ownership, neutral policies are conspicuous by their absence.

For years, most countries around the world have promoted homeownership. Although there are many good reasons why people might want to become homeowners, the official measures described above have helped create a distorted pattern of ownership, which has led to six major problems:

1. ***Homeownership is an option only for those who have the means to pay for it.*** This leaves out most of the population in any part of the world. Moreover, the ratio between home prices and income appears to be increasing constantly, and often drastically, above all in the big cities. Given that homeownership has been touted as the universal goal for everyone, its high relative cost creates not only a housing problem, but also a possible source of social angst: *why can't I buy my own house?* The danger in this situation lies in the fact that restricting access to owning a house gives rise to a large number of discontented aspiring property owners, who then opt for more undesirable forms of ownership, such as the low-quality modes of ownership that are typical of informality.
2. ***Home values tend to increase more rapidly in affluent areas.*** House prices depend to a large extent on the property's location, which engenders serious distributive consequences. For example, in the United Kingdom, the gap in wealth between the owners of houses in

the richest areas and the poorest areas is rapidly getting wider. For tenants, the situation is even worse. Given that ownership is the fundamental element in most families' investment portfolios, those who are not homeowners lose out even more. It is therefore hardly surprising that homeownership is one of the ingredients that has widened the gap in wealth distribution seen in most countries in the world since the 1970s.

3. ***Only certain people with a certain level of income can afford to buy a home in the most-prized neighborhoods.*** This phenomenon is accentuated insofar as salaries are diverging even further between high- and low-skilled occupations, and because in many places fewer middle-income jobs are available. For this reason, people with lower incomes can afford dwellings only in the least-expensive areas, which are generally characterized by poor accessibility and quality. The combination of the widening gap in income distribution and the marked differences in prices within housing markets means that urban segregation can only get worse. In some cities, a process is under way known as gentrification, or the gradual displacement of working-class families from well-located neighborhoods by more privileged households moving into up and coming areas.
4. ***Growth in homeownership has given rise to a different form of urban development.*** While most renters have always lived in tenements or in high-rise buildings, most homeowners now live in some kind of dwelling in the suburbs. At the same time, an increase in the latter model has tended to produce inefficient urban sprawl (in cities such as Atlanta and Houston), which in turn leads to greater fuel consumption (due to longer commutes), an increase in the cost of infrastructure provision, and a series of negative effects on public transportation. On occasion, as in the case of Detroit, this phenomenon has exacerbated the city's deterioration to such an extent that the rich have migrated to the suburbs on a massive scale where the tax burden is lower, thereby depriving the inner city of fiscal and economic life.
5. ***Rapid growth in the rate of homeownership can help generate financial and banking crises.*** Homeownership has been one of the key ingredients in both the growth of property bubbles and their subsequent bursting. The crisis of the savings and loan corporations in the United States in 1998, the sub-prime mortgage crisis and the collapse of Fannie Mae and Freddie Mac 10 years later, and the banking crises in Ireland and the United Kingdom were related to the defective design and allocation of mortgage loans for home purchases.

6. ***The cult of homeownership has discouraged, and even hampered, the formulation of policies to promote rented accommodation.*** It is paradoxical that in a world where nearly 1.2 billion people live in rented accommodations, few governments have implemented sensible policies designed to develop and improve this enormous market. Although some governments have intervened—sometimes on the side of owners, but more often on the side of tenants—except in the case of Central Europe, effective government policies have been scarce. Governments have made few efforts to improve relations between the millions of tenants and property owners or to provide effective means for resolving the conflicts that arise between them. Fewer still are aimed at encouraging investors (both large and small) to invest in the rental housing market. It might seem obvious, in a world that suffers from a clear lack of adequate housing, to encourage the creation of new units for renting to tenants or to convert vacant lots into rental housing. Until now, however, only timid progress has been made. There is a dearth of policies in this regard, especially in developing countries.

How has this situation come about? One explanation is that neither landlords nor tenants are significant political actors anymore. By converting tenants into homeowners, governments have significantly reduced their numbers, which has lowered the demand for rented accommodation. Landlords are also much less influential now than they used to be. Today, investors prefer to purchase shares, land, or commercial properties. Therefore, rental housing remains mainly in the hands of a large number of widely dispersed landlords. Freed from political pressure, many governments tend to ignore rental housing and to concentrate above all on creating opportunities for tenants to become owners. They have become ideologically committed to increasing homeownership, convinced that this form of ownership helps to build a more stable society.

This is the basis for the myth that homeownership is the central characteristic of national culture. It explains how this form of ownership has become a fundamental element of public policy, based on the belief that it helps generate wealth and contribute to economic growth. It is fair to say that the construction industry creates many jobs and generates high earnings, especially for three main groups: the developers, who build new neighborhoods; the banks, which finance the transactions; and real estate agencies, which profit from acting as intermediaries. In the United



Kingdom, for example, real estate agencies employ some 560,000 people and represent the fastest growing sector of the workforce.

By trying to encourage homeownership, most governments have neglected—or actively discredited—the idea of renting. It is not surprising, therefore, that surveys carried out in various countries indicate that most people want to own their own homes, since property not only increases in value but also confers social prestige and serves as collateral for obtaining credit. In a few words, homeownership produces economic and social wellbeing.

However, considering the costs associated with homeownership (e.g., maintenance and repair costs, taxes, and insurance), it is important to analyze the benefits of homeownership over rental tenancy. The creation of an effective and efficient system requires not only both modes of tenancy, but also intermediate models, such as renting with the option to buy. This is because there will always be those who cannot, do not want to, or are in no position to buy a house.

I have been a tenant at various times in my life: when I was a student, when I worked abroad, and when I had a job with uncertain prospects. I admit that I have owned a house for many years, a choice that has benefited me enormously. Despite the headaches of having to maintain my house and be responsible for paying the property taxes and insurance, my wealth has increased considerably thanks to this kind of ownership. Property prices in the United Kingdom are probably 50 times higher now than they were in 1970; this means that as a homeowner since 1972, I have benefited from that increase, particularly because I live in London, one of the most dynamic property markets in the world.

What have I done to deserve the riches that home ownership has brought me? The answer is simple: little or nothing. What are the social consequences of the wealth that I have acquired? Many of those who cannot buy their own house have been condemned to live in a poorly regulated rental market. Poor people and the young (those who do not have rich parents) have lost out. Many of them will never become property owners, and the majority of the young aspirants will have arrived at middle age before they become homeowners. Furthermore, low property tax rates mean that funding for investment in infrastructure, transport, and social services has been insufficient.

In light of the above, this publication argues that more attention should be paid to rental housing. The arguments do not oppose homeownership, but rather advocate a more balanced approach to rental tenancy

that would enable more people to gain access to the benefits of housing services.

Renting can improve residential mobility and access to work, offer housing solutions for those for whom ownership is not a valid option (e.g., recent immigrants and students) and provide supplementary revenue for those who do own property but lack sufficient income (e.g., the elderly).

Rented accommodation is not a universal panacea. Millions of tenants across the world complain daily about their landlords, while delinquent tenants or damage to their property has adversely affected many of those who provide rental housing. In many countries, the rental housing sector is excessively regulated when it is not completely ignored, leaving relationships between owners and tenants in legal limbo. Although most landlords and tenants coexist relatively well, few countries have managed to create efficient arbitration systems for resolving the disputes that arise between them.

It is time to rethink how housing markets function and what governments can and should do to improve the current situation. Rental housing, and the role that it can play in the general housing system, is a critical element in this debate. I hope this publication will stimulate dialogue among LAC governments on this important topic.

## PART I

# Characteristics of the Rental Housing Market in Latin America and the Caribbean



# Renting as an Opportunity for Improving Housing Policies

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

This chapter presents the arguments in favor of a rental housing policy in the Latin American and Caribbean (LAC) region with respect to three dimensions of the housing question: deficit, affordability, and segregation.

## THE HOUSING PROBLEM IN LATIN AMERICA AND THE CARIBBEAN

### Deficit

Housing deficit is a significant problem in the LAC region. Approximately 37 percent of households, equivalent to nearly 54 million families, suffered from some type of housing deficit in 2009 (Bouillon, Medellín, and Boruchowicz, 2012). Most of this shortage is qualitative, meaning that 21 percent of it corresponds to households with infrastructure deficiencies, 12 percent to housing built with substandard materials, 11 percent to lack of security of tenure, and 6 percent to problems of overcrowding. With regard to the quantitative deficit, 6 percent of families—nearly 9 million households—do not have a home or live in dwellings that are unfit and beyond repair. Most of these percentages have been declining since 1995: the quantitative deficit has fallen by two percentage points, materials and overcrowding by four points, and infrastructure by seven points, whereas the deficit in terms of security of tenure has remained stable. However, in

absolute terms, the deficit has increased in all categories except materials and overcrowding, which has remained constant (Bouillon, Medellín, and Boruchowicz, 2012; Rojas and Medellín, 2011).

These averages conceal considerable differences among countries, between rural and urban areas, and among income segments. For example, the total deficit ranges from 18 percent in Costa Rica to 78 percent in Nicaragua. The urban deficit is 32 percent and the rural deficit is 60 percent. In terms of income, the total deficit for the region in the poorest income quintile is 52 percent, in contrast to the 16 percent deficit in the wealthiest quintile. Although the housing problem is most severe in the lowest-income segments of the demand, there are also shortages in the higher segments. In fact, only a quarter of the 32 percent of urban households with deficits fall below the poverty line (Bouillon, Medellín, and Boruchowicz, 2012; Rojas and Medellín, 2011).

Although the exact figures can vary according to the concept of deficit employed and the methodology used, the problems of access to housing and housing shortages are undeniable. This situation will continue to pose a challenge in the future, since—despite the declining population growth rate—demand will rise due to the reduction in household size, the increase in divorce and separation rates, and longer life expectancy (Gilbert, 2012). It has been estimated that, even discounting the effects of higher economic growth and of housing policies, the housing deficit will reach 36 percent by 2015, with an increase in absolute terms of 5 million households in relation to 2009 (Bouillon, Medellín, and Boruchowicz, 2012; Ruprah, 2009).

The average annual rate of production of housing units will barely cover a quarter of the demand caused by the accumulated deficit and the formation of new households (Ruprah, 2009). Under these conditions, informal settlements will probably continue to grow. Characterized by a combination of lack of infrastructure, social services, property titles, and building permits, these settlements have traditionally arisen in response to housing shortages in the region.

It is common for many families to access land by irregular means, by either encroachment or acquiring plots illegally, whereupon they begin the gradual process of self-building. Between 25 and 60 percent of the population in the region's major cities live in housing that was once informal (Gilbert, 1998). Although many of these settlements have been improved via upgrading programs, which include legalization, property registration, and the provision of infrastructure and services *a posteriori*, in the short term this dynamic actually increases the number of households living in

conditions of qualitative deficit and, over the long term, may encourage the development of new informal settlements (Abramo, 2003).

### Affordability

Formal housing in the LAC region is expensive. Some sources suggest that the price-to-income ratio may be up to three times higher than in the United States.<sup>1</sup> This is even more dramatic when considering that one-third of LAC households are poor and that 57 percent of urban workers are informal, of whom 24 percent are self-employed and 33 percent are wage earners (Perry et al., 2007; Ruprah, 2009). Marked urban income inequality makes the situation even worse; most cities record Gini coefficients above 0.5 as well as high interest rates for mortgage loans. In fact, average nominal interest rates are 11.4 percent and average real interest rates are 8.1, compared to Organisation for Economic Co-operation and Development (OECD) countries, where the rates are 4.3 percent and 3.2 percent, respectively (Rebucci et al., 2012; UN-Habitat, 2008).

In view of the above, to acquire, for example, a basic 40 square-meter formal dwelling priced at US\$15,000, with a 10 percent down payment and a 20-year mortgage at 6 percent interest, nearly 20 percent of households in eight of the region's most representative countries would have to spend more than 30 percent of their income. When households that could afford to pay but by doing so would end up below the poverty line are considered, the percentage of households in this situation rises to 22 percent. This percentage would rise even further, to 24 percent, if instead of a 6 percent interest rate, the current interest rates in each country were charged. Using pension fund membership as a criterion for calculating real access to mortgage loans, the accessibility gap is 45 percent. These values could increase even further given that the minimum price for non-subsidized private housing might be 60 percent higher than the base scenario for these estimates (Bouillon et al., 2012).

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<sup>1</sup> According to Numbeo (2013), a website that reports information on housing gathered by volunteers in different countries, the coefficient between average income and average price in the region is 7.25, whereas the rate in the United States is 2.82. Although these figures are not official, they are similar to those estimated by other sources, such as the Housing Finance Information Network (Hofinet), a database administered by the Wharton School of the University of Pennsylvania, the International Finance Corporation, and the Entrepreneurial Development Bank, which calculated this value at 13 for Brazil, 4.94 for Colombia, and 2.49 for the United States (Hofinet, 2013).

Most households in the lowest-income segments are excluded from the mortgage market. In El Salvador, for example, the monthly payment for the cheapest private dwelling amounts to 73 percent of the income of a family earning three times the minimum salary and 55 percent for a family earning four times the minimum salary. Under these conditions, only 20 percent of Salvadoran households would qualify for a mortgage (Vance, 2012). In Uruguay, deciles 1 and 2 are excluded from the mortgages offered by the state banks, whereas deciles 3 and 4 enjoy only limited access (Moya, 2011).

The region's governments have attempted to solve accessibility problems with so-called savings, subsidy, and credit policies (*ahorro, bono y crédito*, or ABC), which are aimed at increasing access to credit and subsidizing the demand for generally new, privately-owned properties. In Chile and Mexico, two of the countries that have taken this idea the furthest, the mortgage market represents 20 and 10 percent of GDP, respectively, whereas for the rest of the region it represents 5.5 percent of GDP (Rebucci et al., 2012).

However, in both countries, accessibility continues to be a problem. Although in Chile the proportion of households whose income is not high enough to buy even the cheapest home has decreased, the figure was 61 percent in 2003 (Ruprah and Marcano, 2007). Nevertheless, in recent years public policy has favored the lowest quintile via subsidies that enable them to access housing at practically no cost (Sabatini, Brain, and Mora, 2012). In Mexico, despite the fact that the number of mortgages increased between 2000 and 2009, decile 1 cannot afford the monthly quota for a mortgage for a standard private housing unit, while deciles 2 and 3 would have to allocate 80 and 50 percent of their earnings, respectively, to do so (Salazar Cruz et al., 2012).

## Segregation

The high degree of socioeconomic inequality in the LAC region is reflected in the structure of its cities. Urban elites tend to live in a kind of “high-income cone,” which starts in the city center and extends in a specific direction toward the periphery (Sabatini, 2003). Most modern services, infrastructure, and formal housing are concentrated in this area. In the rest of the city, the inner urban rings include formal housing developments for the middle classes and settlements that were originally informal but now generally enjoy infrastructure and services thanks to neighborhood improvement programs. The most recent informal developments are located in the outer urban rings, where families with the fewest resources live in substandard housing.



This pattern constitutes a dynamic of macro-segregation, in which social groups are separated into specific areas. Consequently, factors such as income, poverty, race, and educational attainment, among others, tend to become spatially concentrated. A study of six cities in the region estimated that between 15 and 46 percent of the population would need to be resettled to attain homogeneous spatial distribution in educational attainment (Roberts and Wilson, 2009). In Brazil, achieving ethnic homogeneity in the major cities would require relocating between 37 and 48 percent of the population (Telles, 1992).<sup>2</sup> Likewise, there is a strong and statistically significant trend toward income-based agglomeration in Curitiba, whereas in Bogota there is a marked spatial concentration of socioeconomic strata (Macedo, Blanco, and Cannon, forthcoming).

The causes of this phenomenon are rooted in the functioning of the land market and the effects of specific regulations. The concentration of positive externalities such as convenience, infrastructure, and services in the formal city means that land values in these areas rise and act as a barrier to access by low-income households. Furthermore, regulations regarding minimum building plot size and infrastructure requirements deter lower-income groups from competing for the space via densification (Jaramillo, 1999; Smolka, 2003). The possibility of land invasions, the location of public projects, or gentrification caused by upgrading schemes or improvements in transportation can generate heterogeneity in the high-income sectors (Sabatini, 2003). However, in these cases, macro-segregation is usually replaced by a micro pattern of separation via so-called gated communities. Moreover, the increasing scarcity of land means that informal access becomes more common, through illegal subdivisions on the periphery in the lower-income areas. Thus, substandard housing in these areas becomes even more prevalent.

Policy interventions have also contributed to spatial segregation by creating incentives for building social housing on the outskirts of cities. In Chile, the success of the subsidy policy has meant that 8 out of every 10 homes have been acquired with public sector support. However, the lack of regulatory mechanisms for the land market or incentives for building in centralized locations has encouraged the most vulnerable groups to build their

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<sup>2</sup> This, however, compares favorably to 69 to 87 percent in the United States (Telles, 1992).

homes on the periphery, where land is cheapest.<sup>3</sup> Thus, between 1994 and 2004, the average price of this type of dwelling increased by 53 percent, its size remained the same, and the average distance from downtown Santiago increased from 20.6 to 25.4 kilometers. Barely 8 percent of the dwellings built between 2006 and 2011 for the lowest-income quintile are located within the capital's metropolitan area (Sabatini, Brain, and Mora, 2012).<sup>4</sup>

In Mexico, the rate of growth of the housing supply has outstripped population growth due to loans granted by public institutions. In 2009, for example, no fewer than 900,000 loans were granted, the majority of them for the purchase of a new home, whereas around 600,000 new households came into existence. However, these dwellings have generally been located on the outskirts of cities and in some cases are of questionable quality. Consequently, a quarter of the properties acquired through public agencies are now unoccupied (Salazar Cruz et al., 2012).

This trend, which saw lower-income households pushed out to the periphery via illegal subdivisions (the informal route) or social housing subsidies (the formal route), has perverse effects on human development. Concentrating poverty has been shown to reduce social mobility and to lead to problems in education, security, and access to information. It also affects the urban development of the region's cities. Although these cities are relatively dense by international standards, they already display characteristics of peripheral growth of low population density, which could lead to problems such as an increase in energy consumption and commuting time and inefficient land-use patterns.

## RENTAL HOUSING AS AN ALTERNATIVE

Renting is an important alternative form of tenure for poor households worldwide, particularly in the most developed economies. Those who rent out of necessity are predominantly people with low incomes, informal workers, recent immigrants who cannot prove regularity of employment, and borrowers who have failed to repay their loans, among others (Peppercorn

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<sup>3</sup> The price of land in the Metropolitan Region of Santiago rose by 250 percent in real terms, whereas prices in the most sought-after neighborhoods rose by up to 1,000 percent (Sabatini, Brain and Mora, 2012).

<sup>4</sup> In Santiago, Chile, the pattern of macro-segregation was also the product of the policies of forced eradication imposed by the military government in the 1970s.

and Taffin, 2013). In the United States, for example, the percentage of poor households that rent (57.4 percent) is nearly double the average for the country as a whole (Downs, 2008).

### The Informal Route to Acquiring Property in Latin America and the Caribbean

Many poor families in the LAC region have been able to acquire their own homes through the informal land market. It has therefore been argued that housing solutions based on informal settlements would benefit low-income households. This option would enable them to convert their labor into capital through self-help housing construction (Turner, 1976), expand their homes according to their needs as the household grows (Abramo, 2007), generate income via renting<sup>5</sup> or commercial activities (Gilbert, 1999), and facilitate access to social networks and reciprocal economies (Friedman, 1992).

However, this alternative is inefficient in terms of quality of construction, land use, and public expenditure. Access to informal land is expensive: a single square meter might represent a quarter of the minimum salary and might be up to three or four times the value of adjacent land for rural use (Smolka, 2002). Even when land has been acquired through illegal encroachment, the process of self-building also requires initial capital and a workforce specialized in these tasks, skills that not all families necessarily possess (Miraftab, 1997).

Likewise, informality leads to the formation of marginal neighborhoods due to the lack of infrastructure, non-compliance with minimum building regulations, and location in high-risk areas not integrated into the city proper (Smolka, 2003). Even when these conditions are ameliorated through upgrading programs, the stigma of marginality may remain (Ward, 2003). These initiatives, moreover, would involve greater fiscal expenditure since they reverse the technical sequence of traditional urban development. In fact, depending on the complexity of the intervention, installing infrastructure *a posteriori* can be anywhere from three to eight times more expensive than planned urban development (Abiko et al., 2007; Aristizábal and Ortiz, 2002).

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<sup>5</sup> As discussed in the following chapter, there is a dynamic rental market in informal settlements.

For all of these reasons, merely perpetuating the cycle of informality-regularization is not a viable way to solve the region's housing deficit and accessibility problems. The public investment option, via current policies that are biased towards homeownership, also appears to be neither feasible nor desirable. The cost of solving the current deficit using this approach in the LAC region is equivalent to almost 8 percent of GDP in the region. Merely solving the housing deficit problem for the poorest would require 1.4 percent of GDP. Both figures surpass the 1 percent of GDP that governments devote on average to urban development and housing (Bouillon, Medellín, and Boruchowicz, 2012). To clear the accumulated deficit and cater to new demand by 2015, current spending would have to increase 14 times via the ABC programs. This seems highly unlikely both a political and a financial standpoint, particularly in the poorest countries or those with the largest deficits (Ruprah, 2009).

The public investment alternative should not just encourage the generation of well-located urban land to avoid the aforementioned segregation problems; it should also lend support to the lowest-income households to help maintain their homes in decent condition. Failure to do so entails two risks. The first is that deteriorating dwellings can create deficit, as has occurred in Chile, where 12 percent of households now living in inadequate conditions were previously beneficiaries of social housing programs (Ruprah and Marcano, 2007). The second is the risk of having to sell the property at an even lower price than the original subsidy when families are unable to shoulder the costs associated with owning the property (UN-Habitat, 2003).

The latter point is related to a potential problem of homeownership: financial risk. Due to its high cost relative to income, the home is generally most families' most valuable asset, but, contrary to popular opinion, the value of real estate is highly susceptible to economic crises (Blanco et al., 2012). A good lesson can be learned from the case of the United States, where the rate of homeownership increased from 64 percent in 1990 to 69 percent in 2005 due to the loosening of the requirements for accessing mortgage loans and the spreading of risk by credit agencies via mortgage securitization (Downs, 2008). However, as a consequence of the crisis that began in 2006, home prices fell by more than 30 percent. Approximately 10 million families owed more on their mortgages than the real value of their properties, five million households lost their homes through foreclosure, and US\$4 trillion in real estate assets evaporated (Landis and McClure, 2010).

## Rental Housing is More Flexible in Response to Demand

Most people have been or will be tenants at some point in their lives. Not all tenants rent out of necessity; some do so by choice. Among the latter are those who are not prepared to commit to long-term alternatives, such as young households, students and other temporary residents, recently divorced people, and couples seeking to reduce their spending on housing after their children have left home, among others (Peppercorn and Taffin, 2013). In the United States, where approximately one-third of households rented their accommodations in 2005, nearly half of all single people rented their homes, as did more than 60 percent of households under the age of 35 and 70 percent of people who had recently relocated for either financial or employment reasons (Belsky and Drew, 2008). Chapter 2 in this book shows that the situation in the LAC region is similar.

This trend has a financial explanation. Rental housing—even in markets where the price of property is rising—might be the best alternative when the tenure is expected to be of short duration, since the possible capital gains fail to compensate for the transaction costs associated with buying and selling real estate (Belski and Drew, 2008). These costs can be substantial, even in developed economies. In the United States, for example, they represent up to 9 percent of the value of the property, including closing costs, insurance, and commissions paid to real estate agents (O’Flaherty, 2005). The percentage can be even higher in the LAC region. Average transaction costs for buying and selling a property in 16 countries in the region are estimated to be as much as 11 percent of its value, ranging from a minimum of 6 percent in Argentina to a maximum of 16 percent in Guatemala<sup>6</sup> (Global Property Guide, 2013).

Furthermore, owning property entails maintenance and taxes. In the United States, a house can depreciate by as much as 2.5 percent per year without adequate maintenance (Rosenthal, 2008), whereas property taxes might represent up to 2 percent of the home’s real value (Mills and Hamilton, 1989). Although this latter figure may be lower in the LAC region, given the outdated property registries, infrequent valuation assessments, low tax rates, and shortcomings in tax administration, invoicing, and collection (Bonet, Muñoz, and Pineda, 2014), when ownership is not sufficiently

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<sup>6</sup> These figures include legal and registration costs, taxes, and payments to real estate intermediaries.

extended over time, its costs can exceed the capital gains. Therefore, the shorter the relocation, the greater the transaction and maintenance costs, and the lower the rate of appreciation in the housing market, the greater the incentive to choose renting as an option.

High transaction and maintenance costs mean that homeownership becomes an obstacle for residential mobility. While it is true that buying means acquiring an asset, it also creates immobility (Blanco et al., 2012). In the United States, only 10 percent of homeowners changed their place of residence between 1999 and 2000, compared to 40 percent of renters who did so (Downs, 2008). In the LAC region the situation is similar; because the price elasticity of demand is lower for homeowners, they are less able to respond to changes in price (Bouillon et al., 2012). In some cases, homeowners vacate their homes to become tenants in another location. In Seoul, South Korea, for example, more than 18 percent of households that own their homes rent accommodation elsewhere so they can have access to better education and/or employment (Peppercorn and Taffin, 2013).

This situation is even more dramatic in the case of lower-income households, since they cannot afford the cost of relocation. In Chile, the average length of time spent in a subsidized dwelling is 23 years. In fact, despite the fact that 42 percent of homeowners wish to relocate to a better house or a nicer neighborhood, many have continued to live in the same place where they acquired their first home (UN-Habitat, 2003). Furthermore in Mexico, problems with quality and accessibility are causing some people to leave homes acquired with public subsidies and move to rented accommodations, which has led to a doubling of the number of repossessed homes in 2012 (Eulich and Villagran, 2013). Selling an informal home can be even more complex due to the difficulties faced by the potential buyers in acquiring a loan (Gilbert, 1999) and in some cases to the stigma associated with informal settlements (Smolka, 2002). For example, 80 percent of families in eight settlements of Bogota and Mexico City continue to live on the same plot that they lived on 30 years ago (Ward, 2011).

Greater residential mobility enables the labor market to adjust with more agility to changes in demand. Evidence shows that unemployment grew in some developed countries between 1960 and 1990 as a result of an increase in homeownership rates (Oswald, 1996). It is estimated that the positive effect of the housing market on employment is not merely significant, but is actually more important than other factors such as tax rates and labor regulations (*The Economist*, 2009). The need for greater labor mobility is high in the LAC region, given that jobs for unskilled workers are

informal and unstable. The more specialized segments, by contrast, experience greater mobility insofar as the regions' economies are integrated into global production chains.

### Rental Housing is Denser and More Centrally Located

Rental housing is generally more centrally located than owner-occupied housing. In the United States, 42 percent of tenants live in the center of metropolitan areas, compared with 23 percent of homeowners (Downs, 2008). Therefore, the proportion of those renting within five miles from the central business sector is double that of homeowners. In fact, the average distance of rental housing from the center is 32 percent less when compared with owner-occupied housing (Belsky and Drew, 2008). Consequently, homeownership is more common in suburban areas. In New York City, for example, where the average rate of homeownership is 34 percent, the proportion varies from 25 percent in a central area like Manhattan, to 69 percent, in a more peripheral area such as Staten Island. Similarly, in Paris, where the average rate of homeownership is 47 percent, the proportion varies from 33 percent in the city to 60 percent in the suburbs (Peppercorn and Taffin, 2013). According to the evidence presented in Chapter 2 of this book, this phenomenon also exists in the LAC region.

In view of the foregoing, rental housing may be a better option for low-income households, especially in the LAC region, where the downtown areas still provide a significant percentage of unskilled jobs.<sup>7</sup> Added to this are the benefits of greater accessibility to urban services and public transportation. In Mexico City, for example, women who are heads of household and who work in the informal sector prefer to rent in a central location than to become homeowners in an informal settlement on the outskirts, as this saves them commuting time and maximizes the time they can spend with their children (Miraftab, 1997). In fact, 40 percent of families that rent in the Mexican capital state they prefer this option to ownership on the periphery. This is also true in Chile, where 30 percent of residents in centrally located boarding houses express the same preference (UN-Habitat, 2003).

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<sup>7</sup> This scenario contrasts with the case of the United States, where the unskilled jobs are moving toward the suburban fringe. This situation might pose an additional challenge due to the lack of job opportunities in the center (Belsky and Drew, 2008).

The more centralized location of rental housing favors the city as a whole, since it means that urban centers have higher population density. This encourages lower automobile use and a greater uptake of alternative forms of transportation, which in turn reduces energy consumption and the production of greenhouse gases (Holtzclaw et al., 2002). Moreover, the spatial mingling of uses and social classes is enhanced; thus, for example, neighborhoods with a higher proportion of rented homes are less segregated and tend to maintain that characteristic over time (O'Flaherty, 2005).

With the growth of cities, rental housing located in the traditional city center as a proportion of rental housing available in the city as a whole has been declining. For example, of the total number of tenants living in Mexico City, those living in the center fell from 27 percent in 1990 to 20 percent in 2000 (UN-Habitat, 2003). However, this phenomenon affects all types of housing tenure, given that the proportion of people living in the center is reduced as cities grow toward the periphery. However, the percentage of rented accommodation as a proportion of the total continues to be greater in the center than on the periphery. In Mexico City, more than 60 percent of tenants still live in the center and inside the first urban ring (UN-Habitat, 2003).

There are many explanations for this phenomenon. On the supply side, the higher cost of urban land per square meter hampers access to homeownership (Peppercorn and Taffin, 2013) and encourages space-saving via the construction of multifamily buildings, which are traditionally preferred as rentals (see Chapter 2). Since construction costs in central areas are also higher—due to the demolition of existing structures, the difficulties involved in buying up plots for large-scale projects, and the need to update infrastructure—urban housing renewal processes are slow (Balchin, David, and Chen, 2000). This often leads the original owners to relocate to a new or better-quality dwelling in the suburbs and to rent out their downtown property, which enables the more centrally located units to be occupied by lower-income segments of the demand (Kim, Chung and Blanco, 2012).

On the supply side, it is worth emphasizing that demands for space tends to grow as household income grows. In the United States, the income elasticity of housing demand is 0.75, which means that when income rises by 10 percent, housing consumption increases by 7.5 percent (O'Sullivan, 2009). The highest consumption is usually observed in the areas furthest away from the center, since construction prices and development costs are lower, which encourages the production of single-family units on more spacious plots (Balchin, David, and Chen, 2000). Another element to



consider is the life cycle, as students and childless couples prefer to live downtown to be near the amenities that urban life offers.

Four explanations have been advanced for the dominant trend toward rental housing among lower-income groups in developed countries (Rosenthal, 2008). The first is the microeconomic urban location model proposed by Alonso, Mills, and Muth in the 1960s, according to which in a situation of rising income, demand for more space grows more quickly than the costs of relocation. This means that wealthier families prefer to consume more surface area, although they will have to travel farther to get to work. The second is that poor families often lack access to private transportation. This obliges them to live in areas with easier access to public transportation, which are usually nearer the city center. The third is that the oldest housing is generally the cheapest, and it is usually found in the central areas, since cities grow from the center outward. Finally, subsidized rental housing is mainly located in the center. Rosenthal (2008) provides evidence that in the United States these factors are found in combination and reinforce each other.

Despite all of these factors, the antecedents are not yet clear enough to establish direct causality between rental housing and centrality/density. It cannot therefore be concluded that rental housing will automatically create more compact cities or that such cities will maximize rental housing. There is no reason why rental housing has to be multifamily and centralized, or why privately owned homes should be single-family and suburban. However, within the current regulatory and market framework, this is exactly what is happening. In fact, it has been argued that in the United States, demand for homeownership may be linked more to a preference for a single-family dwelling than to a particular form of housing tenure (UN-Habitat, 2003). Thus, taking advantage of the fact that rental housing tends to be located in more centrally located and denser areas might help solve the problems that afflict the region: segregation, abandonment of the downtown areas, and low-density growth on the periphery.

### The Role of Renting in Housing Policy in Latin America and the Caribbean

These arguments do not mean to imply that renting is intrinsically superior to informal homeownership. In fact, each of the benefits mentioned could be seen as a limitation when analyzed from the perspective of other segments of the demand. For example, the possibility of accumulating wealth has until now been highly beneficial to the majority of households, even

for those with low incomes that have opted for informal homeownership. Homeowners have also created a sense of belonging, identity, and social networks that have enabled them to remain in the same location for long periods of time. Likewise, others have been able to satisfy their preference for more free space and less crowded locations in the low-density periphery, where homeownership is more prevalent.

This difference between the benefits of the various types of housing tenure and the preferences of the different segments of the demand suggests the need for a housing policy that favors a balance between homeownership and renting. Neither of these two options is good or bad in itself; rather, everything depends on the characteristics of the user of the housing service. The market should offer the possibility to choose in a balanced way between types of housing tenure and kinds of housing, thereby satisfying consumer requirements in the most efficient way possible. A dynamic rental market would respond to the growing demand with appropriate quantities, qualities, and prices.

This book's central proposition is that housing policy would be greatly improved if it supported actions to strengthen the rental market. Attempting to resolve housing problems exclusively through homeownership-based policies is neither feasible nor desirable. Despite the many advantages of private property,<sup>8</sup> "at some point the marginal benefits for society that derive from increasing homeownership might not offset its costs" (Landis and McClure, 2010: 320).

Under these conditions, renting is a solution that calls for further study, since it would improve the opportunities of some households to acquire a decent home with lower financial risk. In fact, the empirical evidence gathered in this book shows that in the LAC region, rental housing enjoys characteristics similar to formal property and better conditions than informal property, especially for the lower-income segments of the demand.<sup>9</sup>

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<sup>8</sup> Blanco et al. (2012) present a summary of the benefits attributed to homeownership in terms of satisfaction, better physical health, more community and political commitment, stable neighborhoods, accumulation and appreciation of financial assets, and higher educational attainment. It also delivers a critical appraisal of the empirical evidence, however, by arguing that in some cases it is unclear if these benefits, especially the social benefits, are intrinsic to property ownership as such, or to remaining in the same place over a long period.

<sup>9</sup> This is true except in the case of overcrowding, where renting presents higher deficits than formally held property, although lower than informal property.

Implementing a rental-based housing policy in the region faces great challenges due to the predominance of private property in the public discourse and a marked cultural preference for owning one's home.<sup>10</sup> However, there will always be a need to maintain a rental housing stock, as wishing to become a homeowner is one thing, while deciding when and how to become one is quite another (UN-Habitat, 2003). The dream of homeownership is not related to "any old home, but rather to a kind of home, which is why being a homeowner is more an aspiration that will only be fulfilled when the household finds (and can acquire) the specific kind of property it desires" (Gilbert, 2012: 23).

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<sup>10</sup> The interviews carried out as part of the qualitative information-gathering process for the case studies that accompany this publication revealed that most tenants wish to be homeowners. Many feel that the inability to capitalize part of the rent payments is equivalent to "throwing money away." In general, evidence in the LAC region shows that homeownership is perceived as an option that generates greater life satisfaction and greater happiness (Ruprah, 2009).

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# The Reality of Renting in Latin America and the Caribbean

*Andrés G. Blanco\**

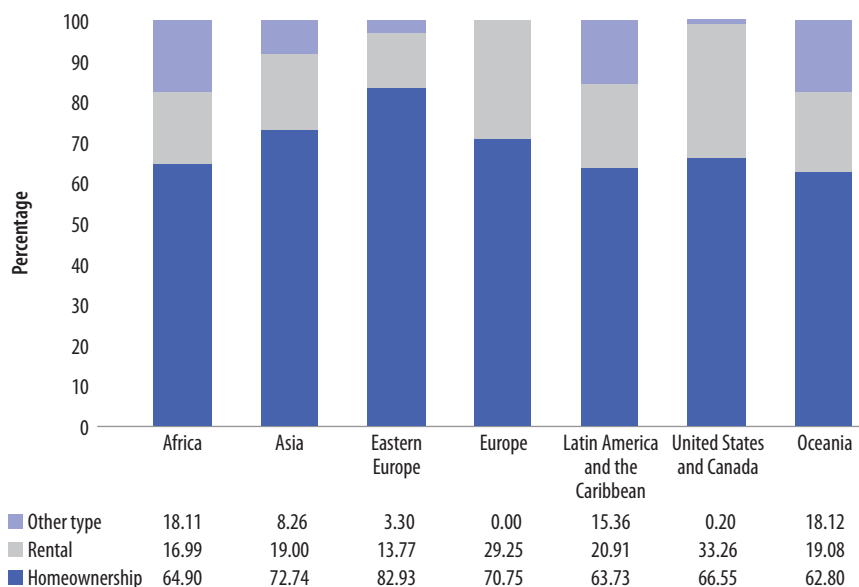
## LATIN AMERICA AND THE CARIBBEAN: A REGION OF HOMEOWNERS

The rate of homeownership in the Latin American and Caribbean (LAC) region is approximately 64 percent. This percentage might seem high when compared with other, more highly developed regions of the world, such as Europe, with a rate of 71 percent; North America (excluding Mexico), with 67 percent; and Oceania, with 63 percent. This situation, however, is not exceptional.<sup>1</sup> The world is made up of homeowners. On average, 7 out of every 10 households in 81 countries spread over different regions own their own homes. Even areas with similar or lower levels of development have higher rates of homeownership than the LAC region: in Africa the percentage is 65 percent, in Asia 73 percent, and in Eastern Europe 83 percent (Figure 2.1).

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\* The quantitative analysis that underpins parts of this chapter was carried out with the support of Jeongseob Kim, who offered valuable research assistance in gathering data and formulating the econometric models.

<sup>1</sup> The previous chapter presented the arguments in favor of rental housing policy in the LAC region. The aim of this chapter is to describe the current state of rental housing in the region to provide the necessary context for such policy formulation. The analysis begins with a description of homeownership, which is the region's predominant model, then offers a global context of housing, and finally examines the role of rental housing.

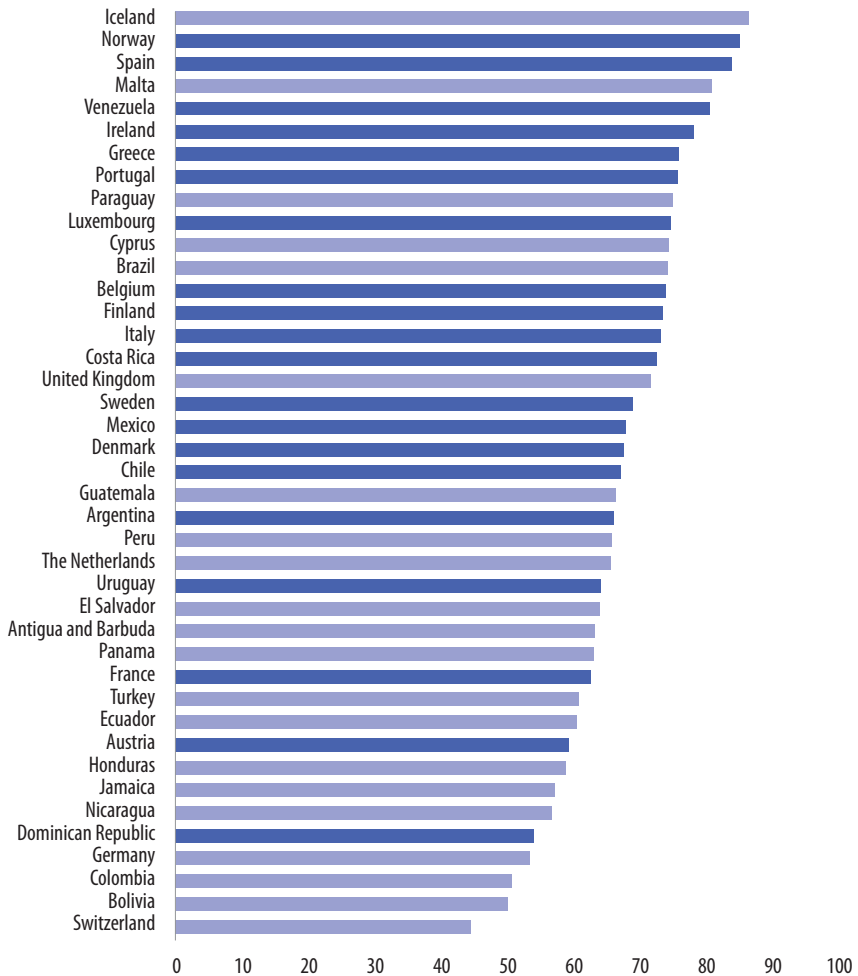
**FIGURE 2.1** Housing Tenure According to Region

Source: Authors' elaboration.

Note: The figure shows information on property tenure in 81 countries for the latest available year according to the source between 2000 and 2011. The United Nations Statistics Division provided the data regarding 11 countries from Africa and 10 from Asia. For Eastern Europe, the information corresponds to 14 countries and was provided by the European Union Statistics on Income and Living Expenses (EU-SILC) and the United Nations. The source for the 21 countries of Europe is EU-SILC. For the United States, it is the American Community Survey (2006). The United Nations provided the data regarding three countries from Oceania and Canada. In the case of Latin America and the Caribbean, MECOVI Improvement of Surveys (Mejoramiento de las Encuestas de Hogares y la Medición de las Condiciones de Vida) provided the data for 18 countries for 2006 and the IDB provided a harmonized database of the household surveys; the Nations was the source for the two other countries.

Worldwide, the rate of homeownership varies widely, ranging from 3 percent in Botswana to 96 percent in Rumania. The differences are also considerable within each region. For example, in Africa, the percentage ranges from a minimum of 3 percent in Botswana to a maximum of 87 percent recorded in Mauritius; in Asia, from 55 percent in South Korea to 92 percent in Cambodia; in Eastern Europe, from 58 percent in Montenegro to 96 percent in Rumania; in Europe, from 44 percent in Switzerland to 86 percent in Iceland; and in the LAC region, from 50 percent in Bolivia to 86 percent in Venezuela. Figure 2.2 shows homeownership rates in the LAC region and Europe; it is worth highlighting that in both regions there are low rates of homeownership (Switzerland, Bolivia, Colombia, and Germany) and high rates (Venezuela, Spain, Norway, and Iceland).

**FIGURE 2.2** The Homeownership Rate in the LAC Region and Europe (in percent)



Source: Authors' elaboration.

Note: The source for the 21 countries from Europe is EU-SILC. For Latin America and the Caribbean, MECOVI (2006) provided data for 18 countries and the United Nations provided data for the other two.

The category “other types” of housing tenure includes mostly households that neither own their homes nor pay rent. This usually includes holding property by usufruct, or situations in which no payment is made for the right to enjoy use of the home, although there may be other considerations, such as the partial or total payment by the tenant of utilities or

administrative costs. It also includes alternative formats, such as corporate housing, inherited homes, and communal or collective property, among others. This type of tenure is significant in the LAC region not only because it accounts for more than 15 percent of households, but also because it is a primary type of dwelling for the region's lowest-income earners (see Chapters 4 to 12 herein for the case studies of each country).

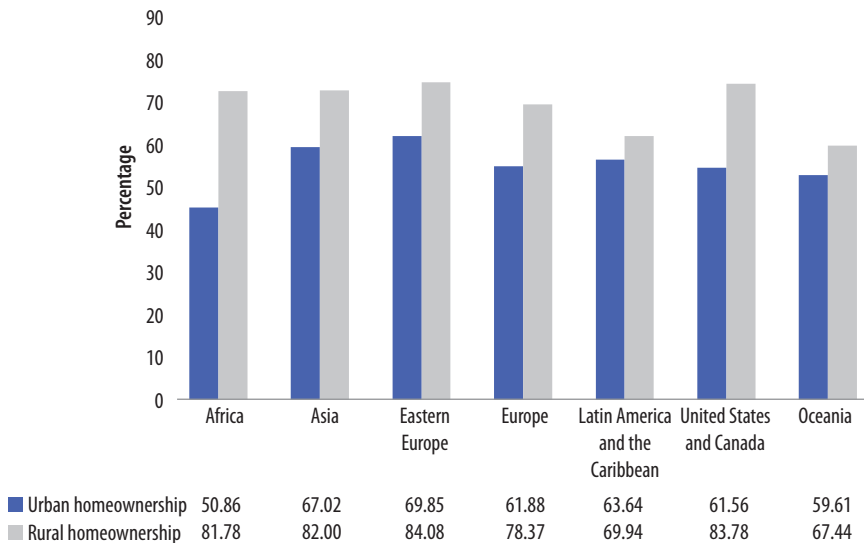
The rate of homeownership does not appear to increase with higher levels of development. In fact, if a correlation exists between these variables, then it would appear to be a negative one. Globally, the correlation between the rate of homeownership and per capita GDP is  $-0.2$ .<sup>2</sup> This figure, however, is not statistically significant. This indicates that homeownership rates decline slightly as income increases, but also that there is considerable variance in this trend. When the correlation between homeownership and per capita GDP is calculated by region, it fluctuates from negative values in Asia and Eastern Europe to positive values in the LAC region and Africa. There seems to be no positive correlation between the size of a country's population and the rate of homeownership, either, as this correlation is equal to 0.1 for the sample of countries as a whole, and it varies from negative values in Africa and Europe to positive values in North America and Oceania.

No specific variable explains the differences in rates of homeownership in different countries. Although various cross-sectional econometric models were formulated for the purposes of this study to establish the links between homeownership rates and macroeconomic, social, housing market, and institutional variables, these have yielded inconclusive results, expressed by the high sensitivity of the size, sign, and statistical significance of their coefficients to different specifications.<sup>3</sup> The extent of urbanization and the legal tradition seem to be the only variables with any explanatory power.

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<sup>2</sup> The International Monetary Fund (IMF) provided the data on per capita GDP and purchasing power parity (PPP).

<sup>3</sup> Different combinations of time periods and variables were employed, including macroeconomic factors (e.g., per capita income, employment, mortgage market penetration, government spending, interest rates, inflation); social factors (e.g., population by age, life expectancy, migration, and percentage of urban population); factors from the housing market (the house price-income ratio, house price-rent ratio, housing price inflation, rates of return for owner-landlords); and institutional factors (amount of time and costs of obtaining building permits or registering a property, index of respect for private property, legal tradition). See the methodological annex for more information about the models and information sources employed.

**FIGURE 2.3** Comparison between Urban and Rural Homeownership Rates

Source: Authors' elaboration.

Note: The figure shows information on property tenure in 52 countries for the latest available year between 2000 and 2011 according to the source. The United Nations Statistics Division provided the information on Africa and Asia. For Eastern Europe, the information comes from EU-SILC and the United Nations. The source for the countries of Europe is EU-SILC. The information on the United States is from the American Community Survey (2006), whereas the United Nations provided the data on Oceania and Canada. In Latin America and the Caribbean, MECOVI (2006) is the source for 18 countries and the United Nations for the other two.

With regard to the degree of urbanization, the results suggest that the higher the proportion of urban population in a country, the lower the rate of homeownership. A related trend seen in all regions is that the rate of rural homeownership is always higher than the rate of urban homeownership. For the 52 countries for which there is disaggregated information on homeownership, the average rate of rural homeownership reaches 79 percent, whereas the urban rate only reaches 63 percent, a difference of 16 percentage points. Figure 2.3 shows that this gap is widest in Africa, with 31 percentage points. At the country level, only seven countries have higher rates of urban homeownership compared to rural homeownership, and the four cases in which the difference is greater than 10 percentage points are city states, such as Hong Kong and Macau, or small countries with a highly consolidated process of urbanization, such as Israel and Uruguay, where the urban population rises to 92 percent.

Various factors can explain the negative correlation between the rate of homeownership and the degree of urbanization. On the one hand, the greater scarcity of land in urban areas increases the cost of homeownership (UN-Habitat, 2003). On the other, the growth of cities is usually a consequence of massive migration from the countryside to the city and, at least in the early stages of this process, migrant populations are more mobile (see Chapter 1). Although it relates more to the speed of urbanization than to the rate of urbanization, this argument would partly explain why the differential between the rates of urban and rural homeownership is higher in Africa, where the process of urbanization is only beginning, than in Latin America, where the rate of growth of the urban population has been slowing over recent decades.

With regard to the legal framework, the models yield consistent and statistically significant results, revealing that the countries with a German tradition tend to have the lowest homeownership levels (52 percent on average) compared to countries with an English tradition (65 percent on average), which are taken as the reference group. By contrast, the former Communist Bloc countries tend to have considerably higher rates of homeownership (86 percent on average). For their part, countries influenced by the French legal tradition, including all LAC countries, as well as those from the Scandinavian tradition, have even higher rates than those from the English tradition, with averages of 69 and 71 percent, respectively, although this result is not statistically significant.

In the case of the German tradition, the lower rate of homeownership is associated with a legal framework that protects tenants, eliminates tax breaks for landlords, and provides incentives for institutional investors to increase their rate of return and reduce risk. In the former Communist Bloc, the higher incidence of homeownership is associated with the privatization of publicly owned rental housing, which had been the predominant form of property holding before the fall of the Berlin Wall. In the 1990s alone, homeownership rose from 33 percent to 60 percent in the Russian Federation (UN-Habitat, 2003), where the municipalities consider the stock of public rental housing merely as stock that has yet to be privatized (Peppercorn and Taffin, 2013).

As these examples reveal, the wide variability among countries in rates of homeownership is related to political and cultural factors that are, by their very nature, difficult to measure. Public policies, such as rent controls and incentives to expand the supply of mortgage credit, have been determining factors in consolidating the high rates of homeownership throughout the world, and their particular success in each country is key to understanding the differences in homeownership rates. Cultural factors,

such as the tendency in some countries, such as Italy and Spain, of young people to live with their parents until they marry, would explain the lower incidence of rental housing in some countries compared to others, such as the United Kingdom and the United States, where young people generally leave home when they go to college (UN-Habitat, 2003).

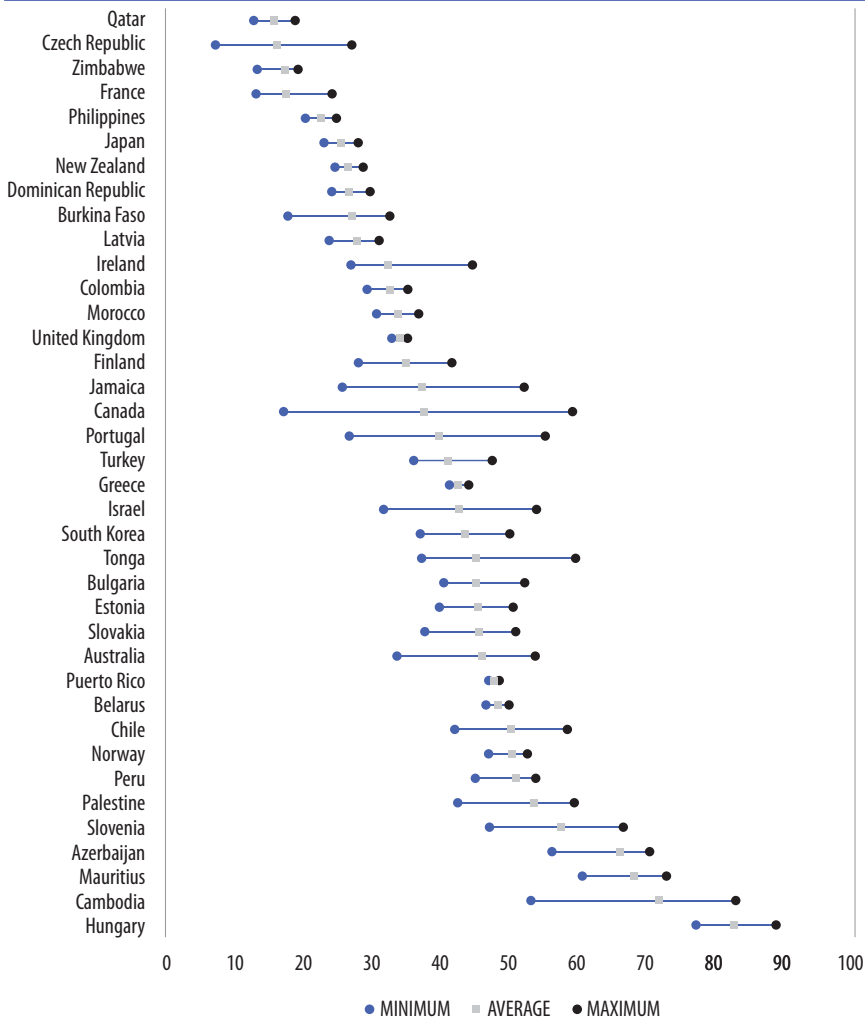
The specific historical context and the way in which the urbanization process has developed are important for understanding differences among countries with respect to housing tenure. For example, in the LAC region, the high rates of homeownership are closely linked to the dynamics of informal urbanization. Although a large number of people living in these kinds of settlements rent their rooms, progressive self-help housing construction has allowed many families not just to acquire their own homes, but also to obtain valid titles via regularization programs. As argued throughout this publication, the fact that much of the property ownership in the region has come about through informal channels has special implications in terms of quality and access.

The cultural and historical differences among countries only partially explain ownership patterns, since the variation among cities is also high. Figure 2.4 compares the minimum, average, and maximum rates of homeownership in the largest cities in a broad range of countries and territories. The variation in property ownership is considerable. In Qatar, for example, the average for the four most important cities is 18 percent, with a minimum of 11 percent in Doha and a maximum of 23 percent in Al-Rayyan. In Cambodia, however, it is 84 percent, with a minimum of 73 percent in Battambang and a maximum of 93 percent in Phnom Penh. In the LAC region, Colombia stands out: the average rate of homeownership for Bogota, Medellin, Cali, and Barranquilla is 54 percent (individual figures range from 46 percent in the former to 67 percent in the latter).

City size is a factor in the variation, since the rate of homeownership tends to decrease in smaller cities. Figure 2.5 illustrates this relationship for 138 cities in 50 countries. Although the correlation is not very strong and there are some atypical values, this trend is even more evident when only the cities in a single country are examined, as the case studies included in this book confirm. This might be explained by the relative scarcity of available land in each city since, after controlling for other factors, larger populations generate greater demand for this resource. This also suggests that the rates of rural homeownership are higher due to the greater availability of land (UN-Habitat, 2003).

The informal land market in the LAC region appears to be a key factor in understanding the differences between cities. There tend to be higher rates

**FIGURE 2.4** Minimum, Maximum, and Average Homeownership Rates in the Major Cities of Selected Countries (in percent)



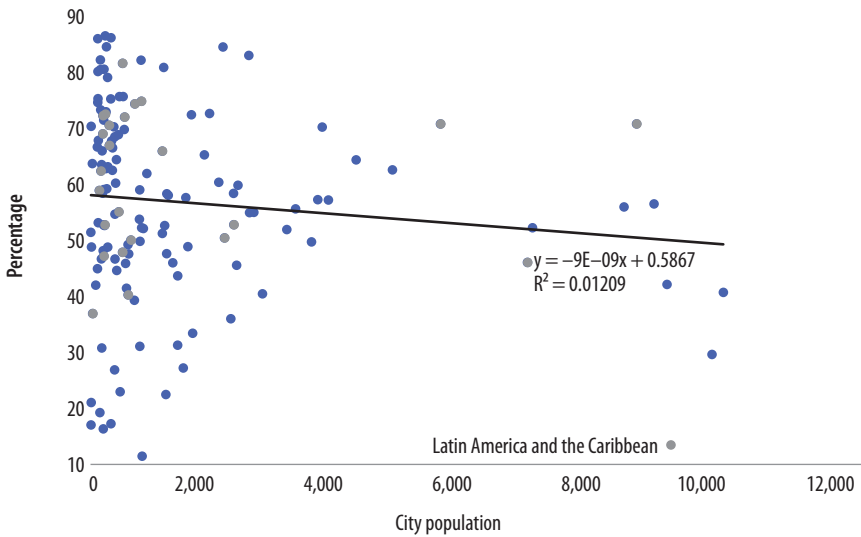
Source: Authors' elaboration.

Note: The source of the data is the United Nations Statistics Division, which includes from two to four cities in each country and is primarily based on the last census carried out between 1998 and 2011, according to the country.

of homeownership in places where land invasions have occurred than in those where illegal subdivisions are the norm, since in the former case the cost of informal property is much lower (Gilbert and Ward, 1985; UN-Habitat, 2003). As the case studies reveal, this explains why homeownership is more common in cities with a higher prevalence of public land that is susceptible to



**FIGURE 2.5** Comparison of Homeownership Rates according to City and Size of Population



Source: Authors' elaboration.

Note: The source of the data is the United Nations Statistics Division, which includes from two to four cities in each country and is primarily based on the last census carried out between 1998 and 2011, according to the country.

encroachment, such as Barranquilla, Colombia and Piura, Peru, than in other cities in the same countries, such as Bogota and Cuzco, where land is mainly in private hands and informal access is usually limited to illegal subdivisions. The same is true in Ecuador, where Guayaquil, a city characterized by land invasions, has higher rates of homeownership than Quito, where illegal subdivisions predominate (Gilbert, 2012). Another factor that explains the differences among cities is demographic trends, as different types of housing tenure are associated with variables such as age, marital status, and migratory flows.

## HOMEOWNERSHIP WAS NOT ALWAYS THE MAIN FORM OF HOUSING TENURE IN URBAN AREAS

The high rates of homeownership in LAC cities are a relatively recent phenomenon. Although homeownership has been the principal form of housing tenure in rural areas since colonial times, it was the exception in urban areas until the middle of the twentieth century (Gilbert, 2012). Far from

**TABLE 2.1** Growth in Homeownership Rates in Selected Cities, by Decade

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

Source: Gilbert (2012), compiled from information found in Gilbert (1998), Salazar Cruz (2012), McHardy (2012), Moya (2011), Torres Ramírez (2012), and Pasternak and D'Ottaviano (2012).

<sup>a</sup> Corresponds to the central city rather than the metropolitan area.

<sup>b</sup> Data for 2010 taken from the Integrated Public Use Microdata Series (IPUMS) (Minnesota Population Center, 2013).

<sup>c</sup> Data taken from MECOVI (2010) for Colombia and MECOVI (2011) for Chile. The latter value includes the city of Santiago.

changing with the accelerated urbanization that took place in the region starting at the beginning of the twentieth century, this pattern was reinforced by the growth of the cities, especially the large urban agglomerations of the Southern Cone that were on the receiving end of a major influx of European immigrants. These immigrants generally settled in rental housing, often in tenement buildings in the central areas of the cities. Table 2.1 shows that the rate of homeownership was low and, in many cases, was the least frequent type of housing tenure in the region's main cities in the 1950s, when the urban population had already reached 41 percent of the total, up from 25 percent in 1925 (Cerrutti and Bertonecello, 2003).

Starting in the 1950s, the situation changed dramatically. By 1970, homeownership had become predominant, or nearly so, in most cities, and by 1990 it accounted for between 60 and 70 percent of all types of housing tenure in the region's major population centers. In total, from the 1950s until 1990, the rate of homeownership had risen by more than 27 percentage points in the selected cities, rising almost 50 percentage points in some cities, such as Mexico City. The scale of the change is even more significant considering

that during those years these cities grew considerably while the process of urbanization was further consolidated (Cerrutti and Bertoncello, 2003).<sup>4</sup>

The significant increase in the rate of homeownership during the second half of the twentieth century is related to three main factors: housing policies, the growth of informal urbanization, and the application of rent control (Gilbert, 2012). With regard to the first, public mortgage lending was established following the financial crisis of 1929 in response to foreign capital flight from this sector. In this respect, it is interesting to note that Colombia, one of the first countries to successfully implement this policy by creating the Agricultural Credit Bank (Caja de Crédito Agrario) in 1931 and the Central Mortgage Bank (Banco Central Hipotecario) in 1932, is among the countries where homeownership rates began to grow soonest, reaching values of almost half of all housing tenure in the major cities by 1950 (Table 2.1). In other LAC countries, the opening of public mortgage lending agencies took longer, but in most cases, toward the 1970s they represented a significant source of soft credit that enabled a large proportion of the burgeoning middle classes to purchase homes. Brazil, for example, set up the Federal Mortgage Bank (Sociedade Hipotecaria Federal, or SHF) in 1964, and by the beginning of the 1980s it had already financed close to 70 percent of the new dwellings built since 1970 (Gilbert, 2012).

However, these systems only reached the population with sufficient and regular incomes. Therefore, governments decided to create public institutions to finance and build social housing on a large scale. In Colombia, the Territorial Credit Institute (Instituto de Crédito Territorial), created in 1938, became one of the main builders. From its founding until it was liquidated in the 1990s, it produced an estimated 120,000 homes in Bogotá alone. For its part, the Social Housing Bank (Caja de la Vivienda Popular), a municipal entity, built about 30,000 additional units. By 1993, these agencies had produced approximately 13 percent of the total housing stock in the city.

Contrary to what happened in the more developed Western countries, public housing in the LAC region was not built to be rented, but rather to be turned over to beneficiary families. In the few countries in which housing was earmarked for renting, such as Colombia, Mexico, and Venezuela, it was privatized when sold to its occupants toward the middle of the century. The case studies included in this publication provide a much more detailed

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<sup>4</sup> The urban population in the LAC region had already reached 61 percent of the total in 1975, and 75 percent by the end of the 1990s.

description of the public housing systems implemented in the region and the way in which they stimulated the transition from urban rental-based tenure to tenure based on homeownership.

Informal urbanization is another key factor in the increase in the region's homeownership rates. Informal self-help housing, which was rare in the early to mid-1900s, enabled many households to acquire their own homes from the middle of the twentieth century onward, although often their quality and location were not optimal. In Lima, for example, the percentage of the population living in slums rose from less than 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 mainly rooted in the exponential increase in housing demand—resulting from mass migration from the rural areas to the city and the formal sector's inability to absorb them—it is also the result of the complacent, or at least neutral, stance of the region's governments. After a short initial period in which the expansion of slums was viewed as a form of “social cancer,” politicians and bureaucrats began to think of informal housing as a safety valve for social pressure and as a solution to the housing shortage (Gilbert, 1998). In some cases, such as during the leadership of Manuel Odría in Peru in the 1950s, occupation of public land was even promoted as a way to gain political advantages (Gilbert, 2012). The popularization of the ideas of Turner (1976), according to which informal urbanization was “architecture that works,” as well as the implementation of regularization programs, created more incentives to consolidate this type of accommodation, despite sporadic episodes of repression in some LAC cities.

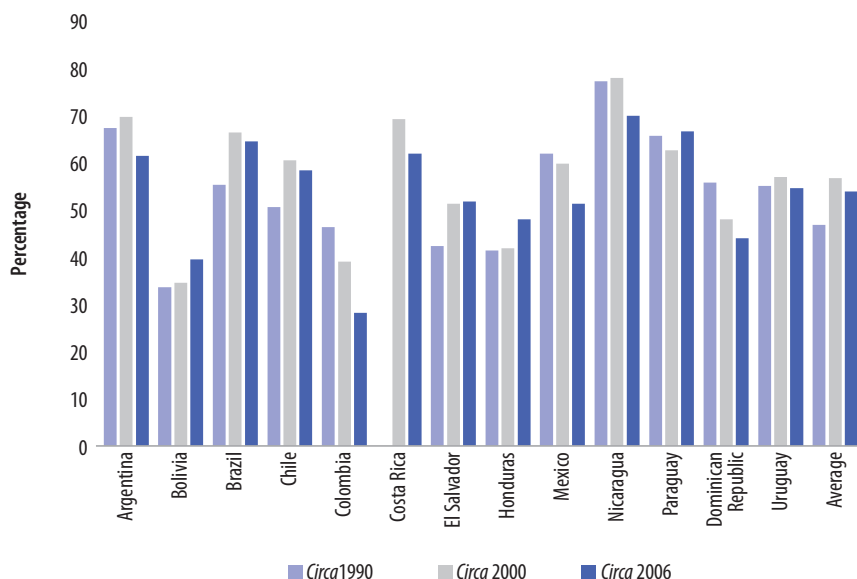
Regulations regarding rentals that were established prior to 1950 also influenced the growth of homeownership by creating strong disincentives for building and supplying this type of housing tenure, particularly as a medium- and large-scale commercial venture. Starting in the beginning of the century, when rental housing was prevalent, LAC governments began introducing regulations concerning housing quality and overcrowding. In the 1920s, these measures were expanded to include price controls in response to social protests, such as those that took place in Argentina in 1921 and Chile in 1925. These controls were strengthened toward the middle of the century as an anti-inflationary measure. Between 1942 and 1947, regulations were either introduced or revised in Argentina, Brazil, Colombia, Mexico, Peru, and Venezuela (Gilbert, 2012). The case studies included in this publication describe the negative effect of these regulations on private

investment, which has also been discussed in the international literature (Blanco et al., 2012).

The increase in the region's homeownership rate peaked in the late 1990s and early 2000s, with some indications of a slowdown thereafter. For the cities included in Table 2.1, the difference between the maximum point and the latest reported value reveals that, on average, the homeownership rate decreased by 8.5 percentage points, including in cities such as Bogota, Cali, Medellin, and Buenos Aires, which recorded a drop of over 10 points. More broadly, according to data provided by the Economic Commission for Latin America and the Caribbean (ECLAC), the rate of urban homeownership, which grew from an average of 61 percent in 1990 to 68 percent in 2000, fell to 66 percent by 2006 in the 13 countries of the region for which data are available. In Colombia and the Dominican Republic, the decline was around 10 percentage points (Figure 2.6). In seven cases, the decline in the rate of urban homeownership has been sufficient to bring down the overall homeownership rate, given that most households now live in cities.

Although it may be too early to conclude that the growth in the homeownership rate has begun to decline, there are reasons to believe that its exponential growth may have ended. Current housing policies based on subsidies and rent control regularization programs are fiscally unsustainable, insufficient for meeting housing demand, and inefficient in terms of the land-use patterns that they encourage. With the expansion of cities, well-located urbanized land is becoming increasingly scarce, which makes housing even more difficult to access. Moreover, demographic changes, such as the reduction in average household size, the increase in the divorce rate, and the growth of single-person households—which now represent between 10 and 20 percent of all households in Southern Cone countries—as well as the greater labor mobility associated with more flexible and globalized economies, mean that many households are not interested in buying their own homes (Gilbert, 2012). In this regard, it is worth highlighting that the slowdown in the growth of homeownership seems to be a worldwide phenomenon (UN-Habitat, 2003). This is evident even in countries, such as Singapore, where policies favoring private ownership have been most effective. There, the percentage of owner-occupied households, which grew from 29 percent in 1970 to 92 percent in 2000, fell back to 87 percent in 2010 (Peppercorn and Taffin, 2013).

The fact that the extremely high levels of homeownership in the region are a relatively recent phenomenon suggests that the desire to own one's own home is not culturally predetermined, but rather has been created in part by

**FIGURE 2.6** Evolution of the Urban Homeownership Rate in Selected Countries

Source: Authors' elaboration.

Note: The information source is the Statistics Division (División de Estadística y Proyecciones) of the Economic Commission for Latin America and the Caribbean (ECLAC) and the data are based on special tabulations of the household surveys carried out in each country.

specific public policies. Although the consolidation of homeownership as the main form of housing tenure coincided with the region's accelerated urbanization, it seems unsatisfactory to assume a direct causality between the two phenomena. Although the policies aimed at responding to the increased housing demand—such as the introduction of mortgages, rent control, the toleration and subsequent regularization of informal settlements and, more recently, the introduction of demand subsidies—all led to an increase in the region's homeownership rates, it was a response to the policies rather than to the process of urbanization in itself.<sup>5</sup> The current context, in which many of the factors that made the expansion of homeownership practical are now being reversed, seems to offer the right moment to complement the policy options with other alternatives, such as rental housing.

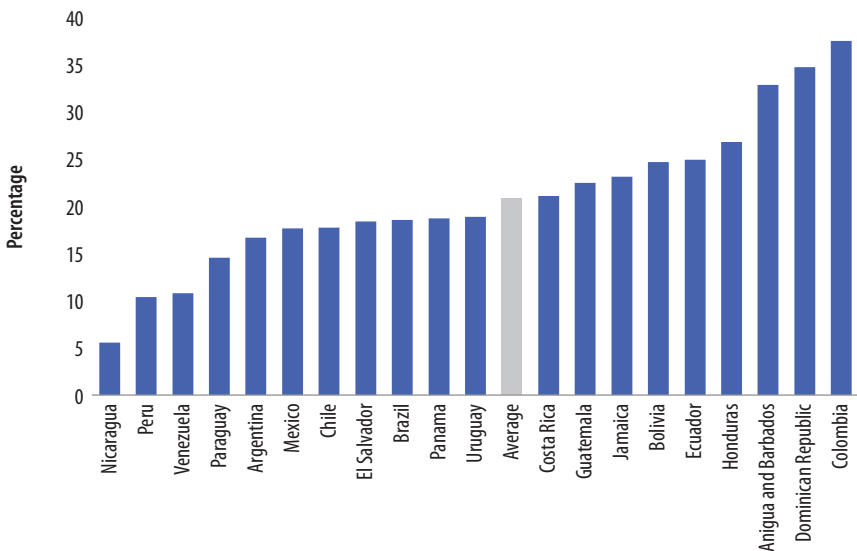
<sup>5</sup> In fact, more people in urban areas rent their homes than in rural areas, and big cities tend to provide more rental housing than smaller ones.

## RENTAL HOUSING CONTINUES TO BE SIGNIFICANT FOR CERTAIN SEGMENTS OF THE DEMAND

Although it is true that Latin America and the Caribbean is a region of homeowners, renting continues to be significant. Figure 2.1 shows that one out of every five households rents its accommodation. Furthermore, in countries such as Bolivia, Ecuador, and Honduras, this percentage rises to one out of every four households. In Antigua and Barbuda, the Dominican Republic, and Colombia, the figure rises to almost one in three (Figure 2.7).

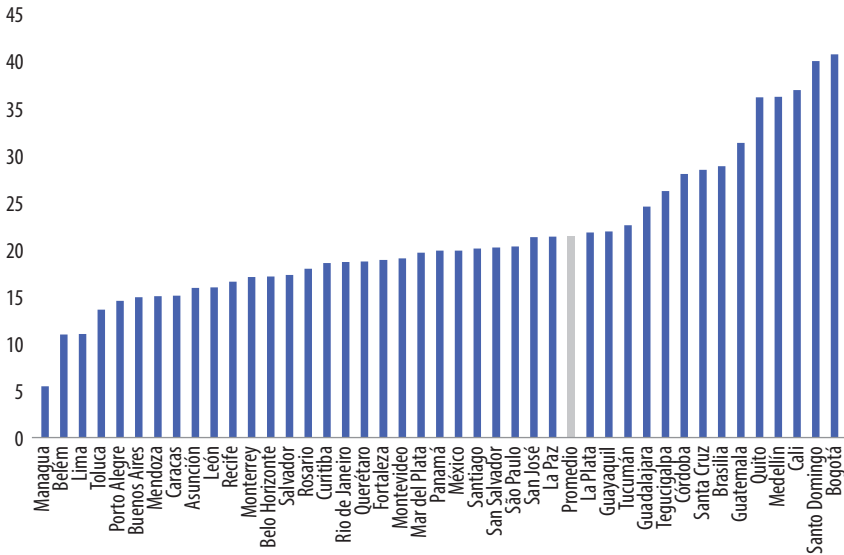
Likewise, although the homeownership rate grew exponentially in the second half of the twentieth century, in absolute numbers rental households have also increased in recent decades in most LAC countries. For example, in Argentina they rose from 1 million in 1980 to 1.8 million in 2010; in Brazil, from 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 in 1981 to 980,000 in 2007. In Argentina and Colombia, this represents an increase in the proportion of tenants in the period indicated,

**FIGURE 2.7** Rental Rates in LAC Countries



Source: Authors' elaboration.

Note: The information source is MECOVI (2006), except for the cases of Jamaica and Antigua and Barbuda, which comes from the United Nations and corresponds to 2001.

**FIGURE 2.8** Proportion of Rentals in Major Cities of Latin America and the Caribbean

Source: Authors' elaboration based on MECOVI (2006).

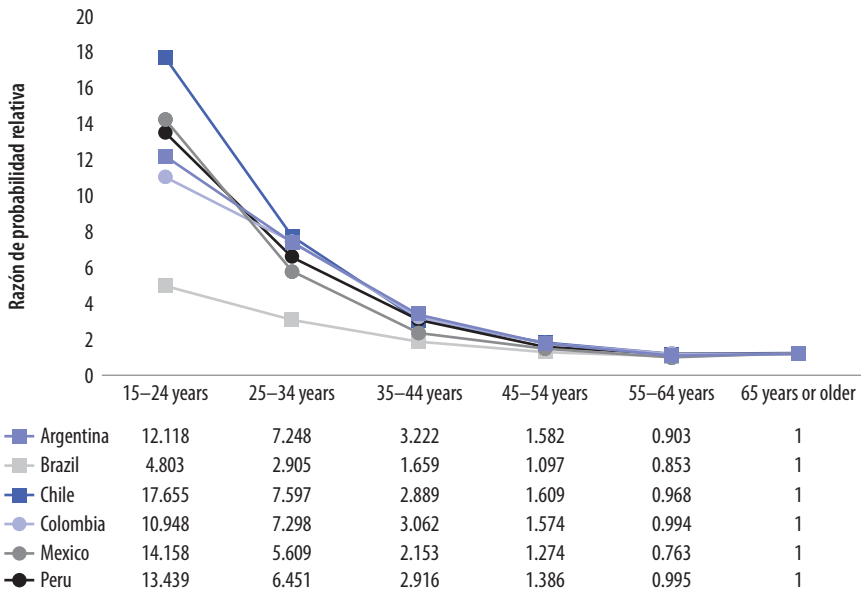
rising from 15 to 16 percent and from 24 to 31 percent of the total, respectively. Chile is the only country that did experience an increase in this type of housing tenure in the last decade (Gilbert, 2012).

In the region's major cities, the incidence of renting is higher. Figure 2.8 shows that in 42 cities with a population greater than one million inhabitants, the average number of households that rent their homes is 22 percent. Managua is the only city with a percentage lower than 10 percent, while 22 cities register between 10 and 20 percent, 14 between 20 and 30 percent, 4 between 30 and 40 percent, and 2 greater than 40 percent.

Rental housing in the LAC region is even more important for certain social groups, such as young people, divorced people, and immigrants. Statistical models used to analyze tenure choice in six of the region's largest countries (Argentina, Brazil, Chile, Colombia, Mexico, and Peru)<sup>6</sup> reveal

<sup>6</sup> The models correspond to multinomial logistic regressions, in which the probability of each one of three types of housing tenure (homeownership, rental, or other) is calculated according to variables such as income, household type and size, the head of household's age, gender, education level, marital status, the kind of dwelling



**FIGURE 2.9** Relative Ratio of Probability of Renting according to Age Groups

Source: Authors' elaboration.

that social variables related to age, household type and size, marital status, and employment status all have a significant influence on the probability that a household will choose renting over homeownership.<sup>7</sup>

The results of these models show that age, for example, is a factor that significantly reduces the probability of renting. The relationship is not perfectly linear, but the rate at which this probability diminishes slows down with age and even tends to reverse toward the end of the life cycle.<sup>8</sup> Figure 2.9 shows the probability of renting based on the regression coefficients, compared

and, in some cases, its location. The source of information is the MECOVI database for each country in 2011, with the exception of Mexico, which corresponds to 2010, and Argentina, which includes only the urban areas. For more information, see the methodological annex.

<sup>7</sup> The head of household's income, the type of dwelling, and its location also turned out to be significant, as will be further discussed in the corresponding sections.

<sup>8</sup> This non-linearity is confirmed when the variables age and age squared regressions are included in the regressions at the same time. For all cases the two variables were significant to 1 percent.

with the probability of homeownership, for different age ranges of the head of household. Depending on the country, the 15 to 24 age group is five to 14 times more likely to rent than the 65 or over age group: the 25 to 34 age group, three to eight times; the 35 to 44 age group, from two to three times, and the 45 to 54 age group, between one and two times. People in the 55–64 age group are less likely to rent than those in the over-65 group. Overall, this shows that renting is more prevalent among younger people.<sup>9</sup>

In the six countries shown in Table 2.2,<sup>10</sup> having a larger household considerably reduces the probability of renting, reflecting the preference of larger households for owning their own homes. The type of household also significantly affects housing tenure choice.<sup>11</sup> In Argentina, Chile, Colombia, and Peru, extended families tend to be much less prone to renting than nuclear families. This is hardly surprising since in extended families various members of the extended group tend to share the residence with another group member, such as uncles and aunts or grandparents. In all countries, single-person households are more likely to rent than are nuclear families, and cohabitating households are the most likely to rent, although this result was not significant in the case of Peru. Since these results control for income, age, household size, and marital status, they seem to indicate that single-person and cohabitating households understand their current tenure choice to be only temporary.

In most cases, gender is not a significant factor in the choice of tenure. This might be due to the fact that tenure choice is correlated to other factors, such as income, household type, and marital status. Moreover, this result may be different in the formal and the informal market. Other studies have found that male-headed households tend toward higher rates of informal tenure than female-headed households (Bouillon et al., 2012; Miraftab, 1997). Marital status is significant in several cases, as Table 2.3 demonstrates. In general, widows and widowers tend to rent less and

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<sup>9</sup> The probabilities for this model were constructed by including the age groups as dummy variables in the regression. The analysis is sensitive to the way the age cohorts are defined, and thus certain coefficients were not significant.

<sup>10</sup> The information is based on regression coefficients. The cases that were not significant at the 1 percent level are in italics. The order of the sequence represents the comparison of the magnitudes of the coefficients.

<sup>11</sup> The MECOVI includes the following types of households: nuclear (couples and their children, and single-parent households), extended (a nuclear household with another relative), compound (a nuclear household with an unrelated person), single-person, and cohabitation (made up of two or more people who are not related).

**TABLE 2.2** Probability of Renting by Type of Household

Country	Lower probability →→→→	Reference	Higher probability ←←←←
Argentina	Extended	Nuclear	Compound, single-person, cohabiting
Brazil	<i>Extended</i>	Nuclear	Single-person, compound, cohabiting
Chile	Extended	Nuclear	Compound, single-person, cohabiting
Colombia	Extended	Nuclear	Compound, single-person, cohabiting
Mexico		Nuclear	<i>Extended compound, single-person, cohabiting</i>
Peru	Extended	Nuclear	<i>Compound, single-person, cohabiting</i>

Source: Authors' elaboration.

**TABLE 2.3** Probability of Renting by Marital Status

Country	Lower probability ←←←←	Reference	Higher probability →→→→
Argentina	Widow/widower	Married or unmarried couple	<i>Single, divorced</i>
Brazil	Widow/widower, single	Married or unmarried couple	<i>Divorced</i>
Chile	Widow/widower	Married or unmarried couple	<i>Single, divorced</i>
Colombia	Widow/widower	Married or unmarried couple	<i>Single, divorced</i>
Mexico	<i>Widow/widower</i>	Married or unmarried couple	<i>Single, divorced</i>
Peru	<i>Widow/widower, single</i>	Married or unmarried couple	<i>Divorced</i>

Source: Authors' elaboration.

divorced people to rent more. The differences between single and married people, as the latter is a reference case, were minimal and insignificant.

The level of educational achievement does not seem to affect choice of tenure when other factors are controlled for, as other studies have demonstrated (Bouillon et al., 2012). Table 2.4 shows that the influence of

**TABLE 2.4** Probability of Renting by Level of Education

Country	Lower probability ←←←←	Reference	Higher probability →→→→
Argentina		Primary	University without secondary education
Brazil	University without secondary education	Primary	
Chile		Primary	University without secondary education
Colombia	University without secondary education	Primary	
Mexico		Primary	Without secondary education university
Peru	Without secondary education	Primary	University secondary

Source: Authors' elaboration.

educational attainment varies significantly between countries, although there is no apparent pattern or statistical relevance in the majority of them. With regard to type of employment, results also vary, but coincide in that salaried workers are much more likely to rent than any of the other categories, as they are more able to demonstrate regular earnings (Table 2.5). This is one of the most common requirements in the rental market.

## THE PROBABILITY OF RENTING DOES NOT DECREASE AS HOUSEHOLD INCOME RISES

In Latin America and the Caribbean, the likelihood of renting does not decrease as household income rises. This goes against the evidence gathered from more highly developed countries in which, generally speaking, lower-income households tend to rent while those with higher earnings tend to become homeowners (Downs, 2008; UN-Habitat, 2003). In the six countries analyzed, there is no set pattern. Figure 2.10 shows the composition of housing tenure (homeownership, renting, or other kinds)<sup>12</sup> broken down by income decile. In Chile and Peru, renting

<sup>12</sup> As previously mentioned, the tenure category “others” includes mainly property held in usufruct and, to a lesser extent, homes paid for by the employer and homes in inheritance, among others.

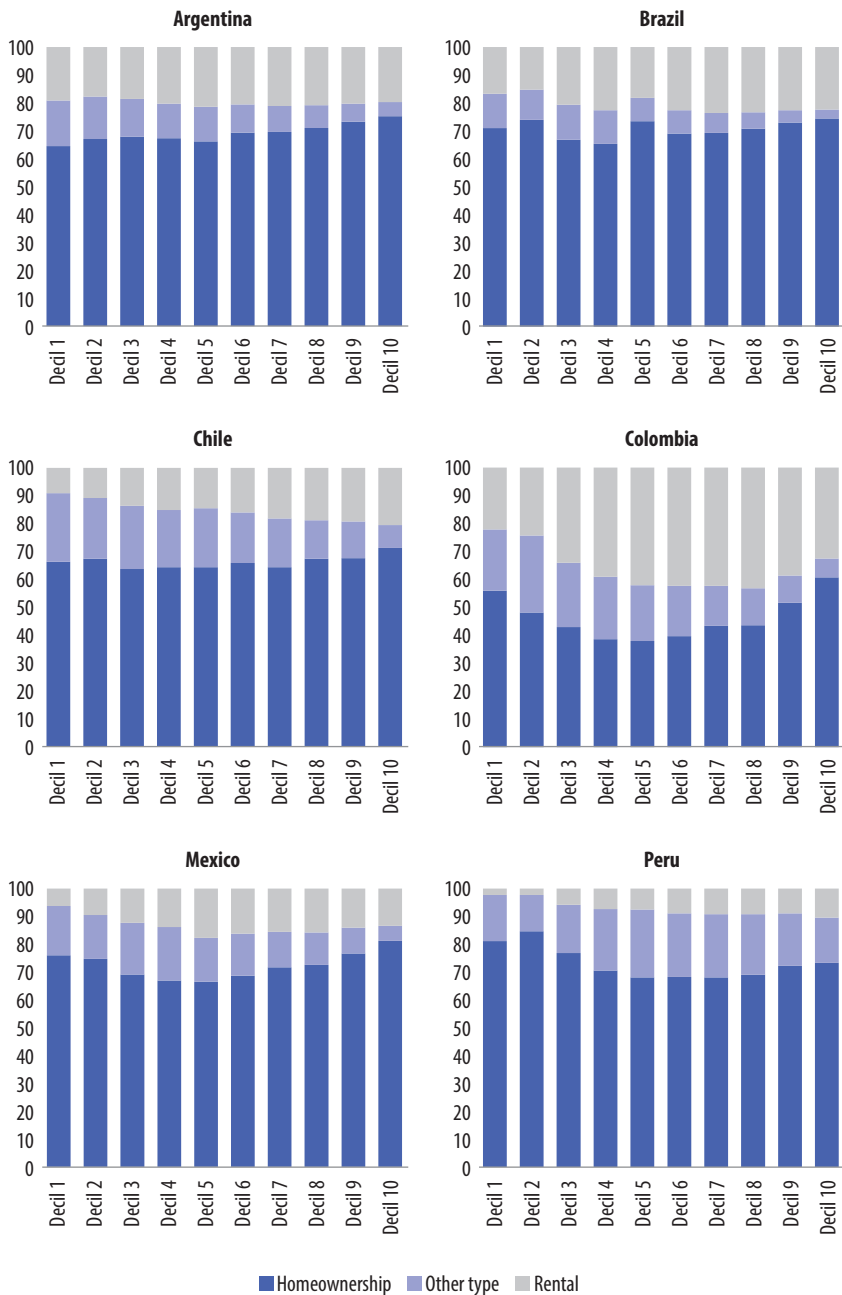
**TABLE 2.5** Probability of Renting by Employment Status

Country	Lower probability ←←←←	Reference	Higher probability →→→→
Argentina	Boss/manager self-employed unemployed	Salaried	<i>Unsalaries</i>
Brazil	Unsalaries Self-employed unemployed Boss/manager	Salaried	
Chile	<i>Unsalaries</i> unemployed self-employed	Salaried	<i>Chief/head</i>
Colombia	Unemployed boss/manager <i>unsalaried</i> self-employed	Salaried	
Mexico	Unemployed self-employed boss/manager <i>unsalaried</i>	Salaried	
Peru	Self-employed <i>unsalaried</i> <i>unemployed</i> boss/manager	Salaried	

Source: Authors' elaboration.

seems to follow a pattern opposite to that found in developed countries, since it actually increases as income rises. In Argentina and Brazil, there is no clear relationship between these two variables, whereas in Colombia and Mexico there seems to be a kind of inverted U-shaped curve, where renting is lowest in the lowest-income deciles, highest in the medium deciles, and then lower again in the top-earning deciles.

There is no linear relationship between income and rate of homeownership. In Argentina and Chile, there may be a slightly positive link, although middle-income households are less inclined to own their homes than lower-income households. In Colombia and Mexico, and to a certain extent in Peru, the relationship between income and homeownership is a U-shaped curve in which homeownership is lowest among the middle classes. No definable pattern has been detected in Brazil. The "other kind" category of tenure seems to follow a more linear pattern, since it generally decreases as income rises, apparently indicating that this type of tenure is more prevalent among the poorest. This may mean that usufruct and rent-free arrangements are more common in informal neighborhoods where dwellings are expanded according to the needs of the growing family. This is not so apparent, however, in Peru. This diversity in the relationship between income and type of tenure is also revealed by other case studies in this study, as well as by other surveys that use a broader sample of countries from the region (Rojas and Medellín, 2011).

**FIGURE 2.10** Tenure according to Income Decile (in percent)

Source: Authors' elaboration.

Note: In the case of Argentina, the data correspond only to urban areas.

The econometric models mentioned in the previous section verify the validity of this point, even when controlling for other factors, such as the characteristics of the household or the dwelling itself. The results reveal that in all the countries except Peru, income significantly affects the probability of choosing renting over homeownership when controlling for other characteristics, such as age, marital status, and occupation. This effect, however, is not linear and its pattern differs in each case.<sup>13</sup> Figure 2.11 shows the probability of a household choosing to rent rather than own their home, according to income decile and establishing income decile 5 as the reference case.

In contrast to what happens in developed countries, Argentina, Chile, and Peru follow a pattern in which the probability of renting increases as income rises. In Argentina and Chile, the effect is more consistent and decreases for the highest deciles, slightly in Argentina, and more markedly in Chile. In Peru, the trend is subject to inflection points and increases for the last decile. In Colombia and Mexico, there is an inverted U-shaped curve, according to which middle-class households are more inclined to rent, whereas the extremes of the income distribution are less likely to rent. Brazil follows the same inverted U-shaped curve, but the inter-decile variations are not quite so marked as they are in other cases.

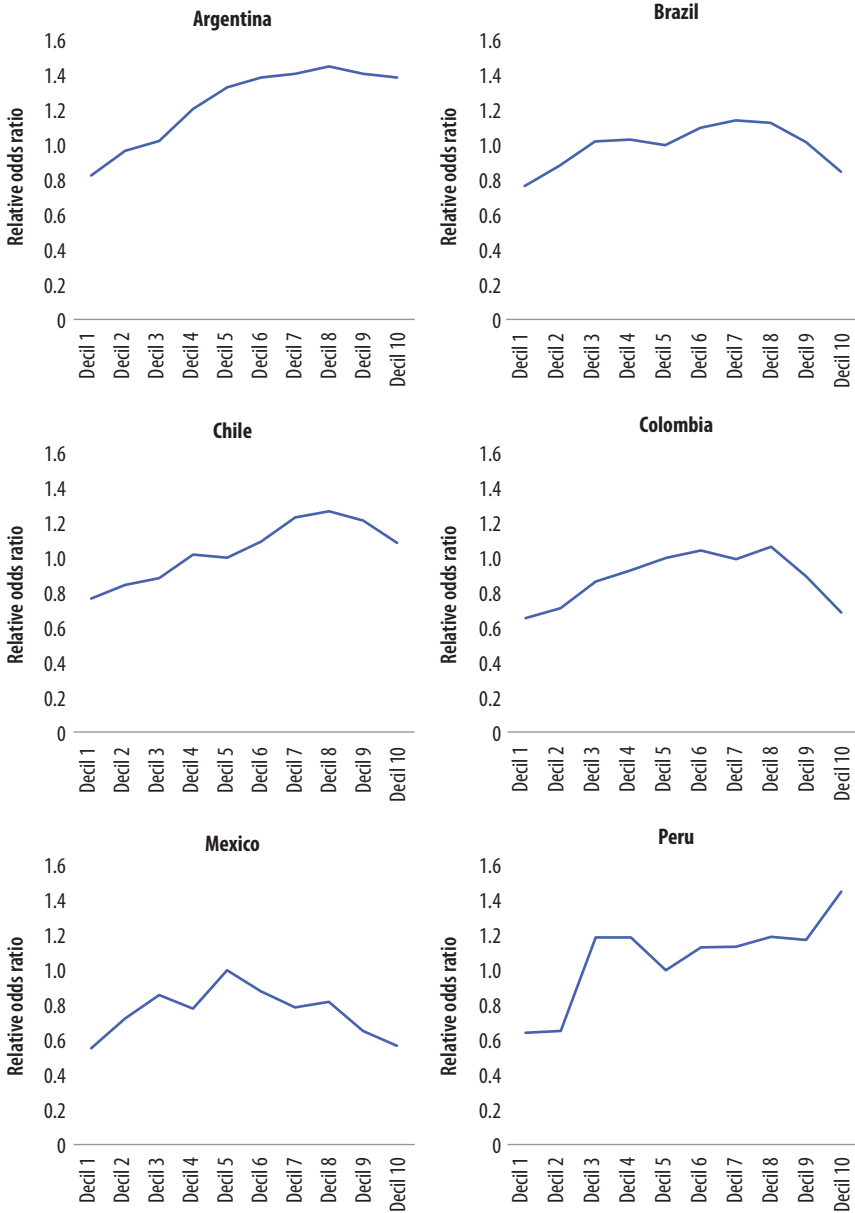
The fact that lower-income households are less likely to rent their homes than middle- or higher-income households in all countries is related to the effect of informal settlements on the lowest segments of the demand. As previously argued, self-help housing allows many poor households to become homeowners over a period of time. In Chile, the country with the lowest incidence of informal settlements in the region, this pattern might be attributable to successful housing policy, at least with regard to providing the two lowest deciles of the demand with subsidies (see Chapter 6).

The difference between a home that is still being paid for and a dwelling that is paid off provides indirect evidence of the crucial role played by informality in explaining the high rates of homeownership among the lowest income deciles. The likelihood of owning a home that is still being paid for increases as income rises, since this is usually formal property acquired with a mortgage loan. By contrast, the likelihood of purchasing a home outright, including an informal dwelling, tends to decrease as income rises.

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<sup>13</sup> This non-linearity is confirmed when income and income squared are included in the regressions at the same time. For all cases, the two variables were significant at the 1 percent level, with the exception of Peru, and only income squared in the case of Brazil.

**FIGURE 2.11** Relative Ratio of Probability of Renting according to Income Decile



Source: Authors' elaboration.

Note: The probabilities were constructed by including the income deciles in the regression as dummy variables. Given that this analysis is sensitive to the way in which the category cohorts are defined, certain coefficients are not significant.

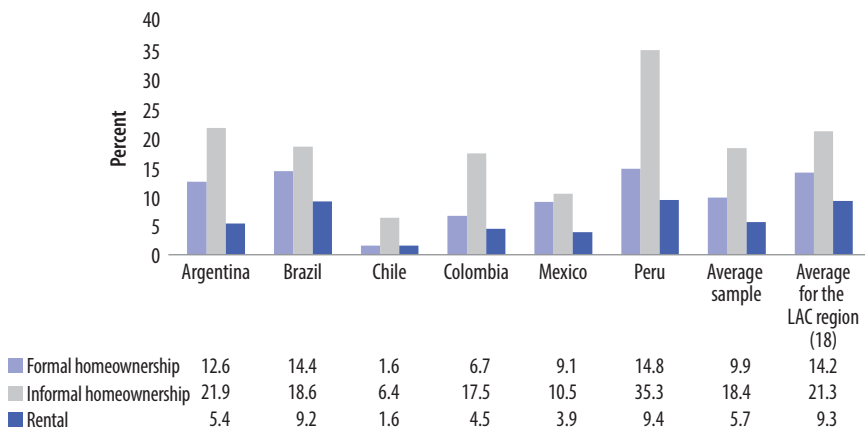


Because the category that includes homes purchased with a mortgage is a minority, the effect on homeownership as a whole follows the pattern of the home that is paid off. Furthermore, taking homes that lack official title deeds as a proxy for informality in Argentina, Mexico, and Peru, they are found to decrease as income rises in all three countries, and reach 10 percent of owner-occupied housing in quintile 1 in the first country, around 40 percent in the second, and 60 percent in the third.

## THE QUALITY OF RENTAL HOUSING IN THE REGION

The fact that much of the privately owned housing in the LAC region is informal suggests that it might not be of better quality than rental housing. Compared to informal housing, rental housing offers better conditions in terms of infrastructure, materials, and overcrowding. Compared to formally held property, the quality of rental housing is better in terms of infrastructure, similar in terms of materials, and worse only in terms of overcrowding. Figure 2.12 shows the deficit in infrastructure (lack of connection to drinking water supply, sanitation, and electricity) according to the kind of housing tenure for the six countries included in the quantitative analyses described in this chapter. Figure 2.12 also shows the average information, and includes

**FIGURE 2.12** Infrastructure Deficit according to Type of Tenure



Source: Authors' elaboration.

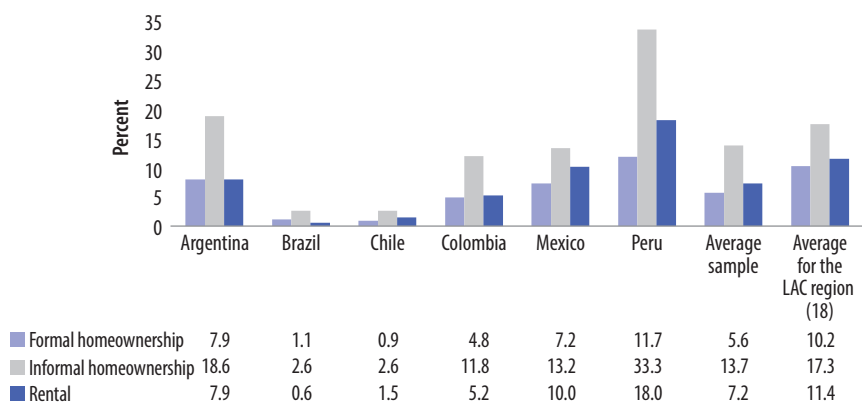
Note: The source corresponds to calculations made by Blanco et al. based on information provided by Rojas and Medellín (2011), who use the MECOVI (2006) household survey data for each country.

12 other countries: Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Uruguay, and Venezuela.

Rental housing, therefore, is generally in better condition than privately owned homes with or without title deeds. This is a result of the existence of informal settlements, which explains why homes without deeds have the most shortcomings—generally because they are newer. Moreover, legally held homes have worse deficits than rental housing because this category includes originally informal homes that benefited from regularization programs. Among the countries in the sample, the only exception to this rule is Chile, the country with the lowest incidence of informal settlements, where the percentage of households with infrastructure deficit among rental housing is the same as that in legally owned homes (although it is still better than the situation found in informally held homes).

With respect to dwellings that suffer from shortcomings in terms of building materials—which include walls and roofs made from temporary materials, and earthen floors—rental housing still tends to be in better condition than informal housing. Likewise, the condition of rental accommodation is similar to that of formally owned dwellings (Figure 2.13). This might be related to the longer consolidation period enjoyed by homes

**FIGURE 2.13** Material Deficit according to Type of Tenure



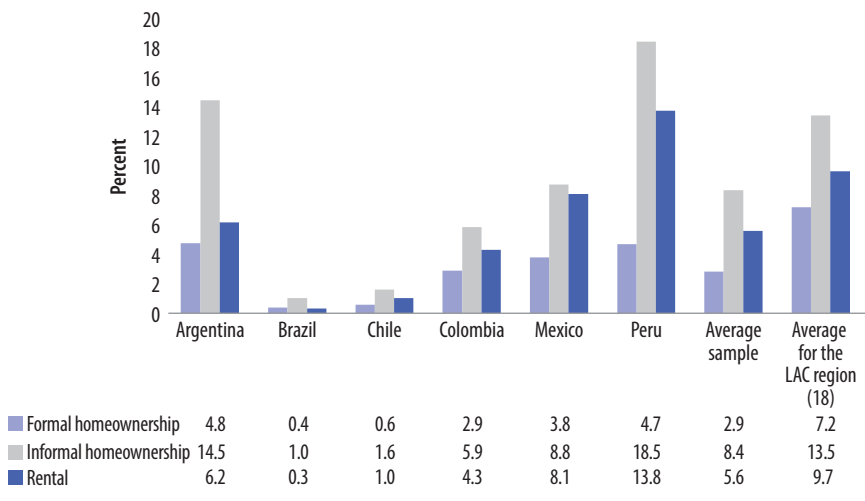
Source: Authors' elaboration.

Note: The source corresponds to calculations made by Blanco et al. based on information provided by Rojas and Medellín (2011), who use the MECOVI (2006) household survey data for each country.

that were originally informal but have been subsequently legalized, and to improvements in the self-help housing process. Even so, in Argentina, Colombia and Chile, the percentage of rental households with building deficit is similar to that found in formal housing and, in Brazil, is even lower. Again, this proves that renting offers access to better-quality housing than that found in informal housing, and similar to that offered by formal property.

In terms of the overcrowding deficit, defined as the percentage of households with more than three people per room, rental housing continues to offer better conditions than informal housing, although conditions in legally held properties are better in this regard (Figure 2.14). The high percentage of overcrowding in rental housing compared to formally owned housing might be attributable to the importance of renting out rooms. All of this shows that housing quality is not determined by the type of tenure, but rather by the degree of informality and its consolidation. In any case, as other authors have also found, the general idea that rental housing represents sub-standard housing in terms of quality does not hold true in Latin America and the Caribbean (Gilbert, 2012; UN-Habitat, 2003;).

**FIGURE 2.14** Overcrowding Deficit according to Type of Tenure



Source: Authors' elaboration.

Note: The source corresponds to calculations made by Blanco et al. based on information provided by Rojas and Medellín (2011), who use the MECOVI (2006) household survey data for each country.

## RENTAL HOUSING IS MORE CENTRAL, MORE COMPACT, AND MORE ACCESSIBLE

Factors of supply, such as higher land prices in central areas, and of demand, such as the tendency for households to become suburbanized as income rises, mean that rental housing is more prevalent in multifamily structures located close to city centers.<sup>14</sup> The econometric models indicate that tenants are more likely to live in apartments and rooms than in single-family homes (Figure 2.15).<sup>15</sup> On average, an apartment is three times more likely to be rented than a house. By the same token, a room is 11 times more likely to be rented than a house. In both cases, Argentina, Colombia and Mexico record higher-than-average values. This does not mean, however, that the majority of rental units are rooms or apartments. In the six countries studied, rooms represent on average 9 percent and apartments 27 percent of all rented accommodation.<sup>16</sup>

The econometric models at the city level confirm that central areas are more likely to provide rental housing than peripheral areas. In the case of Santiago, Chile, for example, for the 32 communes of Greater Santiago, a dummy variable was added for location to a model similar to those previously described for the 32 communes of Greater Santiago, defining as central areas those contained within the Américo Vespucio

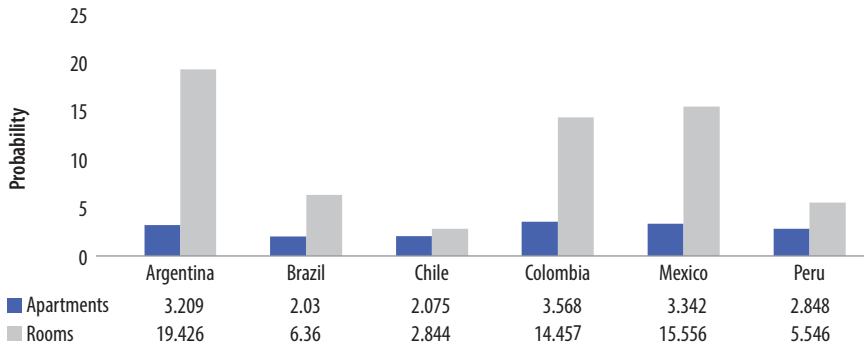
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<sup>14</sup> This does not mean that there is no rental housing consisting of single-family homes on the periphery. As the following section will show, the rental market follows the logic of the real estate market, and it is therefore possible to find this form of tenure in any part of the city. However, rental tenants are much more likely to occupy single rooms and apartments in areas that are more centrally located.

<sup>15</sup> This finding is based on the results of the econometric models (significant regression coefficients). Location within an urban area was also significant. Specifically, an urban location makes renting in Brazil 6.54 times more likely than homeownership; in Chile, 3.60 times; in Colombia, 3.87 times; in Mexico, 5.40 and in Peru, 6.25.

<sup>16</sup> As will be seen later in the chapters presenting the case studies, renting assumes many different forms with respect to the housing stock. Here, it has been organized according to house (single-family dwelling), apartment (self-contained unit within a building), and rooms (which are part of a larger unit where common facilities are shared). In each case, the housing stock may be formal or informal. There may also be different degrees of quality. In some cases (see Chapter 11 on Peru), the rooms are classified into so-called *vecindades* or *quintas* (neighborhoods or tenements), depending on whether they have a separate entrance. They are also classified as huts, cabins, temporary shelters, units unfit for human habitation, and so on.

**FIGURE 2.15** Relative Probability of Renting Rooms or Apartments compared to Houses



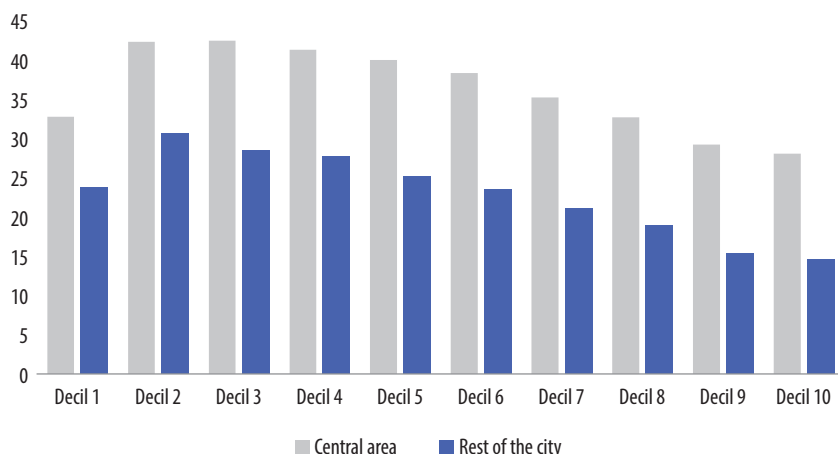
Source: Authors' elaboration.

ring road.<sup>17</sup> The results of the variables related to age, household type, marital status, and employment status were consistent with the results of the models for the country level previously described. The result of the variable of centrality was significant and showed that a household located in the central areas is twice as likely to rent than purchase their home.

A similar exercise for the 16 delegations of the Federal District of Mexico City and the 60 municipalities of the conurbation, the central area of which consisted of the 11 delegations and 3 municipalities that were already home to an urban population by 1950,<sup>18</sup> yielded similar results, with a likelihood of renting that was 2.25 times greater than the probability of homeownership in the city center. In this case, household income was controlled for, which indicates that the higher inclination for households in the city center to

<sup>17</sup> These communes 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. We are grateful to Pia Mora, co-author of the case study for Chile, for suggesting this criterion. The data relate to 2002 and were provided by the database Minnesota Population Center, 2013, based on information from Chile's National Statistics Institute (Instituto Nacional de Estadística, or INE).

<sup>18</sup> The central delegations are: Álvaro Obregón, Azcapotzalco, Benito Juárez, Coyoacán, Cuauhtémoc, Gustavo A. Madero, Iztacalco, Iztapalapa, La Magdalena Contreras, Miguel Hidalgo, and Venustiano Carranza. The central municipalities are: Ecatepec, Naucalpan de Juárez, and Tlalnepantla de Baz.

**FIGURE 2.16** Percentage of Rental Households in the Metropolitan Area of Mexico City, according to Location and Income Decile

Source: Authors' elaboration.

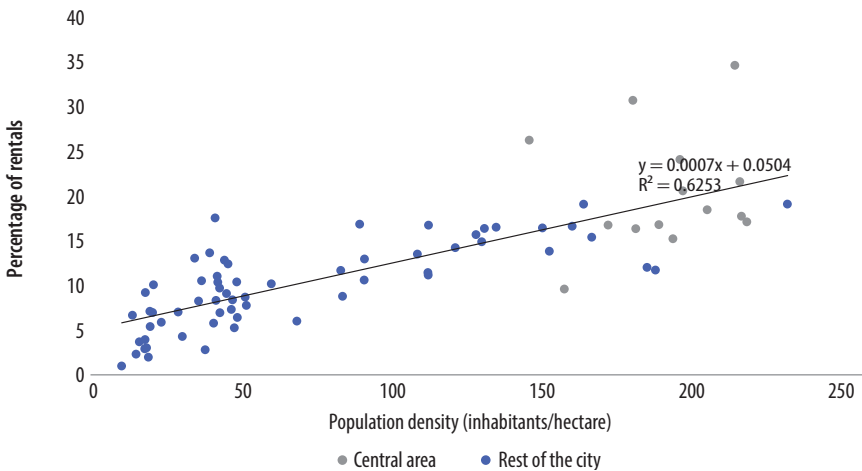
Note: The base data are for the year 2010 and are originally provided by the IPUMS (Minnesota Population Center, 2013) and reproduced by Mexico's National Institute of Statistics, Geography and Information Technology (INEGI) (Instituto Nacional de Estadística, Geografía e Informática de México).

live in rental accommodation is common to all income groups. Figure 2.16 shows that the percentage of rental households in the total number of households is greater for all income groups in the Metropolitan Area of Mexico City than in peripheral areas. This suggests that families that prefer to live in central areas also prefer to rent, regardless of their income.

Central areas tend to be more densely populated, which means that land prices are higher and developers replace this factor of production with capital by building vertically. The literature tends to associate greater density with better social integration, less automobile use, and more efficient energy consumption. Figure 2.17 shows the relationship between density and the proportion of rental tenancy for the delegations and municipalities that make up the Metropolitan Area of Mexico City.<sup>19</sup> The relationship is positive, which demonstrates that the greater the density, the higher the incidence of renting. Likewise, Figure 2.17 shows that the densest areas are also

<sup>19</sup> Also known as the Mexico Valley Metropolitan Area (Zona Metropolitana del Valle de México, or ZMVM).

**FIGURE 2.17** Relationship between Population Density and Rental Tenure in the Delegations and Municipalities of the Metropolitan Area of Mexico City



Source: Authors' elaboration based on data taken from the National Census of Mexico (Censo Nacional de México) and analyzed by Salazar Cruz et al. (2012).

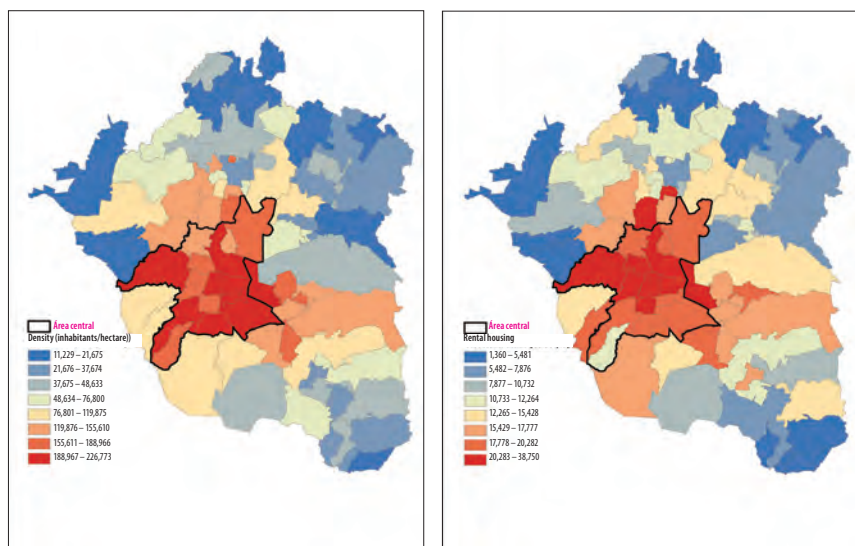
those closest to the city center. In general, this relationship between density and a higher prevalence of renting is also seen in the other cities of the region, as will be demonstrated in the case studies. The information can also be examined in Map 2.1, which shows density in relation to rental tenancy.

## SUPPLY IS DIVERSE, PRIVATE, AND SMALL SCALE

As demand for housing is not limited to any specific income level, the supply of rental housing is accordingly diverse and is present throughout all segments of the market. The case studies confirm that there is rental housing of low-, medium-, and high-income categories and that, although the central areas have a higher proportion of rental housing, it is possible to find supply in any area of the city. In fact, the rental market, like any other real estate submarket, follows the spatial logic of the land market (Calderón, 2012).

Owner-landlords are equally diverse in terms of their socioeconomic situation, with a minimal presence of large commercial, institutional, or public investors and a supply that is widely dispersed among myriad small-scale investors. In Chile, for example, 80 percent of owner-landlords possess only

**MAPA 2.1** Relationship between Population Density and Rental Tenure in the Delegations and Municipalities of the Metropolitan Area of Mexico City



Source: Authors' elaboration based on data taken from the National Census of Mexico (Censo Nacional de México) and analyzed by Salazar Cruz et al. (2012).

one property, and another 10 percent possess only two. Only 27 people owned more than 50 properties, and these represented overall around 4,000 units, which is equivalent to less than 0.4 percent of the total supply (Sabatini, Brain, and Mora, 2012). This situation is representative of other cities and countries in the region, such as São Paulo, where 82 percent of owner-landlords own just one property (Pasternak and D'Ottaviano, 2012); Colombia, where 1 percent of the supply is managed by specialized companies (Torres Ramírez, 2012), and El Salvador, where just 3 percent possess five or more properties (Vance, 2012).

The qualitative information gathered from the interviews carried out for the case studies suggests that the operational logic of these small-scale owner-landlords seems to be guided more by the urge to supplement their incomes or provide a pension than to seek the best return on an investment. In fact, the cases of Argentina, Chile, Colombia and El Salvador show that owner-landlords are on average older than the general population and that many of them are couples whose children have left home, retired people, or widows and widowers seeking to boost their



regular incomes.<sup>20</sup> In Chile and Colombia, income earned from renting represents barely a quarter or a third of the total income of owner-landlords, while in São Paulo it represents 40 percent. In El Salvador, rental income is the main source of income for less than a quarter of all owner-landlords (Reese et al., 2012; Sabatini, Brain and Mora, 2012; Torres Ramírez, 2012; Vance, 2012; Gilbert, 2012; Pasternak and D'Ottaviano, 2012).

The short-term aim of owner-landlords, therefore, seems to be to generate cash flow rather than maximizing the rate of return, which makes it unlikely that the decision to enter into the rental market was preceded by a financial investment calculation in the strictest sense of the term. In fact, in El Salvador, none of the owner-landlords stated that they had originally bought or built their properties with the idea of renting them out (Vance, 2012). Whatever the case may be, owner-landlords believe that renting is good business. Even in Chile, Mexico, and Peru, certain market segments yield an annual return of around 10 percent, which is higher than the return on a fixed-term certificate of deposit (Calderón, 2012; Sabatini, Brain, and Mora, 2012; Salazar Cruz et al., 2012). However, it seems likely that owner-landlords are failing to calculate maintenance costs, taxes, and potential risks, such as a tenant's failure to pay the rent or asset depreciation.

As previous studies have suggested, the majority of owner-landlords belong to the same social class as their tenants (UN-Habitat, 2003). In Brazil, nearly a quarter of them live in the same building as their tenants, and at least half live in the same community (Pasternak and D'Ottaviano, 2012). Likewise, in Jamaica, nearly half of all owner-landlords live in the same building in which they also own rental properties (McHardy, 2012).

The socioeconomic status of owner-landlords and tenants determines to a large extent the relationships between them and their degree of formality. In general, four rental submarkets can be identified according to socioeconomic status: high-income, middle-income, low-income in informal neighborhoods, and low-income in tenements slums in the city center. Table 2.6 broadly characterizes the type of dwelling, the relationships, and the degree of informality in each segment, according to the qualitative information presented in the case studies undertaken for this publication, particularly those of Chile, Mexico, and Peru. As in all characterizations, there is a high degree of generalization and the boundaries between one segment and another are not always clear in practice. However, the message is that

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<sup>20</sup> This might also explain, at least in part, why rental housing is often located in the most consolidated areas.

the peculiarities of rental housing and the relationships between owner-landlords and tenants depend to a large extent on the market.

As Table 2.6 reveals, diversity in the rental market is expressed by the degree of formality and informality, according to three measures: origin, the existence of contracts, and the payment of taxes. With respect to origin, the rental is considered informal when the dwelling is self-built. One of the reasons why informal settlements are considered to be “architecture that works” is that they allow for expansion of amenities that will subsequently generate additional income through activities such as renting out rooms, apartments, and even semi-independent structures built on peripheral building plots with some degree of consolidation.

The literature suggests that the rental market in informal settlements is both dynamic and substantial. A study carried out in Bogota in the 1970s found that a third of the families in informal housing received some income from renting (Doebele, 1977), whereas a more recent investigation suggested that this figure might be as much as two-thirds (Gilbert, 1999). There is also rental housing stock in settlements that were once informal but that have since become completely consolidated and, generally speaking, regularized. In most cases, this type of rental is for the highest-income segments of the demand, is usually found in the more central locations, and either entire houses or individual rooms may be rented. For example, in a sample of neighborhoods that started out as informal in the 1970s in Bogota and Mexico City, by 2007 around 20 percent and 7 percent of the housing *stock*, respectively, were used as rental housing (Ward, 2011).

The second type of informality is characterized by the absence of contracts. The prevalence of this type of informality varies between countries. In Uruguay, for example, nearly a third of all rentals are undertaken without formal contracts, whereas in Chile the percentage reaches 40 percent, in Colombia more than 50 percent, and in El Salvador, 76 percent (Moya, 2011; Sabatini, Brain, and Mora, 2012; Torres Ramírez, 2012; Vance, 2012). The degree of informality may also vary within the same country. In Santiago, Chile, the proportion of rentals without contracts reaches 70 percent, whereas in Coquimbo, a city with more rural areas, the proportion is less than 47 percent (Sabatini, Brain, and Mora, 2012). This type of informality is not necessarily related to the informality that is determined by the origin of the housing stock, as the absence of rental contracts can be found in any of the submarkets described above. However, its occurrence appears to decline as income rises. Thus, in Chile, for example, the percentage of residential rentals without a formal contract in the lowest quintile is

**TABLE 2.6** General Characterization of Types of Rental

	High-income	Middle-income	Low Income	
			In informal neighborhoods	In city center slums
Origin of housing stock	New or used, formally built homes, for the highest segment of the demand	Standard public or private homes, originally informal, but that are now entirely consolidated and generally regularized	New informal settlements with a certain degree of consolidation	Used, generally formal dwelling, once housing the highest segments of the demand, but now subdivided
Location	In any location within the so-called "high-income cone"	In the inner periurban rings	On the periphery	In the city center
Type of dwelling	Houses or apartments	Houses or apartments	Houses or rooms	Rooms
Relationship between owner-landlord and tenant	There is an indirect relationship, mediated by specialist firms responsible for collecting rent and maintenance.	There is a direct relationship. The tenant is generally recommended by acquaintances.	There is a direct relationship that generally goes beyond the rent itself, and may include other kinds of reciprocity, such as childcare, pet care, guarding the house and contents, and so on.	There is an indirect relationship, mediated by third parties responsible for general administration. The owner-landlord is not present.
Similarity of socio-economic level between owner-landlord and tenant	Yes	Yes	Yes	Not necessarily
Existence of contracts	Yes	Not necessarily	No	No
Payment of taxes	Yes	No	No	No

*(continued on next page)*

**TABLE 2.6** General Characterization of Types of Rental*(continued)*

	High-income	Middle-income	Low Income	
			In informal neighborhoods	In city center slums
Conflict resolution	Via insurance policies and rent guarantees	The owner-landlord prefers a private settlement rather than a legal battle	Personal arrangements	Complicated, de facto channels sometimes used

Source: Authors' elaboration.

almost 60 percent, whereas in the highest quintile it is less than 20 percent (Sabatini, Brain, and Mora, 2012).

The third kind of informality consists of not declaring the income earned from renting out property in order to avoid paying taxes on it. The case study on Mexico, for example, suggests that more than 90 percent of owner-landlords fail to pay the corresponding tax on rental income and fail to provide receipts to their tenants. A case is mentioned in which an accountant with more than 30 years of experience in tax matters declared that he had never once registered a client for the purpose of paying tax on residential rental income (Salazar Cruz et al., 2012). This type of informality does not correspond exactly to the informality arising from the origin of the housing stock or the absence of contracts, as it can also be found in any segment of the demand. It might, however, be related to level of income, since most of the cases where obligations are properly met are found in rentals that are mediated by real estate companies, which tend to operate in the highest segments of the market (Reese et al., 2012).

**THE FORMAL MARKET IS LIMITED BY REGULATIONS, INFORMATION ASYMMETRIES, AND HIGH TRANSACTION COSTS**

In all of the case studies, the main explanation for the various types of informality centered on the complex and unwieldy regulatory framework, which acts as a disincentive to formal investment in rental housing. Specifically, the argument is put forth that rent controls and the long and difficult repossession process increase operating costs, which in turn reduces the return on investment in a market already perceived to be high-risk (Gilbert, 2012;

Jaramillo and Ibáñez, 2002). In addition to the risks and costs that may affect investment in real estate—natural disasters, changes in the rules governing land use regulation or taxation, macroeconomic cycles, and depreciation of the property—the rental market has its own costs and risks, such as the likelihood of the property remaining vacant, deterioration caused by bad usage, failure to pay by the tenant, and the uncertainties inherent in the repossession process (Peppercorn and Taffin, 2013).

Both rent price controls and the cumbersome repossession process are a legacy of the regulatory changes of the mid-twentieth century, which favored the tenant over the owner-landlords as a way to avoid social discontent. For the most part, this pro-tenant regulatory framework remains in place, although most countries introduced reforms in the 1980s and at the beginning of this century in an attempt to strike a balance between the interests of both parties. In general, the main rules that regulate the rental market in the region are the same as those enshrined in the Civil Code, although rent increases continue to be regulated. In Colombia, for example, where a new law in 2003 attempted to create the conditions for an increase in rental supply, rent increases continue to be limited in line with the consumer price index and by the condition that the monthly rent cannot exceed 1 percent of the market value of the property. Furthermore, the owner-landlord is not permitted to solicit a deposit and is only entitled to terminate the contract unilaterally after four years, before which time the owner-landlord must compensate the tenant either financially or with rent-free months<sup>21</sup> (Torres Ramírez, 2012). Terminating a contract in El Salvador is even more complicated, as tenants can remain in the property after the contract has expired if there is no cause for termination or if the owner-landlord fails to legally demonstrate that the property is needed for personal use. In this case, the contract is automatically renewed at the previous rent (Vance, 2012).

The repossession process undertaken when the tenant fails to pay has also improved, but continues to be long, drawn out, and costly. In Colombia, for example, following the legal changes of 2003, the time needed for repossession fell from a maximum of five years to a maximum of one year and, although this is an improvement, it is still too long, since the owner-landlord

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<sup>21</sup> However, Gilbert (2012) finds that the effect of these kinds of controls is still unknown because the real increase or the resulting value of the rent is sometimes lower than that permitted. This would suggest that, at least at present, if there were limitations on earnings, then these would be more an effect of competition than of regulation.

is unable to collect the rent during this period (Torres Ramírez, 2012). In Peru, the period is supposed to be no more than six months but can last up to four years depending on the grounds for repossession (Calderón, 2012). In Argentina, repossession can take from six months to a year, but the process is uncertain and expensive (Reese et al., 2012). In Chile, the sentence might be delivered within a year, but as eviction requires a Notice to Quit and a police escort, effective repossession might take up to two years (Sabatini, Brain, and Mora, 2012).

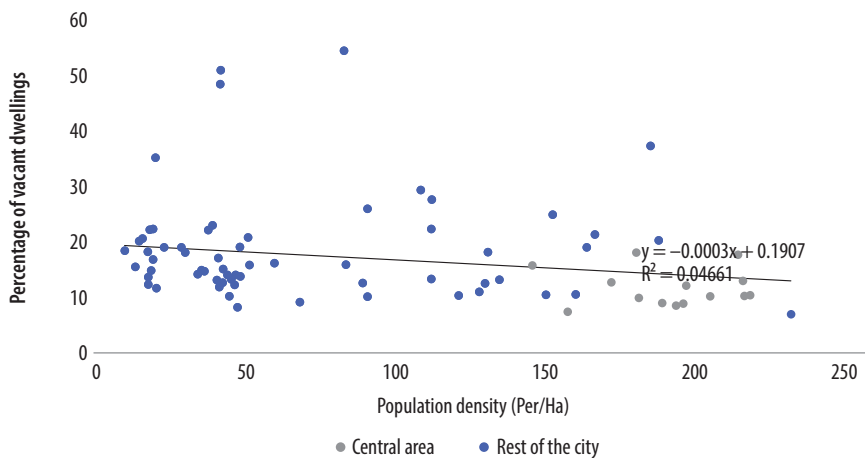
All of the above is further aggravated by the impossibility of verifying the potential tenant's credit history of paying rent, since in most cases rentals are not registered in credit and financial databases. Thus, owner-landlords in the highest segments of the demand opt to increase the requirements for renting and to enlist real estate firms, which reduces effective demand and increases operating costs. In Mexico, for example, a tenant that wants to access the formal market must present a guarantee signed by a property holder (in some cases in the same city in which the rental property is located), present proof of regular earnings, and pay a deposit equivalent to two months' salary (Salazar Cruz et al., 2012). In the lower-income segments, owner-landlords opt instead for informal agreements in an attempt to mitigate the risks by limiting potential tenants to people who are either known or have been recommended to them.

The inherent risk in the market, exacerbated by the regulatory framework, the impossibility of resolving information asymmetries, and the resulting high transaction costs, creates a strong disincentive for potential supply. Proof of this is the high numbers of unoccupied dwellings in the region. The percentage of vacant units as a proportion of the total housing stock is 18 percent in Argentina, El Salvador, and Uruguay and 20 percent in Mexico. Part of this stock is located in areas affected by the economic downturn and by violence, or in many cases corresponds to second or holiday homes. However, the percentage still seems high when compared to the United States where, according to the 2010 census, unoccupied dwellings represented just 11 percent of the total housing stock in the midst of one of the worst real estate crises in history. It is also reasonable to suppose that some of these homes are actually on offer and are waiting for the right client in the rental or sales market, as is the case in Argentina, where around 2.6 percent of the stock is in this condition. Even after discounting these homes, however, the number of dwellings used as secondary residences and that are only temporarily empty surpasses 700,000 and accounts for nearly 6 percent of the country's total housing stock (Reese et al., 2012).

In the Metropolitan Area of Mexico City, only 5 percent of the more than 16 percent of the housing stock that stands empty consists of holiday or second homes. Therefore, 632,000 homes, or 11 percent of the total, can be classified as unoccupied (Salazar Cruz et al., 2012). In this latter case, many of these dwellings are classified as social housing in substandard locations, which severely limits their market potential. As Figure 2.18 reveals, the relationship between density and percentage of unoccupied homes in the Metropolitan Area of Mexico City is negative, although near zero, which indicates that these units are located in peripheral areas where the demand for rental housing is low.

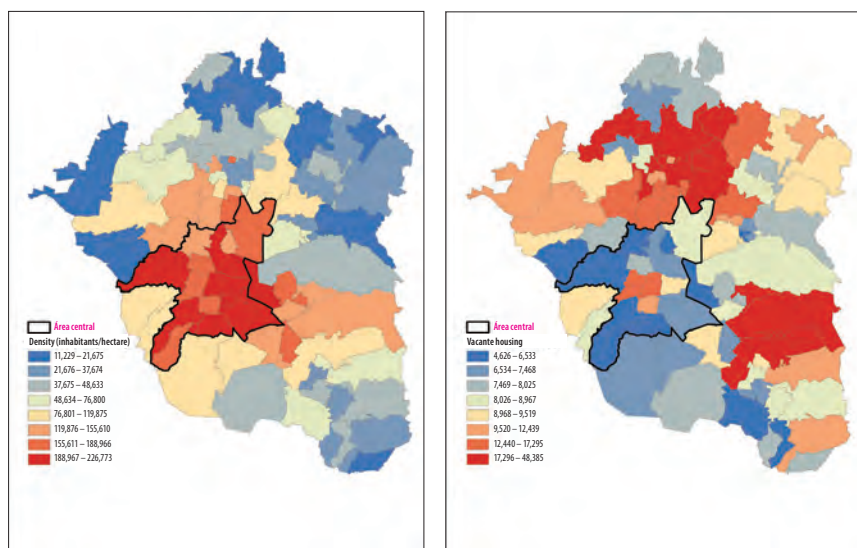
In some delegations and municipalities, however, there is both good density and a high percentage of unoccupied units. In Tecámac, with a density of 184.9 inhabitants/hectare, the percentage of unoccupied homes stands at 12.01 percent; in Cuautitlán, with a density of 108.5 inhabitants/hectare, the vacant stock is 13.5 percent; and in Chicoloapán, these variables register 112.2 and 16.74 percent, respectively. Even in the 14 delegations and municipalities that were defined as central, the total percentage of second residences is 11 percent, while vacant houses represent 8 percent of the total. These units represent potential supply and an opportunity for development of the rental market that could become reality if the right

**FIGURE 2.18** Relationship between Population Density and Vacant Dwellings in the Delegations and Municipalities of the Metropolitan Area of Mexico City



Source: Authors' elaboration based on data taken from the National Census of Mexico (Censo Nacional de México) and analyzed by Salazar Cruz et al. (2012).

**MAPA 2.2** Relationship between Population Density and Vacant Dwellings in the Delegations and Municipalities of the Metropolitan Area of Mexico City



Source: Authors' elaboration based on data taken from the National Census of Mexico (Censo Nacional de México) and analyzed by Salazar Cruz et al. (2012).

incentives were offered to owners. Map 2.2 shows the spatial distribution of vacant housing in Mexico City.

Despite the costs and the risks inherent in the rental market, most case studies reveal that there has been no generalized rent increase in recent years (Gilbert, 2012). In Concepción, Santiago, and Valparaíso, expenditure on housing for tenants actually fell during the 2000s, except in the highest segments of the demand (Sabatini, Brain, and Mora, 2012). Similarly, in Colombia and in Jamaica, the value of rents fell in real terms. In El Salvador, they have remained stable (McHardy, 2012; Torres Ramírez, 2012; Vance, 2012). In fact, as the case studies suggest, the available information does not seem to suggest that there is a marked structural problem when it comes to access to rental housing. Nonetheless, the interviews with owner-landlords, the qualitative information, and the high number of vacant houses in the region suggest that the supply of units could well be increased. This would create demand at more affordable prices and a satisfactory rate of return for suppliers, as long as the regulatory framework that increases transaction costs and operating risks is improved.



## CONCLUSIONS AND IMPLICATIONS

This chapter demonstrates the importance of rental housing in Latin America and the Caribbean. One out of every five households in the region rent their homes, and renting is more prevalent among some of the population's fastest growing groups: young people, single-person households, divorced people, and the elderly. This suggests that supporting this form of tenure might help to better satisfy demand-side preferences and create greater residential and labor mobility.

It also demonstrated that, contrary to the situation in more developed countries, renting in Latin America and the Caribbean is not an option restricted to only the poorest people. In fact, rental housing is often of higher quality than informal property and has conditions similar to those of formal property, even for the lowest-income quintiles. These data confirm that renting can be an efficient and cost-effective option that can help reduce the region's quantitative and qualitative housing deficit.

Moreover, rental housing tends to be concentrated in the most centrally located, densely populated, and consolidated areas of the city. This suggests that a rental policy, coordinated with adequate urban planning tools, could help to create cities that are denser, more accessible, and more compact. The diversity and the private and small-scale nature of the region's rental housing supply described in this chapter implies that the greater dynamism in the sector can help owner-landlords supplement their incomes while at the same time mitigating the lack of well-located, good-quality housing.

Finally, it was argued that the market, especially the formal market, is hampered by regulations, information asymmetries, and high transaction costs. Relatively simple changes, such as reducing the time needed for repossession or creating a system of rent guarantees for owners, could expand the effective supply by creating incentives so that a part of the region's vacant housing stock—which in some cases represents nearly 20 percent of the total—can be released onto the market, once again mitigating the lack of good-quality, well-located housing.

These examples demonstrate the importance of renting and its function as part of the potential solution to the region's major housing problems, such as the quantitative and qualitative deficit, limited accessibility, and spatial segregation. Chapter 3 analyzes all these points in greater detail, as it describes the role played by renting in housing systems at the international level.

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# Global Experiences and Lessons for Latin America and the Caribbean in Rental Housing

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Approximately 1.2 billion people in the world live in rented homes.<sup>1</sup> This chapter examines how this situation has arisen, the role of renting in different countries' housing systems, and the lessons that governments in Latin America might draw from these experiences. In common with the rest of this publication, this chapter supports the view that rental housing is an essential ingredient of any housing program. It reviews recent practices, mainly from the second half of the twentieth century, in four groups of countries: the most developed countries, the former Soviet Union and Eastern Europe, China, and Africa and the rest of Asia.

## THE MOST ECONOMICALLY DEVELOPED COUNTRIES

The most economically developed countries, which include those in Western Europe, English-speaking North America, Australasia, and certain East Asian nations such as Japan, differ from the rest of the world in many ways, including in the way that their housing markets have evolved. As these countries

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<sup>1</sup> This calculation includes 54 countries with available data on property tenure since 1995. The proportion of households that rent is multiplied by the national population, calculated in mid-2010 by the Population Reference Bureau. The percentage of tenants in those countries is then used to calculate the number of tenants in the countries that fail to provide tenure statistics, and the two subtotals are added to arrive at the number of tenants in the entire world.

are pioneers of industrialization, a large part of their populations have been living in urban areas for more than a century. In modern times, their economies have been based on market capitalism and private property. They have large credit markets capable of funding home building, an activity made attractive by market demand and regulation. The informal sector has provided very few dwellings, although formal homes are sometimes rented without all the necessary legal documentation. The variation in the evolution of housing systems is a consequence of demographic trends and public policy; the housing market is divided to differing degrees between the private and the social sectors and between renting and homeownership. The following section describes the main characteristics of the housing sector and the importance of renting in some of this group's most representative countries.

## THE UNITED KINGDOM

Following the early industrial revolution and rapid urbanization in the United Kingdom, rental housing became the dominant trend. In 1918, more than three-quarters of the population rented their homes, almost all from the private sector. In 1950, homeownership increased to 30 percent of households, although social housing expanded to nearly 17 percent. Rent control, a form of regulation that keeps rent low, slowed the transition of the demand toward homeownership. At the same time, the expansion of social housing by the government displaced the private sector on the supply side (Pattison, Diacon, and Vine, 2010). From the mid-1950s until the early 1980s, the government expanded construction of social housing, providing homes for 20 percent of households. Homeownership grew even more quickly, as financing by *building societies* and other sources became more abundant. At its lowest point in the 1980s, fewer than 15 percent of households rented from the private market.

Under the government of Margaret Thatcher, housing policy turned away from social rental housing, favoring the private market instead. Public spending on housing during the 1980s was reduced by 67 percent in real terms.<sup>2</sup> Tenants were given the “right to buy” and were offered a discount of up to 50 percent of the value of their homes. Many people,

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<sup>2</sup> See Lawson (1992). Presumably this reduction in expenditure does not include the extra-budgetary subsidies for the sale of social housing to tenants.

especially those living in better-quality dwellings, took advantage of the offer. Between 1980 and 2003, municipalities or housing associations sold 2.2 million homes, or around 13 percent of households (Munro, 2007).

The Thatcher government and the Association of Residential Letting Agents (ARLA) made private investment more attractive by introducing rent deregulation and providing financial mechanisms for potential owner-landlords (Leyshon and French, 2009; Pattison, Diacon, and Vine, 2010). They also accelerated the legal proceedings for resolving rent disputes by enabling owners to repossess property, generally without a court hearing, if the tenant failed to vacate the property after being duly notified (UK-DCLG, 2010). As a result of these changes, the number of private rental households increased from 2.4 million in 2001 to 3.8 million in 2009, whereas the number of owner-occupied households remained practically constant (Pattison, Diacon, and Vine, 2010). The shift toward renting also reflected new limitations on homeownership caused by the increase in property prices and the subsequent financial crisis.

The fluctuations in the renting/homeownership ratio in the United Kingdom are mainly due to changes in government policy in the area of social housing, the availability of private financing, and, to a lesser extent, fiscal policy. Although private owners who rent out their properties are liable for capital gains tax on appreciated property, they also qualify for tax relief for the interest paid on the mortgage. For their part, owner-occupiers are not subject to either (Pattison, Diacon, and Vine, 2010).

Homeownership in the United Kingdom, as in other countries of Europe and North America, is becoming less and less accessible for a large portion of the population, particularly young people (UN-Habitat, 2011a). Many of them are unemployed, and others, even in households with more than one income, cannot save enough for a down payment. Thus, from 1991 to 2010, the homeownership rate among the 25 to 34 age group fell from 67 to 47 percent, and in the 35 to 44 age group, from 78 to 67 percent. By contrast, homeownership rates increased among older people (King, 2011). The proportion of young people who are renting or sharing accommodations is therefore increasing.

## THE REST OF WESTERN EUROPE

During the nineteenth and the early twentieth centuries, urbanization in the rest of Western Europe brought about an increase in private rental housing,

especially for industrial workers. Little by little, associations and nongovernmental organizations built social housing units in various locations. In the Netherlands, social rental housing was built by nonprofit associations, small groups of people who shared a common need in a particular place, or philanthropic associations. In Germany, certain big industrialists, such as Krupp, built many small terraced houses (so-called *townhouses*) to rent to their workers in Essen and other sites.

The construction of social or public housing units accelerated after World War II in Northern Europe, since a large part of the region's housing stock had either been destroyed by the war or had deteriorated during the inter-war depression years to such an extent that private market mechanisms were unable to meet the demand for housing. In the Netherlands, the Housing Allocation Law of 1947 established a needs-based system to tackle the housing shortage. This system was still in effect until the 1990s, when the city of Delft introduced a new choice-based rental system. This system subsequently became the norm for the country as a whole.

The distinctive characteristic of the social rental sector in the Netherlands is, precisely, that housing solutions are offered to a very disparate target group, not just to low-income households, but also to a wider intermediate group (...). Negative phenomena, such as social stigma, the formation of ghettos and social isolation are thereby avoided (Ouwehand and van Daalen, 2002: 1).

As a result, social rental housing and the associations that produced it represented 42 percent of housing stock in the Netherlands in 1990 and still accounted for 36 percent in 2011. Three-quarters of rental housing is found in this social sector. In other parts of Western Europe, social housing is also significant, representing 19 percent of the total number of homes in Denmark, 18 percent in France, 9 percent in Ireland, and 7 percent in Belgium (UN-Habitat, 2011a).

During the 1960s and the early 1970s, large-scale public housing provision reached its highest point in most of Western Europe, mostly in the form of subsidized rental housing in high-rise building developments (UN-Habitat, 2011a). In Paris, the large high-rise housing projects (the so-called *grands ensembles*) got underway in 1953, and by the beginning of the 1980s, around 400 new housing projects, with more than 500 homes in each one, had been built, as well as many other smaller ones (Noin and White, 1997).



The global recession of the 1970s led to an increase in poverty and unemployment in many European cities, and living conditions in many of these high-rise rental housing units began to deteriorate. With the influx of immigrants to the *grands ensembles*, the wealthier households moved elsewhere. The housing estates were not only an unattractive place to live; they were also becoming hotbeds of unrest, particularly among the young and socially disadvantaged. The 1981 riots in Lyon seriously damaged the reputation of French public housing. In most countries, public housing projects had turned into slums. Consequently, they came to symbolize:

(...) the shortcomings and the failure of post-war public housing policies. (...) Moreover, the construction deficiencies, flaws, and problems with repairs, as well as empty units, delays in rent payments, a high turnover rate, filth, vandalism, a feeling of insecurity and a high concentration of socially and economically weak families were assumed to be characteristics of the occupation and living conditions in these estates (Van Kempen and Musterd, 1991: 83).

In the 1970s, the debate concerning the most desirable form of tenure intensified. Since the 1980s, the governments of France, Ireland, and especially Spain, which enjoyed an economic boom in the post-Franco era thanks to its integration into the European Union, have all encouraged homeownership. New banking systems have arisen, enabling the more affluent working classes to borrow money to buy their own homes. Many governments have financed subsidized lines of credit for the poorest households. In Spain, the proportion of homeownership increased from 51 percent in 1960 to 91 percent in 2002 (Pareja Eastaway and San Martín Varo, 2002; RICS Economics, 2010).

The conventional Spanish social housing model differs from that of the rest of Europe, as tenure is almost exclusively through ownership. Subsidized homeownership maintains the status of social housing for a set number of years, during which the property cannot be sold at market prices. After this period has elapsed, its status changes and the property can freely enter the market. However, in some regions of Spain, subsidized homeownership is considered to be a separate and permanent form of tenure rather than a temporary subsidy scheme.

Of all Spanish homes, 81 percent are owner-occupied, 11 percent belong to the rental sector, and 8 percent fall into the “other

types” category (for example, homes offered free of charge). Most rental properties belong to private individual owner-landlords. Since around 2000, the Spanish property market saw an expansion in homebuilding and experienced huge home price increases. Although this benefited developers and households that already owned their property, first-time buyers experienced serious problems of access (Hoekstra, Heras Saizarbitoria, and Etxezarreta Etxarri, 2009).

Since the global financial crisis of 2009, followed by the euro crisis, home prices have fallen slightly. However, lack of financing, mortgage defaults, and falling incomes have forced some families to abandon their property while making it much more difficult for other households to achieve their dream of becoming homeowners.

In Italy, the homeownership rate is one of the highest in Western Europe. The rental sector represents approximately 20 percent of residential property, and only around one-fifth is used as social housing. The rental sector’s share of the market has been reduced by half since the introduction in 1978 of a law regulating rent prices (D’Alessio and Gambacorta, 2007). Many families have been forced to become homeowners as the only way to acquire a secure and accessible home. Since the rent control regime was inefficient at either protecting tenants or generating reasonable profits for owner-landlords, it was progressively dismantled during the 1990s, after the rental market collapsed. Later, the private rental sector was gradually liberalized through a system of voluntary rent negotiations, but retained some general rules on tenant protection that place the current regime in the broad category of “second-generation” or “soft” systems of rent control (Arnott, 1998). Those households that were able to buy made the transition from tenants to homeowners before 2008, benefiting from a prolonged period of low interest rates, so that being a tenant is now more closely associated with low income than it was 30 years ago. Since 2008, homeowners have also benefited from a law that exempts them from paying property tax on primary residences.

In an attempt to resolve the problems of vertical inequality between rich and poor and horizontal inequality between tenants and homeowners with similar incomes, Italian administrations have recently employed three kinds of policies: social housing, which guarantees lower rents than those found in the private market; a tax credit for tenants contained within the income tax framework; and a housing subsidy aimed at reducing the rent

burden in the private market for lower-income households. Subnational governments are the main providers of social housing and rental housing subsidies. Thus, implementing and financing these policies depends on local priorities and possibilities. These interventions have therefore had a limited effect on social protection or on the share of rental housing in the overall housing market (Baldini and Poggio, 2010).

Germany and Switzerland bucked the trend away from renting to homeownership. Owner-occupiers represent only 34 percent of households in Switzerland and 42 percent in Germany. In the largest cities, very few Germans or Swiss—11 percent in Berlin, 16 percent Geneva, and 23 percent in Zurich—own their homes. In both countries, neutral policies on homeownership have meant that the majority continues to rent, and they enjoy excellent housing conditions compared to global standards. Government policies have thereby reduced the incentives for homeownership.

In Switzerland, homeownership has also been limited because home prices are high and Swiss mortgage lenders require an initial down payment of 20 percent, which places homeownership beyond the reach of the poorest households. Owner-occupied homes “are subject to capital transfer, property, wealth, imputed rent and capital gains tax”<sup>3</sup> (Bourassa and Hoesli, 2009: 2; Werczberger, 1997). Therefore, homeownership is not as financially attractive in Switzerland as it is in other countries. Consequently, home prices have remained stable compared to the trend in most developed countries (*The Economist*, 2011).

Similar factors are at work in Germany, where homes are relatively expensive, especially in the big cities. Moreover, mortgage lenders are conservative. Therefore, households with little capital, irregular earnings, or a history of problems in previous credit dealings cannot obtain loans. On the other hand, property owners do not benefit from the same subsidies as they do in countries such as Spain. As in Switzerland, house prices in Germany have risen much less than in other countries and may have even fallen slightly in recent years. Thus, the speculative elements, which have played such a significant role in creating demand in other places, have been largely absent (Voigtländer, 2009).

In these countries, demand for homeownership has been limited, while other factors have encouraged investment in rental housing.

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<sup>3</sup> Imputed rent is the value that the owner-occupier would earn if he rented out his home.

[In Switzerland] more than half of all rental housing (57 percent) belongs to private individuals, who are generally self-employed. A further 22 percent is the property of real estate companies, pension funds, life insurance companies and real estate investment funds (...). There is a further 14 percent that falls into the category widely associated with the concept of social housing (Ball, 2004: 117).

In Germany, the situation is slightly different, since there is a much larger, better-quality social housing sector. Moreover, “the fact that private investors were included in the subsidies scheme from the beginning established the basis for a large private market in rental housing” (Voigtländer, 2009: 355).

Investment in rental housing has been maintained despite the rent controls operating in both countries. Rent control in Switzerland reduces housing costs for tenants who live in the same place for many years, and also avoids arbitrary eviction and the exploitation of any temporary housing shortage. Recently, however, Swiss rent control has been sufficiently flexible so the profitability of private investment in rental properties has been maintained (Werczberger, 1997). In Germany, rent regulation is moderate, but tenant protection is even more rigorous. For example, protection against termination of a contract makes it difficult for owner-landlords to terminate a rental agreement before it has elapsed, even when the tenant has stopped paying the rent (Voigtländer, 2009).

There is no social discrimination against tenants in either Germany or Switzerland: “German households have always enjoyed having an alternative to homeownership, and they are apparently quite comfortable about taking advantage of it” (Voigtländer, 2009: 362). For their part, Bourassa and Hoesli (2009: 2) point out that “a study carried out in Switzerland in 1996 found that 83 percent of those interviewed would prefer to be homeowners as long as there were no financial restrictions, or restrictions of any other kind”; nonetheless, renting still appears to be relatively attractive for tenants.

## THE UNITED STATES AND CANADA

Compared to the United Kingdom and the rest of Western Europe, the United States has constantly placed greater emphasis on the private sector and, more recently, on homeownership. In the urban areas and the suburbs of large cities, the markets offer a wide range of rental housing for

middle- and high-income groups. Nevertheless, renting is not preponderant due to the fact that tax laws have made homeownership so much more attractive for anyone enjoying stable economic circumstances.

The concept of social housing in the United States has typically connoted rental housing provided or subsidized by the public sector for those households unable to pay rent or buy a property in the private market. The first large-scale public housing projects were built as part of the New Deal during the Great Depression of the 1930s.

The original notion of public housing was that government would build these projects and they would afterward be self-sustaining, using rents for upkeep. But over time federal and local policies demanded less and less of a contribution from public housing tenants so that the projects could no longer get by on rents. Many have fallen into disrepair, with some \$30 billion in deferred maintenance. (Malanga, 2010).

For decades, access to public housing depended on potential tenant income certification, which meant that the more economically successful families had to leave these homes. However, to avoid such socially counterproductive incentives, public housing often permits families with higher incomes to remain in the housing unit.

Since the informal market is almost nonexistent, individuals who can neither rent nor buy in the private market, or who cannot access social public housing, become homeless. They live on the street or in public buildings during the day and spend the night out in the open or in shelters provided by the government or nongovernmental organizations.

State and local laws on zoning and tenants' rights have led to local variations. The most common laws are those that limit overcrowding (for example, by establishing a minimum amount of living space per person), which tends to reduce the supply of lower-income housing in the formal private market, compared to the demand. Tenants' rights, which include protection against eviction, also vary locally. However, owner-landlords generally manage to make a profit from this business as long as the local economy is reasonably strong. Some places, such as New York, impose rent controls that discourage both investment in new rental units and maintenance of existing rental housing. Informal practices, such as demanding very high deposits, sometimes mitigate the maintenance problems, but they also give rise to serious market distortions. Property tax legislation in

California, known as Proposition 13, severely limits tax reassessments for current homeowners, discouraging the sale of property to avoid the reassessment, which leads to lower rotation of the housing stock. Despite this, most households in New York and Los Angeles are renters.

During the nineteenth century, the availability of land on the frontier meant that living and working on one's own land was a plausible option for a wide spectrum of the U.S. population. This helped to establish homeownership in urban and central suburban areas as a key component of the "American dream" in the twentieth century. Income tax laws have favored homeownership by giving individuals and households the right to deduct mortgage interest and to postpone, or be exempt from, paying capital gains taxes. Since the middle of the last century, various federal programs have provided guarantees and incentives for lenders to offer mortgage loans at affordable interest rates. These incentives were initially aimed at World War II veterans, but with the passage of time the categories of eligible people have expanded. Originally, the aim was to turn workers into homeowners with the idea of stifling potential political radicalism. However, providing tax relief for mortgage payments accentuates inequality between homeowners and tenants, as well as between rich and poor homeowners.

Federal government estimates for 2002 project that 59 percent of tax deductions for mortgage interest will go to the 32.2 percent of homeowners with incomes of more than US\$100,000, whereas those with incomes of between US\$50,000 and US\$75,000, who represent around 25 percent of all homeowners, will receive only 13.5 percent of the benefits. The lower the income, the worse the situation gets: households with earnings of between US\$20,000 and US\$30,000 represent 3 percent of those who claim the benefit, but they will receive just 0.5 percent of the benefits (Krueckeberg, 2004: 15).<sup>4</sup>

This regressive distribution of the subsidies is supported by the same arguments usually used to justify subsidies provided for homeownership rather than for renting, since the purported benefits of homeownership will

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<sup>4</sup> The mortgage interest deduction is also applied to owner-landlords who benefit from tax deductions for depreciation. A key difference is that homeowners who rent out their properties are obligated to pay income tax on the rent received (net of costs) whereas, in contrast to Switzerland, property owners in the United States are exempt from income tax on the value associated with the use of the property (imputed rent).

accrue mainly to lower-income households living in the direst social conditions. Wealthy households that are most favored by the subsidy, on the other hand, probably would not rent anyway, and even if they did, it would not adversely affect their social condition.

In the United States, homeowners have grown into a powerful pressure group within the political arena, with vociferous demands that homeowner-ship subsidies should be continued even when they exceed the budget. By the end of the 1990s, a growing proportion of families' savings went towards purchasing a home, thereby pushing up property prices. The value of the subsidies was capitalized in the price of the property, which meant that homeowners faced capital losses and perhaps even risked all of their capital if the subsidies dried up. In 2006, the real estate bubble burst. Throughout the country, there were 17.7 million mortgage foreclosures between 2006 and 2011, and 6.45 million homes were embargoed (Statistic Brain, 2012).

In summary, the socioeconomic reasons for subsidizing homeownership in the United States, which might perhaps have been valid in the 1940s and 1950s, now seem to be outdated. The subsidy continues to exist for political reasons and encourages unsustainable home prices, with ever more adverse socioeconomic consequences.

In Canada, more than 90 percent of new housing is built for sale to potential homeowners, although some new units are temporarily rented out by their owners. With few new units added to the existing rental stock, accessible housing has become scarce for Canadian low-income earners. Until 1970, governmental programs supported a third of all new homes, but less than 5 percent of the production was earmarked for lower-income households.

From 1969 to 1974, the federal government conducted a review of its public housing programs. Since then, existing public housing continued to provide homes for lower-income families. Programs added were aimed at rural areas and indigenous minorities, and this new social housing was to be built by municipalities, nonprofit organizations, and cooperatives. Legislation encouraged consumers to participate more in designing and managing their own homes, and promoted a mixing of families with modest and low incomes. The federal government was the main source of financing for social housing, with some support from provincial and city governments.

In the 1970s, the federal government continued to provide support for the private housing market, by insuring mortgages and providing direct loans in smaller communities that were insufficiently serviced by private lenders. Moreover, homeownership was stimulated by tax exemptions for savings

plans designed for this purpose, an assisted homeownership program, and the exclusion of primary residences from payment of capital gains tax. Likewise, a combination of transfers, preferential loans, and tax breaks supported the construction of private rental housing. In total, government programs provided assistance for 40 percent of the housing units finished during this period.

In the 1990s, the federal government began to decentralize responsibility for social programs. Financing for new social housing units was discontinued, and the provinces were charged with the responsibility for managing and financing current subsidies for existing social housing. Provincial contributions to housing varied throughout the country. In general, financing became uncertain and provided only minimum support for those with fewer resources to access a housing market in which prices were rising. Only British Columbia and Quebec subsequently financed new social housing. As local governments face an increasing challenge to attend to needy people with limited resources, they provide support for accessible rental housing by actions such as imposing limits on the conversion of rental units for sale, re-zoning new sites for residential use, promoting second housing units for single-family households, and financing tenant support programs (McAfee, 2006).

## THE FORMER SOVIET UNION AND EASTERN EUROPE

In the Soviet Union and subsequently in Eastern Europe, where Communism had been imposed on large rural populations, the State generally promised to provide housing for the population, and private property was often eliminated. In the Soviet Union and Eastern Europe, high-rise public housing built for rent became the typical type of urban dwelling, so much so that it came to dominate the housing stock in some communist countries and eliminated the private rental market. However, the quality of these housing projects was poor, since the use of substandard building methods and materials was encouraged in order to rapidly boost the number of available units (UN-Habitat, 2011a).

After 1989, when the market economy returned to communist Europe, the nature of housing provision changed radically. "The almost universal belief in private homeownership has displaced rental housing" (UN-Habitat, 2011a: 8). A large part of the public housing stock was sold off: 1.4 million units in Poland, 410,000 in Latvia, and 327,500 in the Czech Republic (UN-Habitat, 2011a). "By 1996, 41 percent of dwellings in Moscow had been privatized and 59 percent in the Russian Federation as a whole" (Grover,



Munro-Faure, and Soloviev, 2002: 43). The general trend has been to shift from rental housing to homeownership: “Bulgaria, Estonia, Hungary, Kyrgyzstan, Romania, and Slovenia now have homeownership levels of more than 80 percent” (Grover, Munro-Faure, and Soloviev, 2002: 45).

This transformation has suffered from certain complications. The first is that many of these new homeowners inherited a “high-rise home of doubtful quality” (UN-Habitat, 2011a: 11) and subsequently, the lack of “maintenance and the postponement of capital repairs have aggravated the technical problems, characterized by leaking ceilings, obsolete fittings and elevators, and poor insulation” (Tsenkova, 2011: 9).

The second difficulty is that despite efforts to encourage growth in the homeownership rate,

(...) housing accessibility continues to be the fastest growing and most generalized problem in the region. Housing costs have increased, with significant consequences for access to decent and affordable housing, especially for vulnerable groups. (...) Mortgage debt has also risen considerably relative to family incomes, especially in the former communist countries (Tsenkova, 2011: 84).

Presently, there is a danger that an economic recession might increase the number of people unable to pay either their mortgage or rent. Consequently, the number of evictions and repossessions might also increase.

The third complication is that homeowners and society in general have faced instability in the housing markets. In Slovenia, for example, the average prices rose by 14 percent between 2004 and 2006, whereas prices in 2007 in Poland and Slovakia increased by almost 20 and 24 percent, respectively. In mid-2009, however, prices fell sharply in most of these countries: in Lithuania by 20 percent, in Bulgaria by 22 percent, in Estonia by 31 percent, and in Latvia by a staggering 60 percent (Tsenkova, 2011).

The almost universal belief in the virtues of homeownership has meant that most subsidies are aimed at helping families buy their own homes, which has severely restricted government financing for public rental housing or for helping lower-income households (UN-Habitat, 2011a; Tsenkova, 2011). As a result,

(...) residual social rental housing, decimated by mass privatization, cannot accommodate the newly created post-privatization

households who are poor, let alone the young and mobile, to any meaningful degree (Dubel, Brzeski, and Hamilton, 2006: iv).

Nonetheless, the population in the majority of these countries is relatively stable, or is even declining, with means that, compared to Latin America, there is less pressure to expand the total existing housing stock. However, in some places, elimination of rent control and privatization of public housing have led to a significant increase in private rentals.

Private rental share is especially significant in Croatia and the Former Yugoslav Republic of Macedonia (around 11 percent and 9 percent, respectively). Rentals in the Czech Republic (7 percent) and Latvia (6 percent) have also acquired a notable market share due to rental housing replacement policies (UN-Habitat, 2011a: 34).

In spite of this, the dominant trend in the former Communist countries of Eastern Europe is toward deteriorating quality of the housing stock. In recent years, some countries have even seen an expansion of poor-quality, informal homebuilding.

## PEOPLE'S REPUBLIC OF CHINA

In the People's Republic of China, prior to the 1980s, state-owned enterprises and local governments were responsible for providing homes for workers. In general, this eliminated private rentals, which were declared illegal. Rents were fixed at very low rates. Even in 1991, before the economic reforms, rent payments represented merely 1 percent of an average worker's earnings (Zhang, 2000: 195).

Not only was housing cheap but it also offered workers in the formal sector almost complete security. Evictions were almost impossible to enforce, and tenants could often transfer their homes to their children. Therefore, for those who were in formal employment, public housing offered "cast-iron rights of tenure," which were almost as strong as homeownership itself (Zhang, 2000: 197).

Housing was often overcrowded, and there was a decrease in average per capita living space from 4.5 square meters in 1952 to less than 4 square meters in 1978 (Zhang, 2000).

In China, the housing system has been transformed over the last 30 years in step with the country's transition from a centrally planned to a market economy (UN-Habitat, 2011b). "Reform of the sector has been carried out in two ways: privatization of public housing and the development of a new private housing sector" (Logan et al., 2010). "By 2002, 80 percent of public housing had been sold to its occupants" (UN-Habitat, 2011b: 8). In contrast to the situation in Eastern Europe, in China the people have invested strongly in boosting the housing stock. Even within the framework of continuous population growth and rapid urbanization, this has enabled housing conditions to be substantially improved, at least in the majority of cities.

China has increased urban living space per person from 6.7 square meters in 1990 to 9.3 square meters in 1998. A study carried out on nine cities in China reveals an even more notable achievement: the space available for every family member almost doubled, rising from 8 square meters in 1988 to 15.8 square meters in 1999 (UN-Habitat, 2011b: 19–20).

Since the 1990s, China has made enormous efforts to produce reasonably priced housing. In 1995, the Comfortable Housing Project was launched, aimed at building and selling homes at an affordable price as a way of benefiting households with the lowest incomes. In 2001, the Housing Provident Fund was set up to help families save to purchase a home. To keep housing costs down, local governments often provide cheap or even free building land to developers. Moreover, they regulate the final sale price and put a 3 percent ceiling on profits (UN-Habitat, 2011b). The rules to keep rental prices relatively low have benefited those households that continue to live in the remaining public housing (Logan et al., 2010). In 1999, a rental housing program for low-income groups began to provide assistance for highly underprivileged families, targeted at the disabled, low-income groups, the disadvantaged, and the elderly. It was initially conceived as a way of building new rental housing units and subsidizing existing rental properties. Nonetheless, the construction of new units has been predominant. Overall, despite the fact that many local authorities have been reluctant to finance rental housing, the program has provided homes for 550,000 lower-income households (UN-Habitat, 2011b).

Despite this progress, one significant urban group has been widely omitted from Chinese housing policy: the nearly 200 million people who have flocked to the cities over the last 25 years but who still continue to be

officially citizens of their rural provinces of origin. These migrants are poorer than the official urban residents, and they qualify for fewer of the benefits available to people who enjoy *hukou* rights (Wu, 2010). Most immigrants live in shared rooms or small apartments in the so-called urban villages (Wang, Wang, and Wu, 2010). These areas tend to contain high-rise blocks built without planning permission. The private rental supply provided by this type of housing solution is cheap, due to the fact that so many people crowd into the available space. A further problem is that many local governments are now redeveloping these urban villages, which displaces the resident population to the peripheral areas (Wu, 2004; Tomlinson, 2012). Between 1995 and 2006, the number of urban villages in the suburbs of Shanghai fell drastically, from 2,138 to 1,261 (Xu et al., 2011).

China's experience shows that housing provision for a growing urban population is difficult, even when the government has abundant resources at its disposal and there is enough political stability. Although this country does not meet the standards of more developed countries in terms of governance and property rights, the combination of government policies and private-sector homebuilding has led to increases in the supply of rental housing.

## AFRICA AND THE REST OF ASIA

The countries of Africa and the rest of Asia are very diverse. Most of the countries in these regions have some kind of market economy in the urban areas, above all in the land and housing sectors, although there have been frequent state interventions, and vestiges of traditional non-commercial property tenure remain in rural and periurban areas. Almost all of these countries are home to a high proportion of extremely poor people, who make a living in the informal sectors of the economy. With the exception of a few countries blessed with vast oil wealth, per capita incomes are low and governments lack sufficient resources for investing in social or public housing. A high proportion of all investment in public infrastructure is financed by the World Bank and other international donors.

Urbanization in many countries in Africa and Asia came about in a different way than in Western Europe in the nineteenth century, but it bears similarities to the process seen in Latin America throughout the twentieth century. First, the rate of urban growth was generally faster due to the gradual way in which the main causes of infectious diseases were identified and treated. Second, the means of transportation were usually superior

than those available in the initial phase of urbanization in Europe, which meant that, comparatively speaking, suburban development became possible at an earlier stage of economic development. Likewise, cities expanded because buses and trains enabled a greater proportion of the population to commute from their homes to their jobs. Finally, the two previous factors offered the urban population a different way of solving their housing needs. Since most governments were unable to provide housing for a growing urban population, they generally tolerated informal housing and in many places even encouraged it for electoral purposes.

As in the case of the Latin America and Caribbean (LAC) region described in the previous chapters, during the second half of the twentieth century international donors began to accept the idea that self-built informal housing was a way to provide decent housing. Consequently, in the 1970s the World Bank promoted a series of neighborhood upgrading and service provision programs (World Bank, 1974 and 1980).<sup>5</sup> The phenomenon of self-building means that *de facto* property tenure—without formal legal deeds—spread in a radically different way than in most of Europe in the nineteenth century. Soliman (2004) estimates that 62 percent of the population of Cairo and 72 percent of the population of Alexandria live in neighborhoods that were originally informal.

After the countries of the region achieved independence, from the mid-twentieth century onward, the rate of urban growth accelerated and housing became a higher priority on the political agenda in the Middle East and Southeast Asia, and thereafter on the Indian subcontinent and in Sub-Saharan Africa. The construction of large-scale public housing took place only in a handful of places: the oil-rich countries, including Saudi Arabia, Egypt during the rule of Gamal Abdel Nasser, South Africa during the apartheid regime, and certain cities that faced massive immigration by refugees, such as Hong Kong and Singapore (Fong, 1990; Grimes, 1976; CNUAH, 1989). Some of these dwellings were well designed and well built, although their quality deteriorated over time. Most public housing was provided for rental tenants but, as in the case of the LAC region, it soon became apparent that few governments were effective owner-landlords (CNUAH, 1989; Gilbert and Varley, 1991), due to the fact that very low rents were set and few agencies were capable of collecting rent or evicting

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<sup>5</sup> In this chapter, as in the rest of the publication, the terms “self-built,” “incremental,” “irregular,” and “informal” are essentially synonymous.

tenants who failed to pay. As a result, most public housing agencies experienced financial problems.

The move toward public homebuilding failed to solve most of the problems. Because public housing construction programs were ostensibly aimed at poor people, households were highly subsidized and government agencies continued to suffer from financial problems. Public contracting and construction were often badly managed and, as a result, very little housing was produced efficiently, in sufficient quantities, or to an acceptable building standard. When governments attempted to reduce building costs in an attempt to boost supply and to make the new housing more affordable for the poor, quality standards declined. Many public housing agencies were accused of building official hovels. The imbalance between housing supply and demand, however, soon generated long waiting lists, and official systems for selecting beneficiaries were often bypassed. Consequently, as occurred in the LAC region, few really poor people were able to access the subsidized dwellings (Klak, 1992; Laun, 1977; Mayo, 1999). In Sub-Saharan Africa, the majority of public agencies have become excessively overstaffed, supply housing mainly to middle-class clients, and survive financially only because they have accrued enormous reserves of building land (Tipple and Mbathi, 2012).

In general, government policy has failed to appreciably improve the housing situation in many Asian and African countries. Most people still live in substandard housing in the informal sector and lack title deeds to their property. The housing deficit has grown alongside the increase in population, which in some cases has reached 3 percent annually. Moreover, with accelerating urban growth, the majority of those who have migrated to the cities have been accommodated in rental housing.

Official housing policy in the countries of Southeast Asia and Africa has had limited application. Whenever rent controls have been maintained in legal codes, they have often been applied only in formal housing areas. In most of these countries, public housing has reached very few people and has often been taken over by people who could perfectly well afford to rent or buy in the private market (Tipple and Mbathi, 2012). In recent years, the aim of housing policy has been to encourage homeownership. Many governments have tried to improve mortgage systems for the middle classes, to build roads and infrastructure as a way to encourage low-density urban development, and to favor social inclusion policies for slums, rather than resettlement. As a result, most of these countries have experienced a sharp increase in homeownership. In South Africa, for example, the

percentage of homeowners rose from 66 to 77 percent between 2004 and 2012 (SouthAfrica Info, 2012).

Whereas the proportion of rental tenants in most cities has fallen, the rate of urban growth has driven a growing number of people to rent their homes, often without formal deeds or contracts. In India, the number of renters in urban areas increased from 15.3 million in 2001 to 21.7 million in 2011, according to the 2012 Census. Due to the size of this increase, fewer potential renters were able to find accommodation in the traditional areas near the financial centers and were forced to move further and further away, mainly to the areas where informal settlements were expanding and developing. Informal renting has developed in a variety of forms: additional constructions on free areas of informal building plots (South Africa), informal settlements (Tanzania and Kenya), and rented plots (India) (Bank, 2007; Morange, 2006; Gilbert et al., 1993; Cadstedt, 2012; Crankshaw, Gilbert and Morris, 2000; Precht, 2005; Kumar, 2001; UN-Habitat, 2003; UN-Habitat, 2011c). As is the case in the LAC region, the self-building homeowner in this region has generally operated on a small scale and, with the exception of Nairobi and a handful of other cities, few homeowners possess more than a couple of properties (Amis, 1996; Huchzermeyer, 2007). Owner-landlords also tend to operate outside the legal framework when it comes to renting; few offer contracts or adhere to the rules on rent increases and evictions (UN-Habitat, 2003).

## CONCLUSIONS AND LESSONS FOR LATIN AMERICA AND THE CARIBBEAN

The cases reviewed in this chapter offer important lessons for the LAC region. Obviously, these lessons have to take consider the region's particular characteristics. First, most Latin American cities have no legacy of public housing on the massive scale seen in China or the former Soviet Union. Second, the urban population is still growing at a similar rate to that seen in regions such as Africa and large parts of Asia, which differentiates it from Europe and former Soviet-bloc countries, where population growth has stalled or the population is declining. Third, property rights are typically weaker than in more developed countries, although there are areas of progress.

In general, experiences throughout the world show that the results in terms of housing services for the poor and the middle classes depend on

the effects of the policies aimed at supporting social housing, on homeowners who rent out their properties, and on financial and tax incentives for homeownership (mortgage interest relief, capital gains tax, and imputed rent). In many cases, respect for property rights and fulfillment of contracts enable the market to meet the needs of middle- and high-income groups. Housing provision for the poor, however, continues to be a problem that requires some sort of government intervention. In most cases, subsidies are granted for social rental housing. The most successful programs in Germany, the Netherlands, and Switzerland fuse support for the poor with assistance to middle-income households to ensure a diverse spatial mix of social groups.

In the LAC region, as in most countries with market economies, a large part of the population seems to believe that being a homeowner is better than being a tenant. Unless people are planning to stay in a place only for a short time, they tend to prefer homeownership. Although some arguments in favor of homeownership assert that it is beneficial to society and therefore government subsidies are justified, its critics suggest that exclusively encouraging homeownership is regressive and gives rise to property speculation. The question, therefore, is how to encourage homeownership without reaching the extremes that create inequality and skyrocketing housing prices.

Some of the incentives that favor homeownership seem reasonable. For example, facilitating financing for housing is a sensible option, with two exceptions. First, financing has to be moderate to avoid excessive incentives and relaxation of the requirements for accessing a loan. The case of the United States is indicative in this respect, as it demonstrates how a policy that is excessive in terms of incentives and lax in requirements can lead to speculation and investment in housing that goes beyond families' capacity to pay. Second, these supports should be balanced by other similar subsidies to facilitate investment in rental housing, as occurs in Germany and the Netherlands, in such a way that housing policy remains neutral when it comes to choice of tenure.

Social housing provision, whether for rent or for sale, is problematic in nearly all parts of the world. The regulation of minimum housing standards (such as living space per person, and so on), rent controls, and delays in the repossession process often create a context in which private investors are reluctant to enter the social housing market unless there are public subsidies. Finding the right combination of regulations and fiscally sustainable subsidies—even including direct public provision—has turned out



to be difficult especially when the aim is to build compact and affordable housing.

Social housing policies should be broadened to include other alternatives and, above all, they must be reviewed from the standpoint of financial management to ensure they are sustainable. Likewise, enforcement of regulations on land use, contracts, and property rights is vital, as the successful cases described in this chapter demonstrate. The LAC region faces the dual challenge of improving the legal framework that regulates urban real estate and creating fiscally responsible opportunities so that less well-off families can also access housing services. Within this framework, rental housing can be part of a more fair, sustainable, and flexible system that better satisfies the region's needs.

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## **PART II**

Rentals in the Region: from  
a Regulated Market to  
Dynamic Growth





# Housing Policies and Rent Regulation in Argentina

*Eduardo Reese, Florencia Almansi, Julieta del Valle, and Andrés Juan*

## INTRODUCTION

This chapter presents an empirical analysis of the most significant aspects of the functioning of the urban rental housing market for middle- and low-income sectors in Argentina. The case study centers on the country's two major urban conglomerations: Buenos Aires and Rosario.<sup>1</sup>

Public housing policies have traditionally favored the construction of new, completely finished (key-in-hand) homes, built by construction companies for private ownership, as opposed to other options available both in types of housing solutions and in forms of property holding. The strong influence of the construction sector on economic activity and employment, as well as an ingrained culture of homeownership that is shared by the vast majority of the population, may explain the preference for the construction of new units.

Moreover, since 2003, the real estate market in Argentina has been highly dynamic, while the possibilities for the poor to acquire land or housing have worsened. The change in macroeconomic conditions, coupled with complementary measures adopted to stimulate the domestic market, resulted in a significant economic revival and a gradual resurgence

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<sup>1</sup> Studies of Buenos Aires centered on a comparative analysis of the Autonomous City (CABA) and the 24 municipalities that are part of the metropolitan conurbation, or Greater Buenos Aires (GBA). The quantitative analysis of Rosario addressed only partial aspects due to the lack of disaggregated information because of the way that census data are processed.

of a wide array of productive sectors. The high rate of growth affected almost all of the country's urban centers, creating strong demand for new construction (for all activities and in all categories) and consequently for development. This, in turn, explains the strong expansion in the construction sector, which has a multiplier effect on economic growth,<sup>2</sup> and the aforementioned increase in demand for land for new uses and activities.

The changes that took place during this period also affected the role of the State, which resumed an active role in various policies, particularly investment in public works. Public investment in infrastructure reached 3.3 percent of GDP in 2010, and economic activity indices show that it has multiplied by 40 since 2002. The combination of public works carried out by the public sector in the last nine years has had a huge impact on the territorial structure of the cities, especially the medium-sized and large ones, and consequently on the dynamics of construction. In practice, this has led to a sharp rise in the value of urban land and the transfer of significant capital gains to landowners. It also produced higher speculative expectations and a significant hike in prices.

Although real estate has always played an important role in Argentina as a store of value in the face of economic uncertainty, following the Argentine crisis of 2001–02, this trend became even more widespread and was further accentuated by the international financial crisis of 2009. Actors in the real estate sector constantly reinforce the message that real estate investments are considered safe and strong in Argentina.<sup>3</sup> Consequently, in the last 10 years real estate enjoyed high demand, which pushed market prices steadily upward.

Concurrently with these processes, the Permanent Household Survey (Encuesta Permanente de Hogares) for the main urban centers in Argentina

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<sup>2</sup> The construction sector contributes approximately 15 percent of GDP and has been one of the main positive variables in job growth following the 2001 crisis. According to the quarterly contextual analysis provided by the Argentine University of Business School of Economics (Instituto de Economía de la Universidad Argentina de la Empresa, or UADE), in the first half of 2006, growth in the construction sector was 21.2 percent, double the figure in the overall economy compared to the same period in 2005 (see: [www.uade.edu.ar](http://www.uade.edu.ar)).

<sup>3</sup> A good example of this is the Real Estate Enterprise Corporation (Corporación de Empresas Inmobiliarias de Rosario, or CEIR): "For the average Argentine, bricks and mortar are the best investment in times of crisis and uncertainty. This became very clear after 2002 when the real estate and construction sectors were the first to be revived, leading the miraculous recovery of an economy in ruins (...). In view of this, in early 2009, the CEIR began the task of demonstrating, with reliable and accurate information, that the real estate market, in the context of financial crisis, whether external or self-generated, is the most suitable area for savings and increasing capital goods."

revealed that average monthly family income, measured in dollars, rose considerably during the period 2001–12, reaching an average annual growth rate of 18 percent. Measured in constant prices, average annual growth was 13 percent. In the Autonomous City of Buenos Aires (Ciudad Autónoma de Buenos Aires, or CABA) the increases were 15 and 10 percent, in Greater Buenos Aires (Gran Buenos Aires, or GBA) 19 and 15 percent, in Greater Rosario (Gran Rosario) 20 and 16 percent, and in Greater Córdoba (Gran Córdoba) 18 and 13 percent, respectively, in all cases measured in dollars and at constant prices.<sup>4</sup> Within this framework of renewed purchasing power among the medium-high and high-income sectors, investment in real estate became the preferred mechanism for savings and preservation of value. This explains the deepening of a process that had begun in the 1990s: the strong concentration in these sectors of the supply of high-end real estate products.

Finally, the reduction in mortgage financing, which in the last 10 years has particularly affected the middle- and middle-low income groups with some savings capacity, explains the real estate market concentration in the higher-income sector. The upward trend in mortgage loans available for home buying in Argentina crashed in 2002, following the “pesification” of loans that had previously been granted in dollars, and fell from US\$10 billion to US\$2 billion. Although still a long way from reaching the levels seen in 2000, in the 2005–11 period, the stock of these kinds of loans posted an average annual growth of 11.7 percent, a figure that is close to the 12.5 percent growth registered in the period 1994–2000.<sup>5</sup>

All of these factors and dynamics provide limited access for the lower-income sectors to a decent, habitable dwelling in Argentina, either through legal means via the market or through public policies. In this context, expanding and strengthening the rental market could be a significant way to satisfy a part of the demand for housing among various segments of the country’s social strata. Over the last decade, this form of tenure has undergone significant expansion. Although this growth has not occurred in response to overt public policy in this area, it does reveal certain elements that may be useful in the future.

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<sup>4</sup> These increases should be understood in the context of expanding production and growing employment, which reduced the unemployment rate to 7.8 percent according to the Permanent Household Survey of the last quarter of 2011 (INDEC, 2011).

<sup>5</sup> According to Central Bank data, the share of mortgage loans in the country’s economy amounts to less than 2 percent of GDP.

Strengthening the rental market based on a legal regulatory framework and on public policy measures focused on promoting renting would expand the ways that new families and the poor can access a decent home. It would help reduce the housing deficit, particularly with regard to overcrowding, and would promote the use of unoccupied properties, especially those located in well-equipped urban areas.

Developing the rental market would also contribute to a construction policy based on moderate interurban densification, taking advantage of location while reducing speculative activity by real estate agencies on the urban periphery. It would also reduce demand in the informal market and channel investment to this sector, characterized by highly dispersed small and medium savers, with a greater degree of security.

## OWNERSHIP STRUCTURE

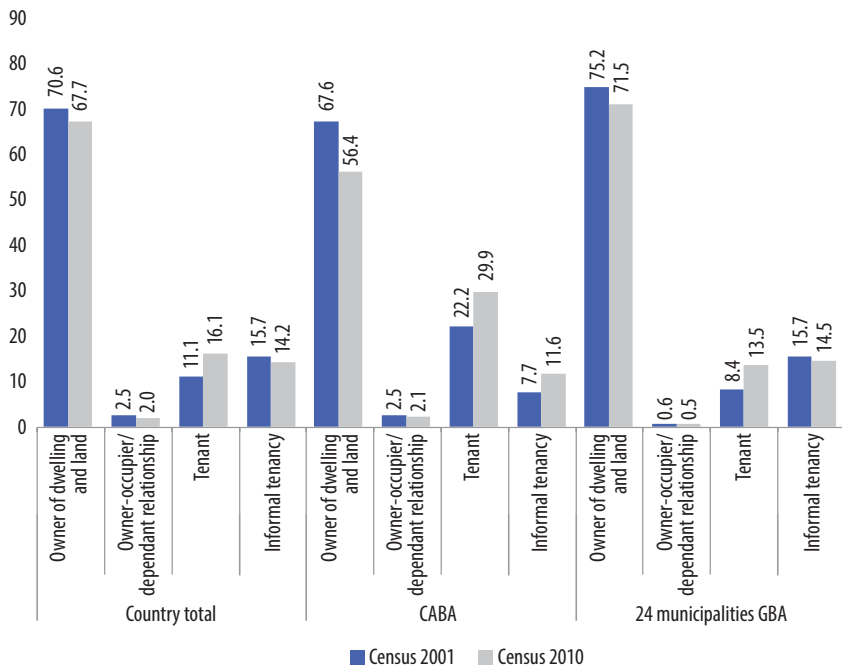
According to data from the most recent National Population and Housing Census (Censo Nacional de Población y Vivienda), in 2010 there were 12,171,675 households in Argentina, of which 8,240,293 were homeowners and 1,960,676 were tenants. These figures represent a level of homeownership and rental tenancy of 67.7 and 16.1 percent, respectively (INDEC, 2010).

An analysis of the intercensal period of 2001–10 allows several significant dynamics related to the structure and evolution of property ownership to be identified (Figure 4.1). First, formally owned properties constitute the largest category in the jurisdictions studied; however, between censuses, their share of the total fell slightly at the national level and in the GBA municipalities, recording a drop of 11 percentage points in the capital alone.

The tenant category practically doubled in the municipalities of GBA, with slightly lower growth in the country as a whole and in the capital. Thus, between 2001 and 2010, some 839,000 households were incorporated into the rental market at the national level, of which 116,000 were in CABA and 196,000 were in the municipalities of GBA. This means that the Metropolitan Area of Buenos Aires generated more than 37 percent of the new rental households in the decade. Similarly, whereas in 2001 tenants made up 11.1 percent of property dwellers in the country as a whole, by 2010 rental tenancy had grown to 16.1 percent. Renting also reached 30 percent in the CABA, 21.4 percent in Rosario, and 13.5 percent in the metropolitan municipalities.

The significant growth of rental households in the most recent intercensal period even reversed the historical negative trend that the figures

**FIGURE 4.1** Relative Variation in Ownership Situations, 2001-10  
(in percent)

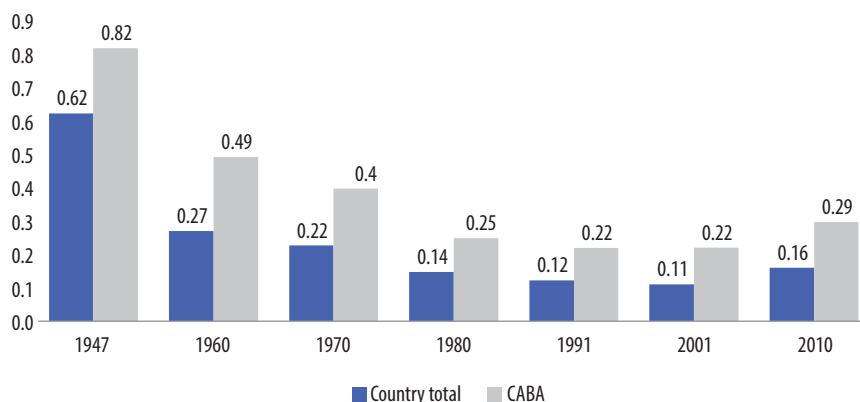


Source: Authors' elaboration based on INDEC (2001 and 2010).

had shown since the 1940s in Argentina, traditionally a country of home-owners (Figure 4.2).

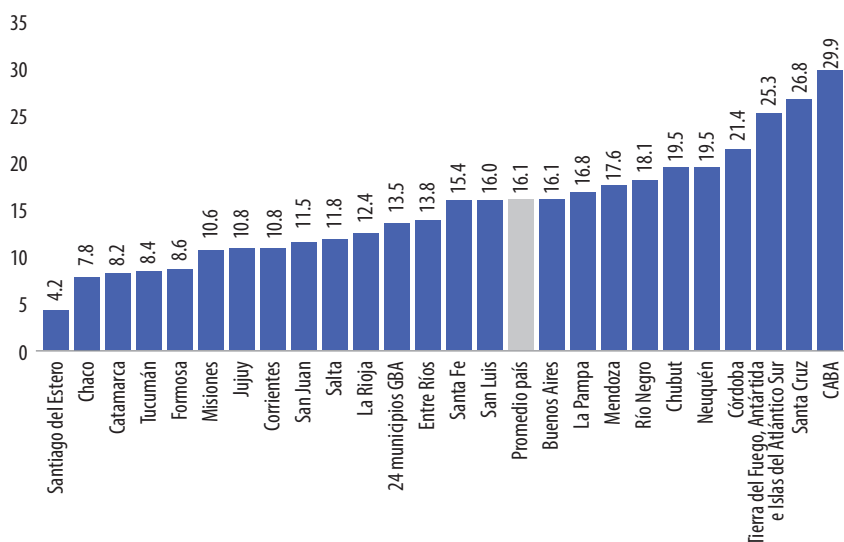
The number of households that owned property informally recorded a slight drop in both the national average and the municipalities of GBA. By contrast, informality rose sharply in the CABA, from 7.7 percent in 2001 to 11.6 percent in 2010.

Figure 4.3 shows the incidence of renting by province. Whereas the southern districts, together with Cordoba and the CABA, have the highest percentages of rental tenancy, the central and northern provinces have the lowest. This situation of marked regional segmentation can be explained by socioeconomic structure of each area and its relationship to the housing markets that developed in it. The northern provinces have the weakest economies and the highest rates of poverty in the country, whereas the southern provinces, Cordoba, and the City of Buenos Aires, have more dynamic productive structures and a greater demand from a floating population, who are less inclined to become property owners.

**FIGURE 4.2** Evolution of Rental Households in Argentina and the CABA according to National Censuses (in percent)

Source: Authors' elaboration based on the Urban Development and Housing Sub-secretariat (Subsecretaría de Desarrollo Urbano y Vivienda) (2010), Gazzoli (2006), and INDEC (2010).

At the same time, over the last 10 years there have been a series of changes, both at the country level and in the cities included in this study, that are significant in explaining the current scenario. First, census data reveal changes in relation to household composition and size, with a

**FIGURE 4.3** Rental Tenancy by Province (in percent)

Source: Authors' elaboration based on INDEC (2010).

reduction in the average number of persons per household (Table 4.1). As can be observed in all jurisdictions, the growth in households surpassed the increase in the population, mainly in the CABA, where the growth in the number of households was triple that of the population.

Second, the growth in the number of households was greater than the increase in the number of occupied dwellings, especially in the capital city. Nationally, some 54,800 families per year were faced with the sole option of sharing a home with another family, which explains why the increase in the number of situations of family cohabitation has been one of the principal housing problems of the last decade.

Third, despite the increase in the total number of dwellings, the supply of unoccupied dwellings declined in Buenos Aires and only increased by 7.1

**TABLE 4.1** Recent Evolution of Population, Households, Dwellings, Households in Dwellings and Households without Dwellings, 2001-10

	Census 2001	Census 2010	Absolute variation	Relative variation (percent)	Average absolute yearly growth
<b>Country Total</b>					
Population	36,260,130	40,117,096	3,856,966	10.6%	428,552
Households	10,073,625	12,171,675	2,098,050	20.8%	233,117
Total dwellings	12,041,584	13,812,125	1,770,541	14.7%	196,727
Occupied dwellings	9,712,661	11,317,507	1,604,846	16.5%	178,316
Unoccupied dwellings	2,328,923	2,494,618	165,695	7.1%	18,411
Households in decent homes, without overcrowding	6,619,949 (65.7%)	7,875,280 (64.7%)	1,255,331	19.0%	139,481
Households with housing deficit	3,453,676 (34.3%)	4,296,395 (35.3%)	842,719	24.4%	93,635
<b>Autonomous City of Buenos Aires (CABA)</b>					
Population	2,776,138	2,890,151	114,013	4.1%	12,668
Households	1,024,231	1,150,134	125,903	12.3%	13,989
Total dwellings	1,350,154	1,425,840	75,686	5.6%	8,410
Occupied dwellings	1,008,867	1,082,998	74,131	7.3%	8,237

(continued on next page)

**TABLE 4.1** Recent Evolution of Population, Households, Dwellings, Households in Dwellings and Households without Dwellings, 2001-10 (*continued*)

	Census 2001	Census 2010	Absolute variation	Relative variation (percent)	Average absolute yearly growth
Unoccupied dwellings	341,287	340,975	-312	-0.1%	-35
Households in decent homes, without overcrowding	879,437 (85.9%)	991,086 (86.2%)	111,649	12.7%	12,405
Households with housing deficit	144,794 (14.1%)	227,676 (19.8%)	82,882	57.2%	9,209
<b>24 municipalities of Greater Buenos Aires (GBA)</b>					
Population	8,684,437	9,916,715	1,232,278	14.2%	136,920
Households	2,384,682	2,934,373	549,691	23.1%	61,077
Total dwellings	2,638,001	2,998,867	360,866	13.7%	40,096
Occupied dwellings	2,272,559	2,653,288	380,729	16.8%	42,303
Unoccupied dwellings	365,442	344,006	-21,436	-5.9%	-2,382
Households in decent homes, without overcrowding	1,507,344 (63.2%)	1,774,277 (60.5%)	266,933	17.7%	29,659
Households with housing deficit	877,338 (36.8%)	1,160,096 (39.5%)	282,758	32.2%	31,418

Source: Authors' elaboration based on INDEC (2001 and 2010).

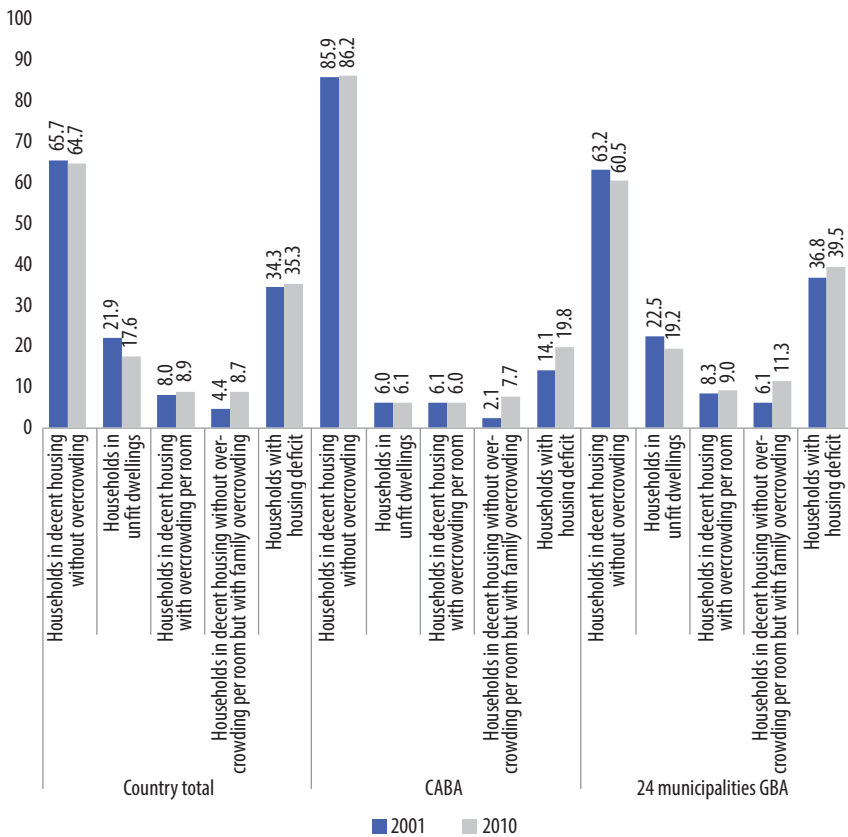
Note: The category "Households with housing deficit" includes households in unfit dwellings that are repairable, households in unfit irreparable dwellings, households in decent homes but with overcrowding per room, and households in decent homes without overcrowding per room but with family overcrowding.

percent in the country as a whole. In any case, the percentage of unoccupied dwellings is still considered to be very high by Latin American standards (18.1 percent in the country, 24 percent in the CABA, and 11.5 percent in the metropolitan municipalities).

Furthermore, according to Figure 4.4, in the latest intercensal period the percentage of households suffering from housing deficit rose only slightly, except in the CABA, which recorded an increase of five percentage points, although with substantial changes in its internal composition. Thus,



**FIGURE 4.4** Comparison of Households with Housing Deficit in the 2001 and 2010 Censuses (in percent)



Source: Authors' elaboration based on INDEC (2001 and 2010).

there has been a reduction in the significance of the categories of quality and physical condition of the buildings and an increase in the number of households living in suitable but overcrowded dwellings, especially in those where more than one family is forced to cohabit. These data seem to suggest that although the physical characteristics of Argentina's housing stock improved somewhat, living conditions worsened.

## THE RENTAL MARKET

The rental market in Argentine cities is understood to be a submarket considered lower down on the hierarchy, in which the tenant's status is almost always

seen as temporary and in transit toward homeownership. Homeownership has traditionally been the ideal form of property holding, particularly for the middle classes, who see it as an element of class identity. In other words, beyond the sense of security of tenure or safeguarding of capital, homeownership has symbolic cultural value that connotes a certain social standing.

The interviews carried out for this study show that most tenants perceive renting as an unpleasant and transitory moment on their family journey whose purpose is to arrive,<sup>6</sup> sooner or later, at formal ownership (or informal possession) of a property that provides security of tenure and the possibility of capitalizing on their efforts in the future.

Representatives of both the supply and the demand sides agree that, compared to security of tenure or ownership, renting is an unstable and insecure way to live, and becomes more insecure the lower the household income and the greater the precariousness of their employment. The interviews also revealed that owning a property affords the family some protection over the medium term from a possible uncertain future. This perception has been consolidated in the general social imaginary in Argentina by a historical process of abrupt political and socioeconomic changes, which has been etched in the collective memory. Thus, various social sectors have a marked preference for ownership, even when attaining it requires enormous personal and family sacrifices.

Moreover, public policies were traditionally founded on an imaginary of property ownership as a symbol of virtue. All government actions and discourse on urban development and/or social housing have been geared toward a single goal: to enable all beneficiaries of official plans and programs to be homeowners.<sup>7</sup>

According to those consulted,<sup>8</sup> the vast majority of Argentine landlords (whether formal owners or possessors of property without legal

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<sup>6</sup> It has also been perceived in various cases as a form of substandard housing.

<sup>7</sup> The official discourse that property ownership is a tool for building a society based on “healthy” families has been a recurrent one throughout Argentine history. Very recently, when social housing deeds were distributed during a ceremony at the Almirante Brown Municipality, the Governor of the Province of Buenos Aires reaffirmed that it was a “priority of his government to consolidate and strengthen the basic institution of society, which is the family, by distributing deeds.” Public Communication Secretariat (Secretaría de Comunicación Pública), 2012.

<sup>8</sup> The qualitative information is the result of several working meetings and interviews conducted with the principal agents who intervene and have interests in the residential rental market in Buenos Aires and Rosario.

deeds) are small and medium rentiers without a formal business structure, and they hold on average between one and eight properties. For them, renting out property is a way to increase and/or complement their income, via a system that serves as both a reserve of value for their investments and a form of equity insurance for their descendants.<sup>9</sup>

A smaller group is made up of families who rent out small rooms built in available free space in their own residences, located in either formal or informal neighborhoods, or who directly let rooms in their own homes. The logic is similar to the case described above, although in this case, rent is part of their daily struggle for survival and represents a significant part of their relatively low monthly earnings. These groups' share of the rental market, therefore, does not correspond solely to calculations of economic profitability, but rather to a combination of additional factors.<sup>10</sup>

Finally, one group of landlords views renting as a profession and as their sole source of income. The majority opinion of those consulted is that this group is highly heterogeneous and comprises landlords with blocks of rented apartments, owners of so-called hotels or boarding houses, and families who are owners and managers of a large number of properties. From a social standpoint, renting fundamentally involves two large groups of tenants: first, middle-class sectors who live in good-quality apartments or houses, especially in the big cities, where young households with formal incomes predominate, and second, lower-income households—made up of informal workers or those who earn a large percentage of their income informally and who lack guarantees—who rent rooms in hotels, boarding

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<sup>9</sup> Representatives of the demand and the supply sides have the same perception regarding the following profile of the owner-landlord: "It's a very dispersed market (...). Typically, an owner has one or two properties, from their own savings or maybe they inherited something or because they got together with a few others to buy some property" (Interview with the Real Estate Enterprise Corporation). "There's a bit of everything, like for example the person who had a business, it went well, they bought three properties and with the proceeds their mother can live or they can supplement their pension" (Interview with the Argentine Tenants Union, or Unión de Inquilinos Argentinos).

<sup>10</sup> One of the owners interviewed explained some of the characteristics of this type of rental: "We don't sign a contract or anything at all. That's why I always rent to people I know or who've been recommended and, thank God, we've never had any trouble up till now. (...) My husband is a bricklayer, I work by the hour and we just don't earn enough to get by on; that's why we refurbished the part underneath the house (what used to be the garage and the dining room) and we made bedrooms to rent out" (Interview with an owner).

**TABLE 4.2** Degree of Formality in Property Holding and in Rental Contracts

Degree of formality of the rental contract	Level of formality in property holding		
	Type of formal rental operations in the city	Type of informal rental operations in the city	
	Medium- to high-income households	Low-income households	Low-income households
Formal rental market	Rental of houses and apartments with registered contracts	—	—
Intermediate situations market	Rental of houses and apartments without registered contracts	Rental of rooms in hotels, boarding houses, and tenements	—
		Rental of houses and apartments without registered contracts	
Informal rental market	Rental of houses and apartments without written contracts	Rental of rooms, houses, and apartments without written contracts in popular neighborhoods	Rental of houses and apartments in villas and settlements
		Rental of rooms in hotels, boarding houses, and tenements and in other properties (not built for residential use)	Rental of houses and apartments in villas, settlements, and squatted properties

Source: Authors' elaboration.

houses, or tenements in the central areas of the city or rooms in the *villas*, settlements, or poor neighborhoods generally on the outskirts of cities.

The formal rental submarket in Argentina is regulated by Law 23.091 of 1984. This law, like the previous legislation under the military government (Law 21.342/76 on Regularization of Urban Leaseholds [Normalización de Locaciones Urbanas]), left the pricing of transactions up to the free market of supply and demand but introduced safeguards for owner-landlords and measures to promote the construction of rental housing units.<sup>11</sup>

<sup>11</sup> Still in force, these stimulative measures failed to have an effect for various reasons.

Rental housing gives rise to a series of situations of complex situations, which can be generally classified in the categories set out in Table 4.2 according to the degree of formality of the type of rental contract and tenure.

It is significant that the formal market and the intermediate situations market target mainly low-income families and immigrants, since both groups are affected by greater job instability and lower wages, the impossibility of presenting a wage receipt as proof of income, and the lack of sufficient guarantees (Echevarría and Gunther, 2006; Vacatello, 1999). In turn, the formal market focuses on high- and middle-income households. The following subsection describes the characteristics of each situation.

## Formal Rental Market

### *Renting Houses and Apartments using Registered Contracts*

Registered contracts are contracts entered into by formal property owners who meet to the letter the criteria stipulated in Law 23.091 and whose documentation is registered with the Federal Authority for Public Revenues (Autoridad Federal de Ingresos Públicos). Only households with the capacity to offer the formal guarantees required in the contract—generally, the property of a third party in the same urban center, which serves as collateral—and who have the means to meet the deposit requirement for renting the dwelling, which generally amounts to four months' rent paid in advance, can access this category. In these cases, almost all of the rental operations are conducted through real estate leasing agencies.

## Intermediate Situations Market

### *Renting Houses and Apartments using Non-registered Contracts for High- and Middle-income Sectors*

Non-registered contracts are contracts made by formal landlords who, while complying with the criteria set out in Law 23.091, tend not to register the documentation with the tax authorities to avoid paying taxes. The information received from actors in the market implies that the rate of tax evasion in the rental market is very high. Households in circumstances similar to those in the previous category acquire homes in this category, and property leasing agencies are frequently intermediaries in these operations.

## Renting Houses and Apartments using Non-registered Contracts for Low-income Sectors

This category includes agreements made by formal property owners who enter into formal, signed—albeit non-registered—contracts with lower-income tenants who generally fail to meet the requirements (in terms of price, guarantee, and other conditions) of the previous category. This is the most common renting modality in the intermediate and peripheral neighborhoods of large urban centers. The operation is generally carried out by direct agreement between the owner and the tenant, and the conditions of the dwelling are often substandard.

### *Renting Rooms in Hotels, Boarding Houses, and Tenements*

Hotels, boarding houses, and tenements are buildings constructed or adapted for the purpose of renting rooms with shared services for low-income households, and are located in the central and periurban areas of large cities. In most cases, construction is substandard and agreements are informal, although local governments recognize these rentals formally as a category of accommodation.

## The Informal Rental Market

### *Renting Houses and Apartments without Written Contracts*

This category includes cases in which the contractual relationship is not documented in writing and covers a wide spectrum of rentals, ranging from houses and apartments to single rooms in dwellings. According to those consulted, this model is established between people who enjoy a certain level of mutual trust or through recommendations of acquaintances in the lower-income sectors (renting to relatives, friends, or acquaintances) and the middle-income sectors (rentals to students, corporate employees, or foreign families that are, in many cases, of a temporary nature).

### *Renting Rooms in Hotels, Boarding Houses, or Tenements and in Various Other Properties Designed for Human Habitation*

The previous description is also valid for this category, applicable to hotels, boarding houses, and tenements that fail to meet the conditions established by the regulations on building or renting. Furthermore, this type of arrangement includes cases where the legal owner of a building that was not built for residential purposes (usually warehouses or large commercial

premises) subdivides the covered space into rooms, disregarding regulations and safety considerations, for renting to migrant workers, whether from Argentina or other countries, in which case they are almost always illegal immigrants.

### *Renting Houses, Apartments, and Rooms in Villas, Settlements, and Squats*

This last category includes all the cases of informal contractual relationships in property held in a situation of irregular tenure.

## **The Supply**

With respect to supply, business and landlords' organizations are much more structured than the organizations that seek to protect tenants' rights. In some cases, they have offices in various cities in the interior of the country, they operate within a network such as the Argentine Chamber of Real Estate (Cámara Inmobiliaria Argentina), and they wield strong influence in both executive and legislative circles.

Most of the formal rental market is composed of units belonging to small landlords. These landlords are defenders of property rights and renting, since any conflict with tenants (such as rent arrears) directly affects their monthly income. Paradoxically, the big players usually have a more flexible commercial relationship with regard to pricing and requirements imposed on their tenants.

Likewise, according to the information gathered, real estate agencies carry out three-quarters of the rental operations in the formal market in Argentina. The owners hand over the property on consignment after signing an exclusivity agreement with the agency. The contract stipulates the conditions and the term of the agreement, the price range for the rent, and the agency's fee.

In accordance with the contract, the real estate agency is responsible for publicizing the property's availability, showing it to potential tenants, running background checks, collecting guarantees, and selecting tenants. In exchange for these services, the agency bills the tenant, generally an amount equal to one or two months' rent, a commission amounting to approximately 5 to 7 percent of the total amount of the contract. The owner, in turn, is exempt from paying this fee. Once selected, the tenant signs the contract and pays a deposit equal to one month's rent per year of the contract plus one month in advance. The deposit is the guarantee that

protects the owner until the end of the contract, to ensure that the dwelling is returned in perfect condition and debt-free.

The guarantee is a safeguard required by owners against failure to pay the rent. In general, another property is required as collateral, preferably located in the same city as the rented accommodation and, in some cases, a double guarantee is needed. This is one of the most significant obstacles for a large number of households, and it has given rise to a secondary market in buying and selling real estate guarantees. Those consulted for this study estimated that 1 out of every 10 guarantees presented to real estate agencies has been purchased.

To remove this significant obstacle to signing a rental contract, certain financial entities have designed guarantee insurance policies, which come in various models. However, because of their cost, they are concentrated in the middle-income and university student sectors in large conurbations, which commonly lack property-backed guarantees in the city in which they wish to rent.

In most cases, real estate agencies also collect the rent, for which they charge a monthly fee of between 5 and 10 percent of the cost of the rental for the same period. Medium-sized agencies in the CABA manage around 400 rentals per month, and several of them have recently become small and medium-sized enterprises, with a view to building their own small and medium-sized apartment blocks for rental housing.

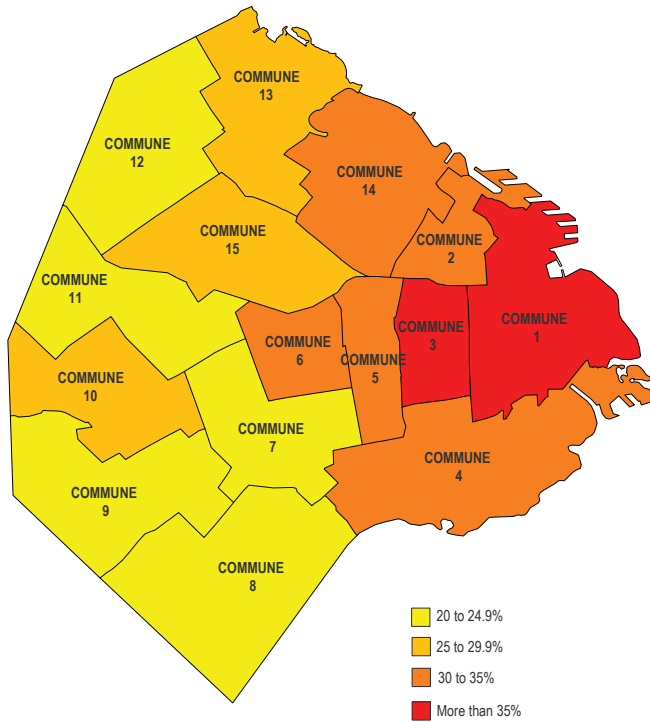
### Spatial Localization and Quality

With regard to spatial localization (Map 4.1), in the urban sectors of the CABA, there is a clearly noticeable distributional pattern of rented homes. They tend to be located in the central communes and on the outskirts of the city. By contrast, Map 4.2 shows that privately owned property is more prevalent toward the periphery.

Figure 4.5 shows the information relating to the distribution of the different forms of tenure according to quality of dwelling. It reveals that, during a process of significant rental market expansion that took place between 2001 and 2010, the share of households that rented decent homes remained very high (in the country as a whole and in the CABA, it increased by three percentage points with regard to 2001), compared to those that rented poorly constructed units. This appears to indicate that the rental market generally offers high-quality units and is concentrated in the medium- and high-income sectors of society.



**MAP 4.1** Distribution of Rented Homes per Commune in the CABA, 2011 (percentage)

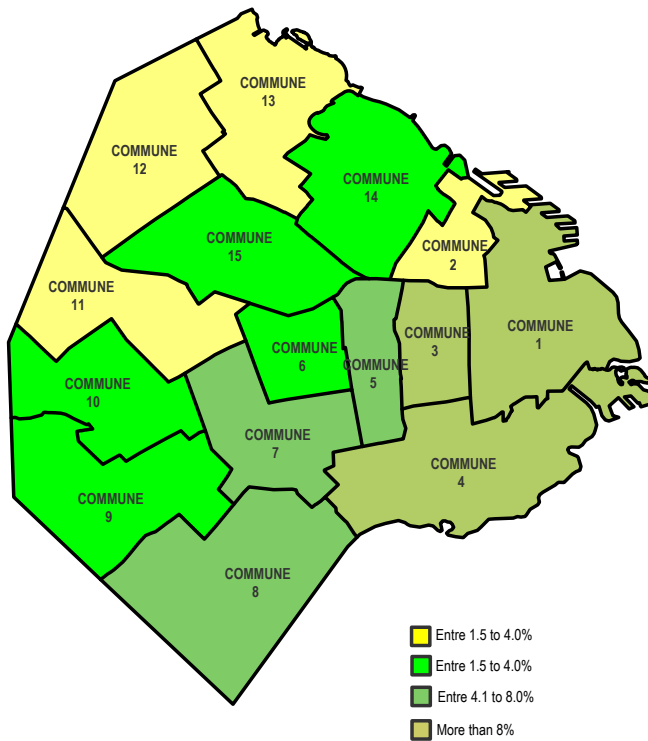


Source: DGEyC-GCBA (2011).

Similarly, the number of households that rented dwellings unfit for habitation grew less rapidly than the number of households renting high-quality dwellings (except for households that rented dwellings that were unfit yet deemed reparable in metropolitan municipalities, which increased by 123.1 percent) and have therefore reduced their total share in the rental market over the last 10 years. Specifically, there has been a notable reduction in the number of households renting irreparable dwellings and those holding property irregularly in this same category. This can be explained by the significant improvement in the quality of the housing stock, which was the result of rising incomes for the poor and the expansion of public social housing programs.

To further disaggregate the composition of the rental submarket for lower-income households, which is largely associated with the informal

**MAP 4.2** Relationship between Households in Rooms in Tenements, Hotels, and Boarding Houses and Total Households by Commune, 2010

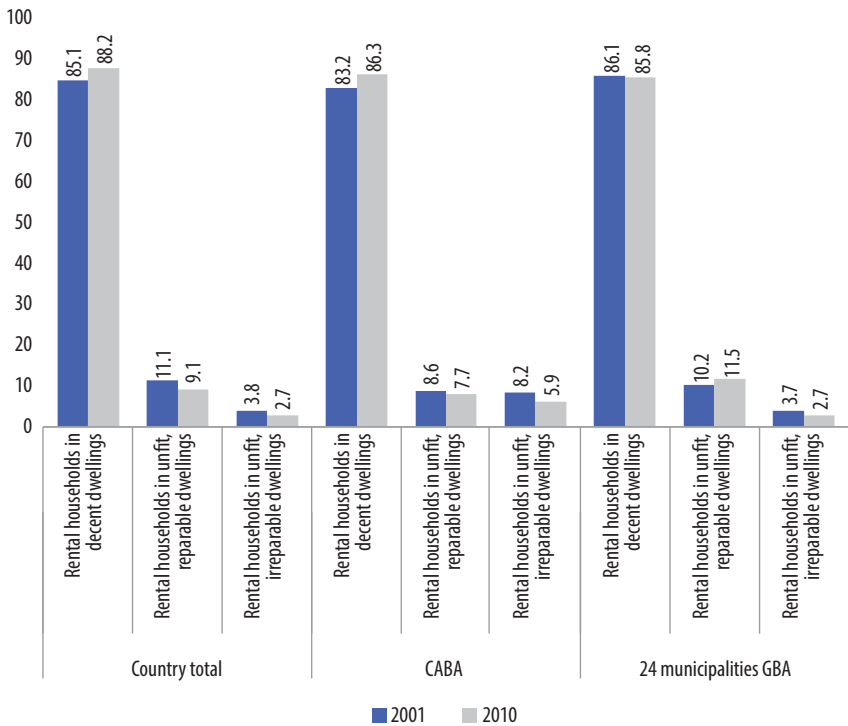


Source: Authors' elaboration based on 2010 Census.

sector, Table 4.3 shows the intercensal evolution of rental households according to the types of unfit accommodations.

In the context of the lower share of households renting poor-quality accommodations, the metropolitan area has seen a significant increase in households renting so-called class B houses (casas B).<sup>12</sup> These rentals increased by 193 percent in the CABA and 127 percent in the municipalities. This reveals the dynamism of the informal rental market in poor

<sup>12</sup> A class B house has at least one of the following characteristics: it has an earthen floor or loose tiles or other material (there is no ceramic, tiled, mosaic, wooden, carpeted, cement, or brick flooring); it lacks a piped water supply in the interior of the dwelling; or it lacks a flush toilet. The rest of the houses are considered fit for habitation and are considered as class A houses.

**FIGURE 4.5** Rental Households According to Housing Quality, 2001 and 2010 (percentage)

Source: Authors' elaboration based on INDEC (2001 and 2010)

neighborhoods throughout the decade. Simultaneously, the share of households that rented other types of substandard housing increased slightly compared to previous figures and to the total number of rental households, with the exception of rooms rented in tenements located in the Buenos Aires municipalities, which increased by nearly 114 percent.

With regard to degrees of social accessibility of the rental market in the cities covered in this study, an analysis of the following tables reveals that toward the end of 2011 in the CABA and in Rosario, the households in decile five had sufficient income to formally rent a small unit with two rooms in the least expensive neighborhood, whereas to aspire to an apartment with three rooms in an identical location, the family would have to be in decile six. In the metropolitan municipalities, the situation is more complex, since incomes are lower than they are in CABA and the price of rent

**TABLE 4.3** Variation in Rental Households in Decent Housing and in Types of Unfit Housing

		Census 2001	Census 2010	Absolute variation 2001-10	Relative variation 2001-10
<b>Total country</b>					
Rental households		1,122,208	1,960,676	838,468	74.7%
Rental households in decent housing		954,487 (85.1%)	1,729,357 (88.2%)	774,870	81.2%
Rental households in unfit dwellings	Class B houses	67,735 (6.0%)	104,364 (5.3%)	36,629	54.1%
	Shacks and huts	15,359 (1.4%)	19,774 (1.0%)	4,415	28.7%
	Rooms in tenements	57,115 (5.1%)	74,665 (3.8%)	17,550	30.7%
	Room in hotel or boarding house	21,540 (1.9%)	25,637 (1.3%)	4,097	19.0%
	Premises not built for residential purpose and mobile homes	5,972 (0.5%)	6,909 (0.4%)	937	15.7%
<b>CABA</b>					
Rental households		227,545	34,443	115,898	50.9%
Rental households in decent housing		189,282 (83.2%)	296,536 (86.3%)	107,254	56.7%
Rental households in unfit dwellings	Class B houses	1,653 (0.7%)	4,843 (1.4%)	3,190	193.0%
	Shacks and huts	864 (0.4%)	541 (0.2%)	-323	-37.4%
	Rooms in tenements	17,947 (7.9%)	21,699 (6.3%)	3,752	20.9%
	Room in hotel or boarding house	16,718 (7.3%)	18,783 (5.5%)	2,065	12.4%
	Premises not built for residential purpose and mobile homes	1,111 (0.5%)	1,041 (0.3%)	-70	-6.3%
<b>24 Municipalities GBA</b>					
Rental households		201,186	397,254	196,068	97.5%

(continued on next page)

**TABLE 4.3** Variation in Rental Households in Decent Housing and in Types of Unfit Housing (*continued*)

		Census 2001	Census 2010	Absolute variation 2001-10	Relative variation 2001-10
Rental households in decent housing		173,259 (86.1%)	340,943 (85.8%)	167,684	96.8%
Rental households in unfit dwellings	Class B houses	13,892 (6.9%)	31,614 (8.0%)	17,722	127.6%
	Shacks and huts	4,922 (2.4%)	7,027 (1.8%)	2,105	42.8%
	Rooms in tenements	6,569 (3.3%)	14,040 (3.5%)	7,471	113.7%
	Room in hotel or boarding house	1,076 (0.5%)	1,473 (0.4%)	397	36.9%
	Premises not built for residential purpose and mobile homes	1,468 (0.7%)	2,157 (0.5%)	689	46.9%

Source: Authors' elaboration based on INDEC (2001 and 2010).

falls in lower proportion. Consequently, from deciles six and seven upward, households can rent an apartment with two or three rooms in the municipalities with the lowest rent, respectively. Tables 4.4, 4.5, and 4.6 compare monthly family incomes according to income decile with the minimum, maximum, and average prices of rental properties with two or three rooms for the CABA, Greater Buenos Aires, and the city of Rosario.

### The Demand

With regard to demand, the composition and characteristics of households comprising the rental submarket in the four jurisdictions were analyzed based on the most recent information gathered from the Permanent Household Survey corresponding to the fourth quarter of 2011 (INDEC, 2011).<sup>13</sup> Among the principal findings, it was notable that approximately half

<sup>13</sup> Since the Permanent Household Survey is conducted in 31 large urban centers throughout the country, its results can be extrapolated to those of the national urban population.

**TABLE 4.4** Monthly Income, Effect on Access to Housing, and Value of Rent for Two- and Three-bedroom Apartments according to Deciles, CABA (in pesos)

Income decile	Monthly family income	Monthly spending on housing (30% of family income)	Rent for a two-room dwelling			Rent for a three-room dwelling		
			Minimum price found	Maximum price found	Average price	Minimum price found	Maximum price found	Average price
1	1,286	386						
2	2,494	748						
3	3,298	989						
4	4,289	1,287						
5	5,215	1,564						
6	6,388	1,916	1,325	2,100	1,670	1,685	3,000	2,190
7	7,903	2,371						
8	9,738	2,922						
9	12,259	3,678						
10	20,817	6,245						

Source: Authors' elaboration based on INDEC (Fourth Quarter 2011) and real estate report.

of the heads of rental households were young people between the ages of 17 and 36, and that market share decreases as head of household age increases (Figure 4.6).

In the national average and in the CABA, the size of rental households is reduced, ranging between 58 and 63 percent of the total for one- and two-person households. In the municipalities of the urban conurbation, the highest specific weight is of households with between two and four members (which coincides with the higher average size recorded by all households in those districts), and in Rosario nearly 81 percent are one- to three-person households (Figure 4.7). Beyond these differences, it is notable that the demand for rental accommodation is greater in the smaller housing units, especially one, two, and three-bedroom apartments.<sup>14</sup>

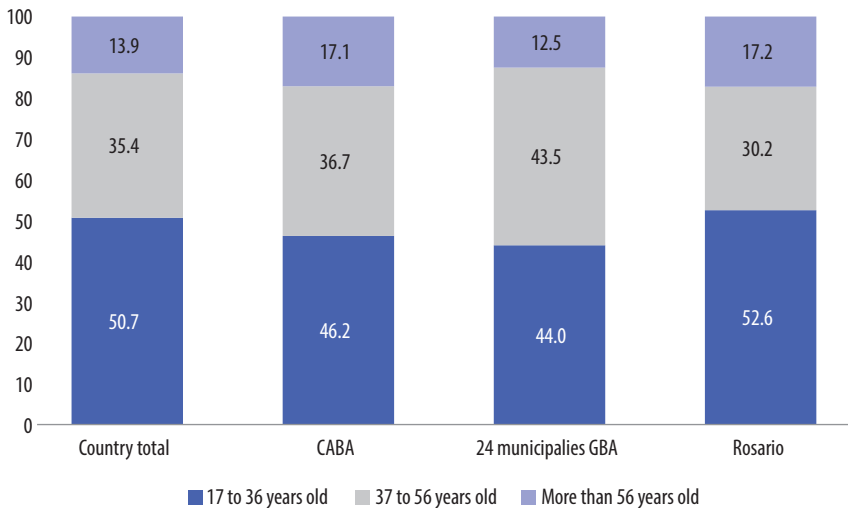
<sup>14</sup> In Argentina, a one-room apartment is a single space of approximately 30 to 36 square meters including bathroom. A two-room apartment includes a living/dining room, a bedroom, and a bathroom (with a total surface area of 45 to 50 square meters). A three-room apartment has two bedrooms, a living/dining room, and a bathroom (with a total surface area ranging from 55 to 75 square meters).

**TABLE 4.5** Monthly Income, Effect on Access to Housing, and Value of Rent for Two- and Three-bedroom Apartments according to Deciles, in 24 Municipalities of GBA (in pesos)

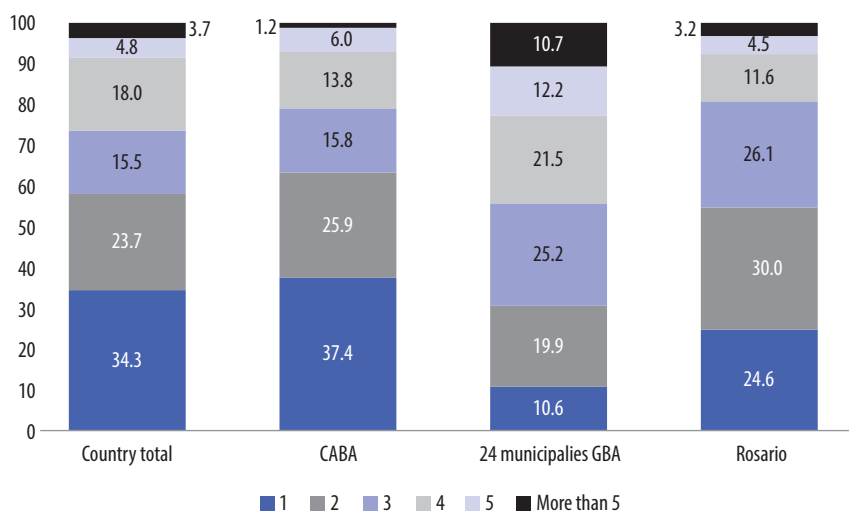
Decile group	Monthly family income	Monthly spending on housing (30% of family income)	Rent for a two-room dwelling			Rent for a three-room dwelling		
			Minimum price found	Maximum price found	Average price	Minimum price found	Maximum price found	Average price
1	1,113	334						
2	1,875	562						
3	2,597	779						
4	3,240	972						
5	3,938	1,181						
6	4,737	1,421	1,375	2,025	1,617	1,735	2,545	2,143
7	5,733	1,720						
8	6,907	2,072						
9	8,735	2,620						
10	14,677	4,403						

Source: Authors' elaboration based on INDEC (Fourth Quarter 2011) and real estate report.

**FIGURE 4.6** Quantity of Rental Households According to Age of the Head of Household, by District (in percent)



Source: Authors' elaboration based on INDEC (2011).

**FIGURE 4.7** Quantity of Rental Households According to Household Size (in percent)

Source: Authors' elaboration based on INDEC (2011).

Another characteristic of tenants is that the heads of household have relatively high educational attainment. Most have completed secondary school and have either completed or attended a university. Moreover, in all districts, the majority of tenant heads of households are employed. Only between 10 and 20 percent are inactive, and a large part of these are retirees, pensioners, or students. Due to the more traditional family structure, a significant number of housewives in the metropolitan municipalities are also heads of household.

The rental market in Argentina is deregulated and subject to supply and demand. Therefore, there is no official agency that registers the housing units on offer or already rented out under contract. The housing units offered for rent are not controlled, nor are their conditions inspected, nor are prices fixed or categories established for rent values.

Renting is considered a commercial relationship between private agents, and not a means of protecting the right, enshrined in the constitution, to a decent home. The analyses show that this is a highly dispersed sector, characterized by individual relationships and solutions that depend on the social stratum to which the actors belong. Consequently, tenants find that they have few forums for coordination and organization and that,



**TABLE 4.6** Monthly Income, Effect on Access to Housing, and Value of Rent for Two- and Three-bedroom Apartments according to Deciles in Rosario (in pesos)

Decile group	Monthly family income	Monthly spending on housing (30% of family income)	Rent for a two-room dwelling			Rent for a three-room dwelling		
			Minimum price found	Maximum price found	Average price	Minimum price found	Maximum price found	Average price
1	1,101	330						
2	1,895	568						
3	2,616	785						
4	3,129	939						
5	3,881	1,164						
6	4,797	1,439	1,154	1,658	1,406	1,428	2,029	1,704
7	5,816	1,745						
8	7,058	2,117						
9	9,175	2,753						
10	15,148	4,544						

Source: Authors' elaboration based on INDEC (4th. Trimester 2011) and real estate report.

therefore, they are poorly represented. The surveys reveal that their complaints are channeled mainly through the consumer protection offices of local jurisdictions, since the social organizations that deal with this question are usually too weak to push the issue onto the public agenda.<sup>15</sup>

The Tenants Coordinating Committee of Buenos Aires (Coordinadora de Inquilinos de Buenos Aires) works to protect the rights of tenants living in boarding houses, hotels, tenements, and squats. Over the last decade, following a line of work centered on the legal defense of specific cases and on producing reports, some of the human rights organizations, such as the Center for Legal and Social Studies (Centro de Estudios Legales y Sociales)

<sup>15</sup> One of the organizations consulted pointed out this weakness: "You have associations like the La Plata Tenants Association (Asociación Platense de Inquilinos, or API) in the city of La Plata, which has existed for three years, the Tierra del Fuego Tenants Union (Unión de Inquilinos de Tierra del Fuego) and the UAI, which are the only three legally constituted tenants' associations. Then you also have blogs and other Internet sites which are more dispersed and are not representative when it comes to supporting collective actions or projects" (Interview with the UAI).

or the Civic Association for Equality and Justice (Asociación Civil por la Igualdad y la Justicia) have focused their attention on housing, particularly on fighting evictions.

In the CABA, the Ombudsman (Defensoría del Pueblo) has a departmental watchdog responsible for the environment and sustainable development, public spaces and services, community monitoring, and housing and urban development. In recent years, this watchdog has taken an active role in social housing in the capital city, through legal actions, public reports, and complaints about evictions and the living conditions found in the *villas* and in tenements, hotels, and boarding houses.

In Rosario, the situation is somewhat different, as there is already an active Municipal Consumers Defense Bureau (Oficina Municipal de Defensa del Consumidor) as well as a nongovernmental organization called the Popular Council of the Center for Metropolitan Studies (Centro de Estudios Metropolitanos Concejalía Popular), which receives complaints, drafts annual reports, and publicizes problems in the sector.<sup>16</sup>

## INFORMAL RENTING: THE CASE OF THE METROPOLITAN AREA OF BUENOS AIRES

To analyze in depth the characteristics of the informal rental market that affect the poorest sectors of society, the case of the Metropolitan Area of Buenos Aires (City of Buenos Aires and 24 municipalities of the conurbation) was examined, since this is the area where this phenomenon is most widely encountered. Informal renting of housing includes both *villas* and informal settlements and neighborhoods with a formal network, and is aimed fundamentally at the housing needs of formal and informal workers with medium or low incomes who lack the guarantees demanded by the formal rental market.<sup>17</sup> The mechanisms that explain how the informal market functions are strongly interrelated

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<sup>16</sup> One of the officials at the Popular Council pointed out: “In Rosario there are no civil society organizations that address the issues of renting or access to housing. The Council is well respected and tenants come either with a contract in force or, when it has expired, to get advice or to lodge complaints” (Interview with the Popular Council).

<sup>17</sup> Included in this category are renting of rooms in hotels, boarding houses and tenements, squats, various premises not built for residential purposes, and *villas* and settlements, and the rental of small apartments in the latter. Moreover, GBA (in contrast to the CABA) is characterized by having a market for rooms and small apartments built inside the homeowner’s own plot and in neighborhoods with formal networks.

with both the scale and the different forms of informality in the Metropolitan Area of Buenos Aires, as well as with the characteristics and prices of the formal market with respect to renting, buying, and selling property.<sup>18</sup>

According to the General Directorate of Statistics and Censuses of the Government of the City of Buenos Aires (Dirección General de Estadística y Censos del Gobierno de la Ciudad de Buenos Aires) (2011), the population living in *villas* and settlements registered by the 2010 Census was 163,587 inhabitants, a 52 percent increase with respect to 2001.<sup>19</sup> Nearly 80 percent were located in the southern neighborhoods, such as Villa Lugano, Villa Riachuelo, Villa Soldati, Flores Sur, Parque Patricios, Barracas, and La Boca (Communes 4, 7, 8, and 9).

With even less precise data, the census information and data provided from other sources led to an estimate that the municipalities of the conurbation were home to 510,000 families in more than 860 *villas* and settlements, which would represent an increase of nearly 55 percent with respect to 2001. In GBA, the location of the *villas* and settlements follows a clear pattern of socioeconomic segregation in the areas adjacent to the region's riverbeds and valleys.

In this context of significant population growth, the studies consulted reveal that renting out rooms in *villas* has increased notably in recent years. Its high profitability, especially in the CABA, has even encouraged the construction of buildings especially designed for renting out single rooms<sup>20</sup> (Cravino, 2006; Kismer, 2009). At the same time, this has been the main driver of the high building densification and the physical-spatial changes that have occurred over the last decade in the capital's *villas*.

Studies of the functioning of the rental market in the *villas* of the CABA reveal that renting out rooms had displaced taking in recently arrived relatives by their family members, which used to be the way that immigrants

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<sup>18</sup> The relationships between the scale of the metropolitan and the city markets and the prices found in the formal and the informal markets are beyond the scope of this paper, but they are analyzed conceptually in various texts of the works consulted.

<sup>19</sup> The absolute variation in the total population of the CABA was 114,000 inhabitants between 2001 and 2010, whereas in the *villas* and settlements it was approximately 56,000 inhabitants. This suggests that half of the population growth comprised poor people whose only option for accommodation was in the highly dynamic informal rental market.

<sup>20</sup> Kismer's research reveals that when a building was built informally by a family working together and then rented, the annual rate of return on the investment was between 30.1 and 43.4 percent (Kismer, 2009: 25).

were introduced to the *villas* and thereafter to the city itself. However, modification of access to housing in these sectors has not changed the way in which immigrants arrive, which is generally through acquaintances and face-to-face contact based on neighborhood relationships. According to Cravino (2006), although high percentages of immigrants live in the *villas* of the CABA, the landlords and the tenants tend to be of the same nationality and to live in the same building.

According to the same author, around 25 percent of the residential households in the *villas* are rented, depending on their location in the city. Rentals usually consist of a room with a shared bathroom and occasionally a shared kitchen or washing room. One significant facet of this kind of rental arrangement is that turnover is much higher than in the formal model and in many cases does not last longer than one year. This is linked to the precarious situation in which both landlords and tenants find themselves and to the landlord's fear that, with the passage of time, the tenant might start to "feel like an owner" and begin to claim property rights over the dwelling.

The study carried out by Kismer (2009) about informal renting in Villas 31 and 31 bis<sup>21</sup> (Illustration 4.4) shows that, out of a sample of 133 tenants, 71.4 percent were foreigners (mainly from neighboring countries) and 28.6 percent were Argentines. The rented rooms had an average size of 20.3 square meters, and half of those interviewed lived in 16 square meters or less. The construction was unsafe and without finishes, the average number of people per room was 2.5, and the average cost at that time was \$317.18. The survey found a high level of price homogeneity among rentals. At the time of the study, average earnings of families in Villas 31 and 31 bis were approximately \$480, which means that the monthly rent accounted for two-thirds of income.<sup>22</sup>

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<sup>21</sup> Villas 31 and 31 bis are adjacent to the port of Buenos Aires and to the downtown area, the areas of the CABA that have recorded the fastest growth and densification in recent years.

<sup>22</sup> Various inhabitants of the villas and settlements consulted for this study stated that at present rooms of 12 square meters are rented with shared bathrooms, and that the process varied according to the location of the neighborhood and the amenities and size of the room. Additionally, they were all emphatic in pointing out the insalubrious conditions in which the rooms were found, and the asymmetry in the landlord-tenant relationship: "...these are really small rooms, in terrible condition, and they stick a kitchen in there, and that's why there are so many fires (...) You can't rent them if you have kids (...) you can't even go in until after eleven at night, in some cases there are two or three families, and if they do a census you haven't got a right to be included, they restrict your visits" (Interview with a resident of Villa Soldati).

**IMAGE 4.1** View of Building Density in Villa 31, 2010

Source: COHRE (2005).

The information gathered in prior studies and the consultations carried out for this chapter clearly show that the poorest segments must pay high prices for very low-quality housing units, but in central areas with services that allow them easy access to the benefits of living in that location. Various statements by residents of Villa 31 corroborate this finding.<sup>23</sup>

With regard to the capital city's tenements, hotels, and boarding houses, according to the 2010 Census (INDEC, 2010), 103,963 people (45,906 households) rented this kind of dwelling, an increase of 11.3 percent over the 2001 Census. This means that nearly 40 percent of the country's households that were renting substandard dwellings in these establishments were

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<sup>23</sup> "...I never think of leaving (...) but if we do go, I'm not going anywhere far away (...) that's miles from here and that would mean taking three or four hours to get to work" (Interview with a resident of Villa 31, in Maldonado and Motta [2008]). "Many people prefer to live in the city. For the education, the studies, the universities, the hospitals. When I lived in the provinces, I used to come to the hospital in the city, to the Piñero, because out there there's nothing on offer (...) no sources of work, no healthcare: there's no help in the provinces. The city is much more accessible" (Interview with a resident of Villa Soldati).

living in the CABA. As Map 4.2 shows, the households are concentrated in Communes 1, 3, and 4, which correspond to the downtown area and the old south peri-central area of the city (the neighborhoods of Monserrat, Constitución, San Telmo, La Boca, Barracas, and Parque Patricios). In these areas, the percentages of households that rented informally in tenements, hotels, and boarding houses were 12.5, 10.1, and 8.2 percent, respectively, figures that easily surpass the average of 4 percent for the city as a whole. Thus, more than 54 percent of the households living in tenements, hotels, and boarding houses in the city are concentrated in these three communes.

According to the studies consulted (Echevarría and Gunther, 2006; Pastrana et al., 1995; Vacatello, 2001), there are some differences between the tenement and the hotel or boarding house, although in both cases the access requirement is limited to the daily or monthly payment of rent. The sector has few specific regulations and fundamentally caters to a part of the city's informal and unskilled households.

The tenement is less visible—it has no sign or, in other words, it is not advertised in the street. Registration is not required, and access to it is usually gained through personal relationships between friends and acquaintances or people who already live there and who act as a nexus with the owner of the room. In some cases, a contract is signed that is similar to those in the formal rental market, and the tenant is subject to the same regulations on payment of monthly rent. However, the studies show that it is mainly informal and that tenants are exposed to constant rent hikes.

In the case of hotels, payment is made daily (though arrangements can be made to pay weekly or even monthly), and there are no regulations with respect to discretionary price increases, right of admission, or immediate eviction, although the hotels are obliged to register their guests and to have a clear sign displayed at street level. In the CABA, hotels-boarding houses are often the first point of entry for households arriving from other cities or for those in no position to afford the rent for any other kind of dwelling.

During the 1980s, while land invasions on the periphery of the Metropolitan Area of Buenos Aires were occurring, the occupation of vacant houses got underway as a new strategy for accessing housing for the poor or those impoverished by the policies of the last military dictatorship (Cuenya, 1988; Oszlak, 1991). Presently, there are far fewer squatted buildings, thanks to the legal reforms of the mid-1990s that made it easier to achieve rapid eviction. However, rooms are let in many of them

and, in general, tenants have little information about the building's true legal status (Echevarría and Gunther, 2006).

As in the case of *villa* residents, informal tenants who live in the formal network appreciate the benefits of city life, among which they mention access to better education and healthcare, better possibilities for employment, and a transportation network.<sup>24</sup> According to Mazzeo et al. (2008), the residents of tenements, hotels-boarding houses, and squatted houses in the CABA are more likely to be immigrants than in the rest of the country, who come from neighboring countries and Peru (59.6 percent), in relation to the proportion of immigrants in the city as a whole (37.8 percent). In general, they tend to be younger (average age 28.5 versus 38.7 in the city), with a higher fertility rate (3.1 persons per household versus 2.1 in the city), and an average family income that is 50 percent less than the average in the rest of the city. Likewise, the cost of renting a room is usually similar to the rent paid for a decent home in neighborhoods further away from the city center. However, a significant proportion of this segment of tenants prioritizes the importance of living within the city's central radius to maximize access to a variety of services.

Hotels and tenements are more profitable than rentals of formal housing in the city. The study carried out by Pastrana et al. (1995) shows that for hotels and tenements, the monthly return on investment can reach 3.5 percent and 2 percent, respectively, whereas at that time, renting a formal dwelling generated a return of 1 percent.<sup>25</sup>

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<sup>24</sup> Why people make their choices: "Living in the city, when it comes to education, is much better. Education in the capital is much better than in the provinces. As it stands today, I think that my son (...) has more possibilities here than if I go back to the province (...). Here you've got more benefits at hand, you've got hospitals, schools (...). Children are safer here in the capital. In the province it's always more dangerous (...). When I lived in Glew, I worked in a textile factory in Once and I had around two hours' commuting time (...). [In the CABA] you've got more opportunities for work, better transportation (...); here I'm easily home by half past nine because I've got transportation. In the provinces, if you miss the train, you've had it, because the work is in the capital" (Estévez Paggi and Gándara, 2012).

<sup>25</sup> In a recent study, a tenant stated: "The rent is a lot of money. We pay \$1,500 (...); when I took the place, we were paying \$1,300, two months ago they raised it by \$100 and now they just raised it another \$100; on top of that, there's always problems at the hotel, a while ago we didn't have any water or electricity" (...) "for the money I'm paying here per month, I could rent an apartment, but they ask for all sorts of things I haven't got, that I can't present" (Estévez Paggi and Gándara, 2012).

According to the report by the Public Ministry of the CABA (Ministerio Público Tutelar de la CABA) (2012),<sup>26</sup> the main problems that affect the quality of life of informal tenants in tenements and hotels or boarding houses are unsafe buildings and lack of government oversight. The former refers to substandard construction (damp, leaking roofs, plaster falling from ceilings and walls, balconies in danger of collapsing, and so on); lack of safety (defective gas and electrical installation, lack of fire extinguishers and/or fire escapes), and sanitary problems (lack of fumigation, presence of rodents, flooding sewers, lack of toilets and fittings, accumulation of rubbish, and so on). The problem of legal informality includes the absence of rental contracts and/or receipts for monthly payments made by families; management of buildings by people other than the owners (and who have gained access themselves by squatting, provisional tenure, and so on) who cannot offer legal protections to the tenant; tenants' inability to lodge complaints, and the constant utility cutoffs and withholding of personal property when rent cannot be paid. Finally, the lack of local or national programs that regulate conditions in these kinds of dwellings also creates inconveniences.

Moreover, around 15 percent of all households in the country that rent rooms are concentrated in the 24 municipalities of GBA,<sup>27</sup> although in the metropolitan area this kind of housing represents a lower share of the market. In contrast to the 4 percent average in the CABA, the surrounding municipalities recorded only 0.66 percent of total households living in rooms in tenements and hotels at the time of the 2010 Census (INDEC, 2010).

The municipalities with the greatest percentage of rental households living in rooms are San Fernando and Tigre, in the north metropolitan corridor. Analysis of Map 4.3 fails to provide a clear explanatory pattern, since this type of access to housing can be considered marginal when compared to others.

Finally, as previously mentioned, the municipalities of GBA have a market for rooms and small apartments for rent built on the owners' property and in neighborhoods with a formal network. According to the consultations carried out, the conditions for access also depend on ties of trust and/or recommendations by third parties, a month's rent is collected in

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<sup>26</sup> This report was produced following the fire at a tenement in the La Boca neighborhood (south of the CABA), on May 24, 2012, in which 32 persons lost their homes. Available at: <http://www.asesoria.jusbaires.gob.ar>.

<sup>27</sup> If the CABA and the 24 municipalities of GBA are counted, the percentage rises to nearly 55 percent of the national total of rental homes in these conditions.



advance and sometimes also a month's deposit and, in the case of rooms for rent, most do not accept minors.<sup>28</sup> Likewise, a high percentage of owners, especially in the poorest neighborhoods, are workers who—using their own building skills and/or hiring help—choose to build or refurbish their dwellings as a way to augment their monthly income.<sup>29</sup> The majority of such rooms and dwellings available for rent in metropolitan neighborhoods are substandard and lack decent finishes.

## LIMITATIONS IN THE RENTAL HOUSING MARKET

Despite the economic and social advances seen in Argentina over the last nine years, access to housing in general and to rental housing in particular continues to present serious difficulties. The rental submarket has limitations that still prevent it from becoming an effective policy alternative for enhancing access to a decent home.

One reason is that in recent years the construction sector and the real estate market recorded high levels of activity, which enabled them to improve the building quality of the housing stock and to broaden the range

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<sup>28</sup> One of the owners consulted said that: "We made two little apartments. Each one is a 5 x 5 meter room with a bathroom and an independent entrance from the street, and in the room I put a sink and a stove that I already had, so that they can cook (...); I rent to people recommended to me, a verbal contract, and I prefer girls who work in domestic service during the week, who are only around here on Fridays, Saturdays, and Sundays (...); I don't accept kids, because they make too much mess and break everything and besides, it's too small to be here with kids (...); I charge a month in advance and a month's deposit, and when they tell me they're not going to pay that month, I keep the deposit" (Interview with an owner in Barrio La Paz).

<sup>29</sup> In the previously mentioned case of the La Paz neighborhood, the owners are a married couple who lived informally for 30 years, but five years ago managed to legally regularize their plot of land via the Neighborhood Upgrading Program (Programa de Mejoramiento de Barrios) and thereby now possess title deeds to the property. At present they are building an additional story to add more rental rooms. Another of the owners interviewed stated: "I rent out three houses in two plots located in Villa del Carmen." The dwellings, which had two bedrooms, a kitchen, a dining room, and a bathroom, were rented out around the middle of 2012 (under the same framework described above) for "...\$1,200 per month, and a 20 percent increase. With the revenue from that rent (one house), I built another house behind in the same plot to rent out as well" (Interview with an owner).

of products in the cities analyzed in this paper. However, the market for new units (whether for sale or for rent) concentrated on building better-quality buildings aimed at medium-high and high-income earners, which led to segregation of lower-income households. These processes, which were simultaneously the cause and an effect of economic growth, consequently led to a steep rise in prices for building land.

The increase in the supply of rental housing units was sustained by investments made by a multiplicity of small and medium investors who, benefiting from economic growth, opted for real estate as a way to protect their capital. This condition, alongside the belief that urban real estate in large cities in Argentina will rise in value over time, ensured that small investors became almost exclusively the actors providing the supply to satisfy a large part of the growing demand. However, those interviewed concurred that rentals in the formal market have fallen in price with respect to previous decades.

Supply, therefore, suffered from two main limitations: the relatively restricted social sector to which the rental housing units were (and still are) mainly aimed, and the scale of production. With regard to the latter factor, although the rental law contains an entire chapter full of incentives to encourage construction of this type of housing, these tools have yet to be used in the 28 years that the law has been in force. The explanation for this failure centers above all on the dichotomy that, while the incentives are almost all of a fiscal nature, tax evasion is widespread in the Argentine real estate market. Therefore, potential tax breaks fail to have positive effects in a system that provides only limited revenues to the government. This explains why the chambers of commerce are strongly opposed to any state intervention in their activity, since a substantial part of the profits obtained are due to the opacity of the transactions carried out.

In 2010, there were around 700,000 empty housing units owned for speculative purposes, one-third of which were located in the CABA, the municipalities of GBA, and Rosario. Although the number of units increased between censuses by a very small percentage, the volume that this restriction represents is highly significant, bearing in mind that in the country as a whole, in the same year, 2.1 million households were suffering from overcrowding in good-quality homes, and 40 percent of them lived in the CABA and its metropolitan area.

Furthermore, with respect to the functioning of the rental market, various factors limit its potential. One significant restriction is the increase in the cost of intermediation. When a rental contract is negotiated through a

real estate agency, the total cost to the consumer increases by 7 to 8 percent, comprising commissions, deposits, and charges for additional transactions and certificates.

The high formal demands and guarantees against non-fulfillment of contracts are added to these cost. As this report explains, the guarantees preferred by owners are other real estate properties (usually provided by third parties) located in the same city. A high percentage of middle-income tenants find this demand very difficult to satisfy, and it is almost impossible for tenants with low incomes to do so.

Furthermore, abuses persist in the contractual clauses that define the responsibilities for each party. Representatives of the demand side denounce the frequent practice by landlords, in rental negotiations, of including in the contract a series of obligations for the tenant that are considered illegal, such as, repair of structural damage to the property, indexing clauses, charges for extraordinary expenses, additional costs for units returned in poor condition and/or with utilities not in proper working order.

Likewise, an appreciable percentage of Argentine workers receive part of their salaries informally, which makes it difficult for potential tenants to substantiate their real earnings. This situation induces landlords to make even greater demands as a way of reducing the risk of breach of contract.

All of these factors regarding the functioning of the real estate market in general and the rental market in particular explain the growth (which is difficult to measure) in the variations of informal renting in the cities studied. From this analytical perspective, the increase in the category of tenants revealed by the statistics includes a high percentage of informal contracts of all kinds.

## CONCLUSIONS AND RECOMMENDATIONS

The rental submarket has recently undergone significant expansion. However, this growth was not due to deliberate public policy in this area; rather, it was the result of a combination of socioeconomic factors. Among these are higher purchasing power for wage earners, changes in household sizes and composition, the rise in the price of building land and property, and the almost total absence of mortgage lending. This has meant that a large number of families were denied access to homeownership, as promoted by the widely held social imaginary in Argentina, and have opted for renting as an alternative.

For the first time in half a century, growth has been recorded in the rental tenancy category at the expense of other forms of property holding. Between 2001 and 2010, rental households rose from 11 percent of the total number of households in the country to 16 percent (with a peak of nearly 30 percent in the CABA), and there was an increase of almost 75 percent in the number of renters in the latest census. This process was designated by one of the actors interviewed as “the decade when the Argentine middle class became tenants,” since it was this social sector that predominantly drove the process.

At the same time, however, for various reasons a significant number of households failed to gain access to the formal rental market. This explains the sharp increase in overcrowding or forced cohabitation both nationally and in the urban conglomerations studied in this chapter. To a lesser degree, it also explains the growth in the number of lower-income households that opted for different forms of informal tenure, a trend that is most widespread and alarming in the CABA.

With regard to rental housing quality, both nationally and in the CABA and GBA, there is significantly higher growth in the number of households that rented decent homes. This is attributable both to increased purchasing power on the part of wage earners and to the fact that families devote a large part of their investment to improving the structural quality of their properties. These gradual improvements are reflected in the census figures and have changed, at least in part, the traditional characteristic of the informal rental market for lower-income households as comprising only very substandard dwellings. Thus, the data indicate that in recent years, the rental market (both formal and informal), in addition to the growth in the number of units, began to provide more habitable housing units.

This study shows that the question of expanding renting as a form of access to decent housing has to be tackled through a policy that combines various factors that go beyond the rental market’s specific aspects. First, social housing policy must be incorporated and coordinated with the still fragmentary efforts made by the State, the provinces, and the municipalities in this area, in collaboration with real estate market agents and social organizations. Moreover, housing policy cannot continue to be disconnected, as has been the case in Argentina up to now, from urban development and land management policies. This integrated approach strengthens and extends the instrumental framework of urban housing management, incorporating a combination of legal, administrative, financial, and fiscal tools, among others, that would lead to greater impact and

enhanced effectiveness in implementing strategies to facilitate access to decent housing.

Second, social housing policy must contribute to reducing the number of unoccupied dwellings. Reducing the number of unoccupied dwellings maintained for speculative purposes to increase the supply of rental properties depends on two simultaneous lines of action (based on sanctions and incentives), preferably centered on fiscal measures. Therefore, a fundamental overhaul of current tax policies is in order, especially in the provincial and municipal spheres, aimed at favoring the fiscal and non-fiscal effects of land or property taxes over taxes that penalize production and investment and thereby affect the competitiveness of economic agents. It is well known that property taxes are more socially equitable, more effective against property speculation, and harder to evade. Therefore, improving property taxation would enable policies to be implemented that have a direct impact and can correct the way that the real estate market works, stimulating the supply of rental housing.

Third, building houses for rent must be part of social housing production processes. Similar to the previous recommendation, increasing supply by building rental housing units depends fundamentally on amendments to the tax code, which includes improving property taxation as an incentive. Such stimulative measures, however, must be complemented by innovations in the housing unit production system. In this sense, the cooperative model in Uruguay has proven to be a potent mechanism for increasing the supply of social accommodations. There have been good, but very erratic, experiences with this kind of model in Argentina, due to the historical political priority given to allowing construction companies to build for-sale housing blocks on the urban periphery.

With regard to the above, four strategies must be combined to expand the supply of decent social rental housing in well-located areas: an urban and land management policy that encourages urban compactness, a “carrot and stick” fiscal policy based on the property tax, a financing system similar to those used for building shared apartment blocks, and the promotion of cooperative methods of building and managing buildings. This coordination is one of the strategic lines that might open up the system of legal instruments included in the draft legislation on low-income housing currently under debate in the Province of Buenos Aires Legislature.

Fourth, the construction of buildings for rent using commercial housing production processes is worth considering. Promoting the financing and construction of rental units through market agents would mean

amending Chapter III of Law 23.091, with a view to creating an effective system that should furthermore be coordinated with the aforementioned tax amendments and with financing incentives.

Fifth, access to loan guarantees has to be made easier. As previously explained, one of the principal obstacles in the formal market, which forces middle- and lower-income households to seek accommodation in the informal market, is the requirement to present guarantees that are acceptable to the landlords. Three types of actions are therefore proposed: first, regulation, via legislation, as a means to prevent well-known abuses, of the scope and type of guarantees that will be acceptable in the formal rental market according to the amount and length of the contract and the forms of payment. Second, the monetary authority should expand supply and reduce interest rates for the various types of guarantees promoted by the banking system. Finally, funds or guarantee systems (partially subsidized) should be created that are controlled by local and provincial governments and scaled according to income levels and household needs. Several such initiatives are currently under debate in the CABA Legislature.

Sixth, a social subsidy system for rent support must be set up. This should be addressed to poor, non-homeowning, vulnerable households, according to the following criteria: threatened with eviction, living on the street, family members over the age of 65, family members who are physically or mentally disabled, and residents of areas where there are high environmental or health risks.

Finally, transparency and fairness in contractual relations should be promoted. The rental market needs legal amendments designed to regulate a combination of specific aspects to provide a framework of justice, transparency, and fairness. These performance guarantees would reduce conflicts and create incentives, on the supply and the demand sides, to increase the number of operations. The aspects in need of regulation include: agency commissions and fees; responsibilities of landlords and tenants; the guarantees and deposits required; oversight of building conditions in tenements, hotels, and boarding houses and price adjustments to suit such conditions; and clarity in the information provided about the different aspects of the transaction.

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# Rental Housing in Brazil: Limitations and Perspectives

*Suzana Pasternak and Camila D'Ottaviano*

## INTRODUCTION

The demographic transformation of Brazil began during the mid-twentieth century, partly due to the country's belated industrialization. Starting in the 1950s, the country experienced an intense process of migration from the countryside to the city, primarily toward the major suburbs of the industrialized southwest, such as São Paulo and Rio de Janeiro. This, along with a higher rate of natural population increase, partly explains the urban expansion and the growing demand for housing witnessed over the last six decades. In effect, the urbanization level rose from 26.3 percent in 1940 to 81.2 percent in 2000.

The speed with which this process took place had significant consequences for urban development in Brazil. According to Maricato (2002: 16): "This is a campaign of massive construction in the city, necessary for providing shelter for that amount of people, as well as satisfying their work, transport, health care, energy, water supply, and other needs. Even if the direction that urban growth has taken has since failed to satisfactorily fulfill all of those needs, the territory has been occupied and the conditions for living in that space have gradually been constructed. For good or for bad, somehow, whether improvised or not, 138 million inhabitants now live in the cities (in 2000)."

Starting in the 1950s, demand for housing in Brazilian cities increased. However, state policies have been unable to meet the demand. Between the 1940s and the 1960s, while the population of Brazil increased by 30 million, the supply of new public dwellings reached only 142,000 units.

Between 1964 and 1986, the National Housing Bank (Banco Nacional de Habitação, or BNH) built 4.4 million new homes. Only one-third of those homes were earmarked for the population's lower-income segments, especially for families with incomes of three times the minimum monthly salary. Over the last two decades, after the BNH closed, various housing policies stimulated constant production of new homes, but in a quantity well below the existing demand.

In 2008, the total housing deficit,<sup>1</sup> calculated by the João Pinheiro Foundation, came to 5.5 million homes, of which 4.6 million, or 83.5 percent, were needed in urban areas and 916,478, or 12.5 percent, were in the three metropolitan areas covered by this study—Curitiba, Salvador, and São Paulo. Likewise, 89.6 percent of the total deficit corresponded to families with incomes ranging between zero and three times the minimum salary.

As Table 5.1 reveals, the total deficit in the metropolitan area of Curitiba reached more than 64,000 homes, which represented around 6 percent of the housing stock. In Salvador, the number came to 116,000 units, equivalent to 10 percent of the total. Although in the metropolitan area of São Paulo the deficit represented only 8.2 percent of the total number of homes, in absolute terms it was still equivalent to half a million homes.

In the metropolitan region (MR) of São Paulo, the main cause of the deficit was the excessive rent burden, accounting for 50.3 percent, followed by forced cohabitation, responsible for 29.6 percent, and overcrowding, which accounted for 15.5 percent. The number of unfit dwellings was not significant, accounting for only 3.9 percent of the total urban deficit. The deficit was similar in the MR of Curitiba, although overcrowding was not significant, as it only affected 4.5 percent of total urban homes, or less than

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<sup>1</sup> The deficit can be understood as the need to build new homes, either by substituting existing unfit housing units and the corresponding portion caused by the depreciation of existing homes, or by increasing the available stock, by replacing unfit housing, reducing forced cohabitation, alleviating excessive rent burdens, and reducing overcrowding in rented accommodations. A further part of the deficit, called substandard, reflects housing problems that concern the quality of life for residents that do not require new dwellings to be built, but that relate to a building's characteristics that need improvements. These improvements might include adding more rooms to relieve overcrowding in owner-occupied homes, installing basic infrastructure in houses with infrastructure deficiencies, legalizing building plots for houses built on illegally held land, installing bathrooms in homes that lack sanitation, and, in 2008, repairing faulty roofs.

**TABLE 5.1** Housing Deficit in Brazil and the Metropolitan Regions of Curitiba, Salvador, and São Paulo, 2008

		<b>Brazil</b>	<b>MR Curitiba</b>	<b>MR Salvador</b>	<b>MR São Paulo</b>
Housing deficit in absolute terms	<i>Total</i>	5,546,310	64,635	116,014	510,326
	<i>Urban</i>	4,629,832	61,716	114,240	504,403
	<i>Rural</i>	916,478	2,919	1,490	5,923
Percentage in relation to the total housing stock	<i>Total</i>	9.6	6.3	10.1	8.2
	<i>Urban</i>	9.4	6.5	10.2	8.3
	<i>Rural</i>	11.0	3.6	7.5	5.4

Source: Ministry for Cities (Ministerio de las Ciudades) (2011).

3,000 dwellings. In Salvador, the deficit's main cause was forced cohabitation, producing 48.6 percent, followed by excessive rent burden, responsible for 45.8 percent. Neither unfit housing, at 3.2 percent, nor overcrowding at 2.4 percent, was particularly significant.

Despite the differences between cities, around half of the deficit is always caused by an excessive rent burden. Furthermore, a high proportion of the deficit is concentrated within the group of families that earn a maximum of three times the minimum salary: 80.5 percent for Brazil as a whole, 70.9 percent for the MR of Curitiba, 81.5 percent for MR of Salvador, and 75.5 percent for São Paulo. This means that, of the total deficit of 691,000 dwellings from the three regions studied, 591,000 families had incomes below three times the minimum salary, which explains the high concentration of excessive rent burden and forced cohabitation. Certain related data are even more compelling: 9.1 percent of families in need of housing in Brazil have no income. This percentage reached 10.8 percent in the MR of Curitiba and 12.2 percent in the MR of Salvador, but fell to 8.7 percent in MR of São Paulo, although the latter MR still had more than 44,000 families in this situation.

Thus, over the last six decades of intense urban development and insufficient public housing supply, the principal housing problem in Brazil is the income deficit among the low-income segments. The disparity between income and the price of housing is significant. The real estate market in Brazil's legal residential areas supplies around 30 percent of the population (Maricato, 2011). Faced with no alternative in the real estate market, the rest of the population invades land or makes further illegal encroachments in

the neighborhoods. The housing deficit is the result of unequal distribution of income, the lack of better jobs, and especially the high price of land, particularly in the metropolitan areas.

Access to rental accommodations was crucial in the first decade of the twentieth century. This access declined considerably, however, following the amendment to the property law that froze rental values in the 1940s. As a result, Brazilian cities experienced land invasions, irregular settlements, low-quality housing, overcrowding, and substandard construction in dangerous or environmentally fragile areas or in areas on the urban periphery far removed from sources of employment or where land was cheaper.

Rental accommodations for the population's lower-income segments had been restricted to boarding houses and rooms in properties located in the center of large Brazilian cities, or to the subletting of rooms on the periphery. Rental housing policies are rarely seriously debated. The memory of rent control laws and income instability, coupled with public policy oriented toward homeownership, made renting unattractive.

Recently, however, after a significant change in Brazilian property law, the focus shifted toward examining the rental housing model. Furthermore, the proportion of the deficit due to the excessive rent burden in the three metropolitan areas studied indicates a possible demand for homes with subsidized rents. This chapter is a response to this renewed interest. It presents an analysis of the research on Brazil's rental housing market and corresponding case studies in the cities of São Paulo, Curitiba, and Salvador.

## **RENTED ACCOMMODATION VERSUS HOMEOWNERSHIP: TENURE AND OWNERSHIP STRUCTURE IN BRAZIL, SÃO PAULO, CURITIBA, AND SALVADOR**

### **Demographic Trends**

According to the 2010 Demographic Census, the population of Brazil is 190,755,799. Brazil's population increased 19 times over since 1872, when the first census was conducted. Until 1940, both mortality and fertility rates were very high. Since then, the mortality rates have declined, but the fertility rate has remained high, leading to high rates of population growth in subsequent decades.

Over the last 20 years, there have been significant changes in the age structure of the Brazilian population: the population is ageing, and there

has been a noticeable reduction in both fertility and mortality rates. The proportion of people over age 60 has risen from 8.56 to 10.79 percent of the total population, and the proportion of people between the ages of 20 and 59 has increased from 51.27 to 56.22 percent. Even so, the population of those between the ages of 20 and 40 grew by nearly 9 million. The demand for housing is concentrated in the latter group, since it is in this stage of life that family groups are formed. The increase of 6 million elderly people also represents a growing demand for a certain kind of dwelling, since the elderly tend to live alone.

There are also noticeable changes in family structures. In the country as a whole, single-person homes make up more than 12 percent of households, with the highest proportion located in the south, where there are more than 3 million of these households, and the lowest proportion situated in the north, with only 365,000 households. Therefore, of the more than 57 million housing units in Brazil, a single person lives in 7 million of them. Single-person households are expected to increase due to the increase in life expectancy, expected to rise to 80 years by 2014, and to the longer life expectancy of women, which will result in a higher number of women living alone.

This demographic forecast augurs a possible increase in the demand for rented accommodation: elderly people, widows, and divorced people often do not wish, or are unable, to invest their assets in buying a house. They need to live in areas that enjoy good services, which are generally located near the center of urban areas. This represents a potential demand for small and well-located rental housing.

### The Structure of Tenure in Brazil

During the period of slavery, until 1888, the question of housing the poor was solved by the *senzala*, or slave houses. Between 1889 and 1929, the first stage of industrialization, the private sector, with government support, provided workers' villages. The solution adopted spontaneously by poor people themselves was the *cortiço*, or neighborhood. Renting became the predominant model, and official policy encouraged, at least nominally, the construction of rental housing. After 1930, with rapidly growing industrialization, rural migration to urban areas, and the growth of large cities, popular pressure forced the government of Getúlio Vargas to pass the Tenure Law (Ley de Tenencia). By freezing rents, this law made investment in rental property an unattractive proposition.

Expansion of the outer limits of many cities led to a decrease in population density. Growth of the urban population was concentrated mainly on the periphery of large Brazilian cities. In 1970, 56 percent of the population lived in urban areas; this proportion soared to 81.2 percent by 2000. By 2010, the rate of urbanization had reached 84.3 percent. In absolute terms, over the last 40 years, urban areas have incorporated nearly 108 million new residents. The result has been the creation of cities with vast peripheral areas, with high levels of self-building and privately owned homes concentrated in marginal neighborhoods or illegal settlements.

Following the creation of the Popular Housing Foundation (Fundação Casa Popular, or FCP) in 1946 and the National Housing Bank (Banco Nacional de Habitação, or BNH) in 1964, housing policies have mainly concentrated on the State's business activities and on private property. The development of the BNH was paradigmatic: centralize all the resources and spread a similar model of intervention throughout the country by building large-scale housing developments on the periphery. The preferred intervention was direct financing of developers and buyers. It was assumed that a massive building program, aided by industrial production techniques, would provide the solution to the urban housing shortage.

Furthermore, governments believed that homeownership would help create social stability. Having a secure place to live has been important in many countries, but in Brazil it constitutes an historic goal, which explains why policies favoring homeownership have predominated since 1930. During the I Pan-American Congress on Popular Housing (Primer Congreso Panamericano de la Vivienda Popular), held in Buenos Aires in 1938, Brazil's official delegate advised "giving every worker his own house, individual houses, or rather family houses, because freedom requires a minimum of property. The man who possesses nothing is the very definition of anti-social. We want men to be free, men to be happy..." (Bonduki, 1996: 175). During the 1960s, Minister Roberto Campos affirmed: "homeownership (...) contributes more to social stability than renting does. The homeowner thinks twice before getting involved in disturbances or vandalizing other people's property, and becomes an ally of order" (Azevedo and Andrade, 1982: 110).

The development of capitalism in Brazil, the policy favoring buying and selling property, and the employment instability that has existed for decades—which makes it difficult to regularly pay the rent—alongside inflation, have been the causes of increasing homeownership in the cities. Table 5.2 reveals that the proportion of rental accommodations increased

**TABLE 5.2** Proportion of Rented Dwellings in Brazil: Case Study of Regions and Municipalities (percentage)

Year	Brazil	North-East	South-East	South	São Paulo	Salvador	Curitiba
1920	—	—	—	—	78.6	—	—
1940	20.85	14.69	27.67	19.62	67.7	—	—
1950	23.13	17.03	30.81	20.70	59.3	58.3	—
1960	27.61	32.33	30.88	20.08	—	52.4	—
1970	22.87	15.95	29.47	19.29	38.2	38.6	—
1980	22.54	14.91	29.25	18.69	35.2	34.8	—
1991	16.38	11.21	20.82	14.18	28.8	19.14	—
2000	14.29	10.60	17.06	9.30	21.6	15.46	17.04
2010	18.32	15.39	20.21	17.05	24.8	20.06	22.50

Source: Various demographic censuses.

Note: The data presented in the table were not available in the historical archives of the IBGE.

between 1940 and 1960 but decreased considerably between 1960 and 2000, falling from 27.61 percent to 14.29 percent. During the 1980s, in the midst of an acute crisis, private ownership was still encouraged throughout the country.

In Brazil, ownership can take place through a number of mechanisms, such as formal purchase, purchase of illegal units, and land invasions, and—according to the Brazilian census—land tenure, even in invaded land, counts as homeownership. The growth of the favelas, or slums, shows this mechanism: between 1991 and 2010 the number of favela-like settlements, or shantytowns, grew from 3,197 to 6,329, and the population living in them rose from 480,595 in 1980 to 1,659,548 in 2000. In 2010, the number of favela dwellers reached 3,224,529, which represents 5.61 percent of the Brazilian population.<sup>2</sup>

Homeownership increased in every region. According to Table 5.2, in the northeast, southeast, and south, a continuous decrease occurred in the

<sup>2</sup> The comparison between numbers of favela dwellers in 2000 and 2010 must be exercised with caution, as in 2010 the data included photos from satellites and data from previous investigations. The increase in the number of inhabitants in these settlements, therefore, might be attributable to improved data gathering, and the real increase is only partial, especially in the north and the northeast.

percentage of rented homes between 1960 and 2000, more than 21 percentage points in the northeast, and around 11 to 13 percentage points in the southeast and south. The mid-east showed a different pattern, as the percentage of rented properties increased between 1960 and 1980. The consolidation of the Federal District (Distrito Federal), where renting was the norm, might have influenced this result.

The percentage of rented homes increased from 14.29 percent in 2000 to 18.32 percent in 2010. All regions saw an increase, with greater intensity in the south, where the percentage of rented dwellings rose by 7.75 percentage points. For Salvador and especially Curitiba, the historical overview is incomplete because of a lack of information. Nevertheless, the proportion of rented properties in these two municipalities grew noticeably over the last decade. In Salvador, this percentage rose from 14.78 percent to 20.06 percent, whereas in Curitiba there was an increase of 5 percentage points, higher than the 4 percentage point increase in Brazil overall, and a 3.2 percentage point increase registered in São Paulo. Therefore, for Brazil overall, and in the municipalities studied, an increase in renting as a housing option can be clearly seen.

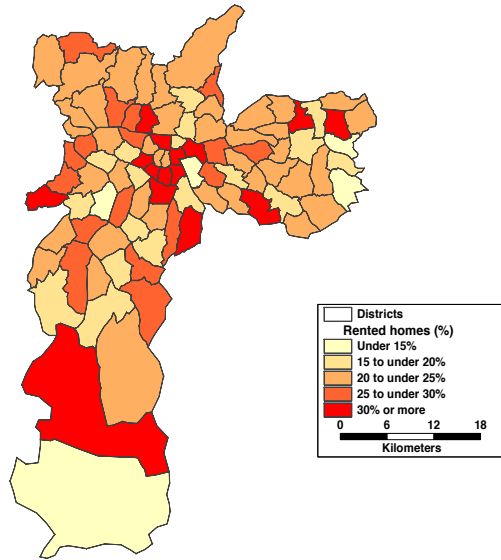
In the Municipality of São Paulo, rented accommodation has been the predominant modality since 1970. Even after approval of the Urban Rental Law (1950) (*Ley de Arrendamiento*), which froze rents, the proportion of this kind of tenure reached 59.3 percent. The city was more compact, and automobile use was not generalized. The strong growth on the outskirts of the city began in the 1950s, thanks to a convergence of three factors: the sale of building plots on the periphery, the popularization of homeownership, and self-building. The reduced supply of rental housing, alongside the stimulus for people to become owners of a plot on the periphery and the expansion of road transportation, pushed the city limits out at the same time as the percentage of homeowners increased, especially on the outskirts. Rented accommodation fell constantly from 1980 until 2000.

As Map 5.1 shows, the predominant proportion of renting has been in the central band, which includes the city's historic center and certain poor and degraded neighborhoods, with a high concentration of favelas and small kitchenette-type properties. The districts with the highest percentage of rented properties in 2010 were found in the municipality's central region, with the exception of Vila Maria, which was originally a working-class district on the east side of the city. Certain peripheral districts maintained a high rental rate, such as Vila Medeiros, Jaguará, and Tucuruvi, in the north part of the city.



**MAP 5.1** Rented Properties in the Municipality of São Paulo, 2010  
(percentage)

São Paulo 2010

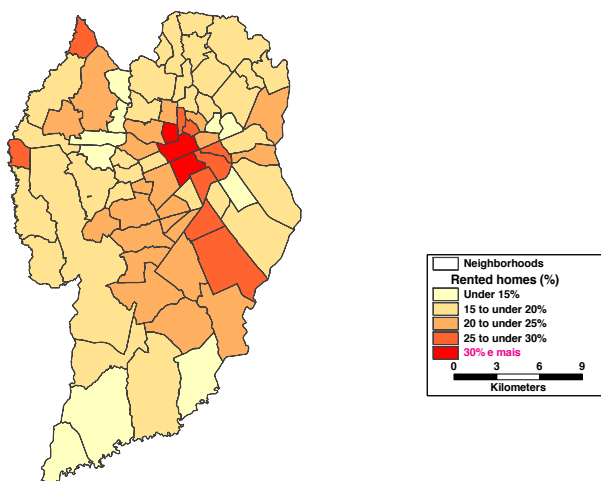


Source: IBGE (2010).

In Curitiba, the percentage of rented homes decreases moving from the center to the periphery. As in São Paulo and Salvador, the highest proportion of rented properties in relation to total available housing is concentrated in the central area, which makes up more than 30 percent of the total (Map 5.2). Certain connected districts, such as São Francisco and Rebouças, also display a high concentration of this type of dwelling. The districts of Centro Cívico, Alto da Glória, Cristo Rei, Jardim Botânico, and Prado Velho are all located within the zone known as the Regional Matriz, with a middle- and upper-middle class population, where rental tenancy represents between 25 and 30 percent of the total. The more peripheral neighborhoods, such as Lamenha Pequena, in the Região de Santa Felicidade, and Hauer and Capão Raso, in the Região Boqueirão, as well as Riviera in the Região de la Ciudad Industrial de Curitiba (CIC), which have a middle-class, middle to lower, and lower-class population, respectively, are in the same situation. In the districts of Mercês and Birrogilho, which are also part of the Regional Matriz and have upper-middle and middle-class households, rented dwellings represent around 25 percent of the total number of properties.

## MAP 5.2 Rented Properties in the Municipality of Curitiba, 2010 (percentage)

Curitiba 2010



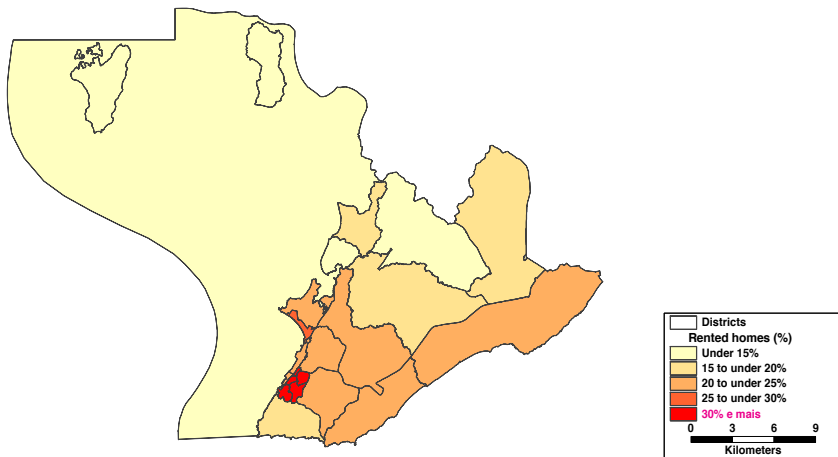
Source: IBGE (2010).

In Salvador, the highest proportion of rented accommodations is concentrated in the center of the city, where 30 percent of all dwellings are rented (Map 5.3). Given that this is where the sub-district of Santo Antônio is located, which is connected to the Pelourinho, Conceição da Praia, in Cidade Baixa, the central area has 21 percent of the municipal rental inventory. The lowest proportion of rental housing is in the sub-districts of Pirajá, Valéria, and São Cristóvão, in the Região Miolo on the outskirts of the city, and in the sub-districts of Plataforma, Periperi, and Paripé, which are part of a suburb connected by rail to the districts of Cidade Baixa and the sub-districts of Maré, which are insular. In some cases, these areas fall far below the municipal average of 20.06 percent in terms of rented accommodations, and are characterized by their distance from the city center and their lower-income population. Rented dwellings as a share of the total number of properties are 14.4 percent in São Cristóvão and 4.1 percent in the islands.

As Table 5.3 shows, the proportion of rented homes in São Paulo is greater than in Curitiba and Salvador, where income is lower and the proportion of dwellings located in poor neighborhoods is greater. In all three cities, the proportion of rented homes is greater in the city center than on the periphery.

**MAP 5.3** Rented Properties in the Municipality of Salvador, 2010  
(percentage)

2010



Source: IBGE (2010).

The average proportion of income that tenants must use to pay their rent is around 23 percent, slightly higher in São Paulo than in the other two cities. In São Paulo and Curitiba, the proportion of rented dwellings in poor neighborhoods was close to 9 percent in 2010, or 9.39 percent of homes in São Paulo and 9.32 percent in Curitiba. There is an inverse relationship between the existence of marginal neighborhoods and renting, since, although the former are built on invaded land, housing units in

**TABLE 5.3** Proportion of Rentals, Average Rentals, and Average Income in Three Brazilian Cities, 2010

Variable	São Paulo	Curitiba	Salvador
Proportion of rented homes	24,85%	22,50%	20,06%
Average rent (as % of minimum salary)	1,17	1,09	0,76
Average head of household income (times the minimum salary)	4,98	4,71	3,31

Source: IBGE (2010).

marginal neighborhoods are counted as private property in the Brazilian census. There are, however, rental homes in poor neighborhoods. Research in São Paulo reveals that the average rent for these properties in poor neighborhoods is approximately 55 percent of the average value in the formal market. In general, owning a rental home in a poor neighborhood is a good investment for families who are willing to dedicate their scant savings to this purpose.

In the three cities discussed, the rental unit, generally brick-built and externally rendered, has fewer persons per home than privately owned houses. In São Paulo, overcrowding is approximately 10 percent higher than in Curitiba and Salvador; conditions are worse, there are fewer rooms per dwelling, and the population density is greater: 2.42 persons per home and 2.08 persons per room, which is above the limit established by the World Health Organization. Therefore, dwellings in the largest cities seem to be more overcrowded, perhaps because the value of urban land is higher.

With regard to sanitary conditions, the majority of rented units are connected to the public water supply, with almost 99 percent coverage in the three metropolitan areas. This indicator is greater than or similar to the coverage for privately owned middle-income homes. In São Paulo, which has the most extensive sanitation coverage, the proportion of individually owned dwellings with at least one internal water point was 99.16 percent, a figure less than the 99.62 percent coverage in rented homes. Curitiba also has this small difference, with 99.47 percent of rented and 99.10 percent of individually owned dwellings connected to the public water supply system. In Salvador, the poorest metropolis in the northeast, the figures reach 99.50 percent for rented units and 98.94 percent for privately owned dwellings. The same is true for wastewater and sewerage systems, as rented units enjoy better conditions than owner-occupied houses in all three cities. Salvador has 4.34 percent of rented housing units with unfit sewerage systems, whereas the proportion is 3.95 percent in São Paulo, and it is lowest in Curitiba, at 2.05 percent. In Salvador, only 63 percent of rented homes have sewage collection.

Conditions in rented homes and infrastructure in rented dwellings in all three cities are better than in privately owned homes. This is because housing units on invaded land in poor neighborhoods are considered legally owned. Also, the association between rent and income is generally positive. In Brazil, a segment of the population lives in its own precarious, self-built homes on the urban periphery. Analysis of household equipment reveals that these individually owned and rented homes have televisions,

refrigerators, and mobile telephones. Private automobiles are less likely to be present in rented homes than in owner-occupied dwellings, both in São Paulo, 39 percent for rented and 60 percent for owner-occupied, and Curitiba, 54 percent and 72 percent for rented and owner-occupied, respectively.

Although census data offer a detailed description of the tenant profile, only São Paulo has information comparing owners and tenants. Research by SECOVI-FIA carried out in 1995 dismantled the myth that the landlord is a great, rich owner of various rental properties, and put forward reasons for modifying regulations that were excessively protective toward the tenant. The majority of owners have few properties: 72 percent possess a maximum of two rental apartments, and 82 percent possess up to two houses. Therefore, the rental housing supply is provided by small owners whose family income is similar to the tenant's. Around 59 percent of tenants belong to classes C and D; for owners, this proportion reaches 66 percent.

It can be demonstrated that the difference between owner-landlords and tenants is not great. Owners often have higher educational attainment than tenants. There is a higher proportion of widows and divorced people among tenants. Renting is generally considered a survival strategy for elderly people and for lower-income classes.

There is an appreciable difference in the marital status of heads of households. In São Paulo, 49 percent of heads of tenant households are single, whereas this is true for only 27 percent of heads of household who are owners. In Curitiba, the proportion is 45.40 percent and 22.51 percent, and in Salvador, it is 60.98 percent and 44.47 percent, respectively. Cohabitation is also extensive among tenants. Thus, any program aimed at promoting renting should take into account the specific situation in the context of family law when executing a rental contract.

As for the head of household profile, São Paulo and Salvador have a similar proportion of men, at around 56 percent. Curitiba, however, has a unique characteristic, in that 55 percent of heads of household in rented homes are female. With respect to the age of heads of household, tenants are usually younger than their landlords. The average income for heads of household is higher for owners than for tenants. Therefore, in São Paulo, owners earn 6.55 times the minimum salary, whereas tenants earn on average only 4.8 times the minimum salary. In Curitiba, the amount is 6.60 and 4.71 times the minimum salary and in Salvador 2.52 and 3.31 times the minimum salary for owners and tenants, respectively.

In São Paulo, Curitiba, and Salvador, tenants can generally read and write, although there are variations in educational attainment. Whereas in São Paulo and Salvador the percentage of the population with over 12 years of schooling is 22 percent and 20 percent, respectively, in Curitiba it rises to 32 percent.

With regard to working conditions, 74 percent of tenants in São Paulo work in the service and commerce sectors, or in unskilled jobs, above all in the formal sector (60.50 percent). Their average income is therefore slightly below five times the minimum salary, and normal income varies from between once and twice the minimum salary. Nearly 30 percent work at home, and 25 percent spend more than an hour commuting to and from work each day.

In Curitiba, 77 percent of tenants are employed, mainly in the formal sector (63 percent). The proportion of those employed in commerce and services, or 17.5 percent, is similar to that of teachers and independent professionals, or 16.6 percent. Average income is 4.71 times the minimum salary, and normal incomes vary between once and twice the minimum salary. Furthermore, 26 percent work at home, and 58 percent spend around 30 minutes each day commuting. In Salvador, nearly 70 percent are employed, 22 percent in the commerce and service sector, 14 percent in unskilled work, and 13 percent in the independent professional or academic spheres. Moreover, although the majority, or 62 percent, work in the formal sector, 76 percent do not contribute to the social security system. Average income is 3.73 times the minimum salary, with an average rent of 0.76 times the minimum salary, and a modal income of once or twice the minimum salary. Nearly 30 percent work at home and 20 percent spend up to an hour commuting to and from work each day.

## HOUSING POLICY IN BRAZIL

### National Housing Policy

The first national housing authority in Brazil was the FCP, set up during the populist period, between 1945 and 1964. The military government established the BNH and the Housing Finance System (Sistema Financiero de la Vivienda, or SFH), which were responsible for promoting the construction of around 4.4 million new dwellings, equivalent to 24 percent of the total increase in home building during this period. However, only 1.5 million of

the new homes were allocated to the low-income segments. The Sarney Administration (1985–89) established grants in conjunction with local governments, aimed at helping lower-income families with income that totaled less than five times the minimum salary. The proposal aimed to finance 500,000 units, but only 20,000 were actually built.

Under the Collor government (1990–92), the “modernization” rhetoric was manifested in housing proposals that were market-oriented, ensuring favorable conditions for private sector activities, even when it came to promoting social housing. Between 1990 and 1994, around 500,000 housing units were built under the four major programs with funds provided by the Time Served Guarantee Fund (Fondo de Garantía por Tiempo de Servicio, or FGTS): the PAIH, the Housing Program (Programa de Vivienda, or PROHAP), the Popular Entrepreneurs Program (Programa Popular de Empreendedores, or PPE), and various cooperatives.

The Itamar Administration (1992–94) did very little in terms of housing at the federal level, although there was some talk of decentralization, and it encouraged the establishment of municipal and state funds and councils. The proposals of the Fernando Henrique Cardoso government, which took office in 1995, followed the examples of its predecessors: they tended to emphasize financial solutions. New ways were sought to help people and to optimize resources. A new system aimed at attracting new investments—the Real Estate Financing System (Sistema Financeiro Imobiliário, or SFI)—was implemented, based on the idea of guaranteeing the credit title claim directly to the buyer, rather than to the developer, as was previously done, with a view to giving the user more negotiating power. At the same time, efforts were made to activate the secondary market in second-hand property.

Cardoso was reelected in 1998, but the Brazilian currency crisis and fiscal discipline measures created unfavorable conditions for a redistributive housing policy. Around the middle of 1998, the government announced its Residential Rental Program (Programa de Arrendamento Residencial, or PAR), which was focused on social housing. It was not solely renting, but rather renting with the option to buy or lease, which would confer ownership after 15 years. Under this scheme, the user would become the owner after the contract terminated, with either full repayment or refinancing of the debt. A system of quality and cost control was set up, and the monthly rent was fixed at 0.7 percent of the total cost of the home.

In 2003, Lula da Silva became president. During his first term in office, the government continued to pursue Cardoso’s housing policies, although

there was a considerable increase in subsidies. Almost non-existent under the previous government, these subsidies rose by BRL 468 million in 2002 to almost BRL 1 billion in 2004. The Lula government made unprecedented efforts to assist the poorest groups. At the beginning of 2009, following the crisis of 2008, the My House, My Life Program (Programa Minha Casa, Minha Vida, or PMCMV) was implemented, aimed at constructing one million new housing units. Like the creation of the SFH and the BNH, the primary objective was to promote economic growth during a period of international crisis. The investments were allocated according to official criteria: 40 percent of the housing units to be built would be earmarked for families with incomes of up to three times the minimum salary, 30 percent for those with incomes of six times the minimum salary, and a further 30 percent for those earning from 6 to 10 times the minimum salary. In October 2012, the minimum salary was BRL 622, which was approximately US\$303. This was the first time that considerable non-returnable grants were allocated to building social housing for the lowest-income groups and that allocations were differentiated according to socioeconomic status.

In 2011, PMCMV 2 was put into operation with the ambitious objective of building 2 million new houses, 60 percent of which would be allocated to families earning up to three times the minimum monthly salary, while only 10 percent would be reserved for families earning between 6 and 10 times the minimum salary. During this second phase of the program, investments totaled BRL 125.7 billion, BRL 72.6 billion in the form of grants and BRL 53.1 billion in financing. The contracts were designed to be put into effect at the beginning of 2014, which means that the program is still in its implementation phase.

Moreover, neighborhood upgrading programs have received federal funding via the Accelerated Growth Program (Programa de Aceleração de Crescimento, or PAC). Poor neighborhoods have been legalized, regardless of their location in the urban areas, except when located in dangerous areas. The objective is to conserve as far as possible the capital that the residents themselves have already invested in developing these areas.

### Local Housing Policy

Since the creation of the FCP and, later, the BNH, housing policy was always the responsibility of the federal government, even when it came to allocating resources via the Real Estate Financing System, created in 1966.



But since the mid-1980s, following the closure of the BNH, Brazilian cities and states began to organize regional housing programs. Following the approval of the new Federal Constitution in 1988, municipalities took the lead in managing both municipal policy and urban land use.

In São Paulo, there are two active state authorities: the Metropolitan Housing Corporation of São Paulo (Companhia de Habitação Metropolitana de São Paulo, or COHAB-SP), created in 1965, with a metropolitan character that has operated exclusively within São Paulo since 1986, and the Housing Development Company (Companhia de Desenvolvimento Habitacional e Urbano, or CDHU), a state-owned enterprise founded in 1975 to address the needs of the other cities in the metropolitan area and the northern part of the state. Curitiba also has a state housing enterprise, the Curitiba Housing Company (Companhia de Habitação de Curitiba, or COHAB-CT), founded in 1965. In Salvador, the Bahia Housing and Urban Development Company (Empresa Vivienda y Urbanización de Bahía, or URBIS), created in 1969, closed in 1987.

During the BNH's existence (1964–86), housing enterprises were merely the executors of that part of the federal programs aimed at providing housing for the lowest-income sectors. After the BNH's dissolution, municipal and state governments sought new lines of financing for housing. In recent decades, the policies have been administered by state or municipal departments, according to the wishes of the government in power. The City Statute (2001) (Estatuto de la Ciudad) and the implementation of the Strategic Municipal Master Plans (Planes Maestros Estratégicos Municipales) throughout the first decade of this century encouraged local governments to play a more active role in the areas of housing and urban development.

The only municipal case study about special rental housing programs is São Paulo. Curitiba and Salvador have also undertaken experiments with the PAR, which were not extended further, and with temporary rented accommodations for families that were moved from areas of social risk.

### São Paulo's Social Rent Program

The Social Rent Program (Programa de Alquiler Social) is the main rental housing program in São Paulo. It was created by Resolution No. 23 of the Municipal Housing Council (Consejo del Fondo Municipal de Vivienda) and is aimed at satisfying the housing needs of families who have an income of up to three times the minimum salary and who had previously been

excluded from existing housing financing programs. The program's principal goal is to "extend the forms of access to housing for people with the lowest incomes, who cannot participate in the existing programs that provide financing for homeownership or, due to their characteristics, are not interested in buying a home, via the provision of already built housing units under a social rent regime."

This initiative provides municipally owned housing units, built with municipal and federal resources, mainly provided by the Municipal Housing Fund (*Fondo de Vivienda Municipal*), which is responsible for acquiring, building, and/or restoring buildings. The amount of rent to be paid is calculated by dividing the amount invested in the building by 30 years. The rent can represent a minimum of 10 percent and a maximum of 15 percent of the beneficiary family's income, according to total earnings and the number of persons that live in the dwelling.

COHAB calculates subsidies based on the difference between the rental and reference values. The reference value is based on the investment, management, and maintenance quotas. The subsidy is per family, non-transferable, renewable every 12 months, and based on proof of family income. Rent is renewed every two years. The residents pay condominium expenses and the Municipal Housing Fund pays for maintaining elevators and for preventive maintenance.

Only three of the projects foreseen within the framework of the Social Rent Program were completed: Parque do Gato, on the left bank of the Tamanduatei River; Complejo Olarias, in Pari, the central area of the city; and Vila dos Idosos, also in Pari. The Residencial Parque do Gato was built in an area partially occupied by the Favela do Gato. The complex has 486 rental housing units, distributed among nine blocks, each comprising four separate condominiums. The housing units range from kitchenettes to one- or two-bedroom apartments (Illustration 5.1). The Complejo Residencial Olarias, with 137 housing units, was completed in 2004. The overt aim of this project was to provide homes for homeless people—especially for those who live by collecting waste for recycling—for people who live in high-risk areas, elderly people, and disabled people (Illustration 5.2). The Vila dos Idosos complex (*Villa de las Personas Mayores*) was completed in August 2007. It offers 145 housing units, which are adapted to suit the needs of elderly people (Illustration 5.3).

The Municipal Housing Plan 2009–24 sets forth a series of intervention programs, with an application foreseen for each new program aimed at social rentals in the form of subsidies. These subsidies will be used to

supplement the rent for an estimated 162,765 families in the private rental market. The Plan proposes to use its resources for “families and individuals, with a family income of up to three times the minimum monthly salary

**ILLUSTRATION 5.1** View of the Residencial Parque do Gato



Source: COHAB-SP (See: [http://jonasfederighi.files.wordpress.com/2009/03/locacao-social-centro-sp-mesa\\_2\\_margareth\\_matiko\\_Brazil.pdf](http://jonasfederighi.files.wordpress.com/2009/03/locacao-social-centro-sp-mesa_2_margareth_matiko_Brazil.pdf)).

**ILLUSTRATION 5.2** Complejo Residencial Olarias



Source: Photo by Mario Nader (See: [http://jonasfederighi.files.wordpress.com/2009/03/locacao-social-centro-sp-mesa\\_2\\_margareth\\_matiko\\_Brazil.pdf](http://jonasfederighi.files.wordpress.com/2009/03/locacao-social-centro-sp-mesa_2_margareth_matiko_Brazil.pdf)).

**ILLUSTRATION 5.3** Complexo Residencial Vila dos Idosos

Source: Photo by Graco Peixoto (See: <http://www.prefeitura.sp.gov.br/cidade/secretarias/habitacao/noticias/index.php?p=12517>).

and, preferably, that belong to those segments of society aged 60 and over; homeless people; disabled people; people with special needs; and residents living in unhealthy or dangerous areas. Families whose monthly earnings equal more than three times the minimum salary can also become beneficiaries, when the per capita income does not exceed the minimum monthly salary” (Prefecture of the City of São Paulo [Prefeitura da Cidade de São Paulo] 2011: 124). The program’s target population was carefully defined, taking into account the role of renting within the spectrum of social housing policies, since it is directed toward those groups with the highest potential demand for this type of dwelling. The greatest difficulties faced, both for social rentals and in the PAR, are related to the high rates of arrears and administrative fees, as well as poor upkeep of public property. Other problems include the small scale of the programs, the lack of continuity, and the scant social support provided for beneficiaries.

Table 5.4 sums up the main housing policies in Brazil that have been described throughout this section.



**TABLE 5.4** Brazilian Housing Policies: Summary Table *(continued)*

1960	1970				1980	1990			2000			
	64	67	73	79	85	89	92	95		03	08	
	Military Dictatorship											
	Democracy											
Presidents	Castello Branco	Costa e Silva	Médici	Geisel	Figueiredo	Sarney	Collor	Itamar	FHC 1	FHC 2	Lula 1	Lula 2
Local Housing Policy	Local housing companies execute the federal programs											
	Decentralization of housing policy; creation of state and municipal housing funds											
	Enhanced role for the State and Municipal Housing Councils (Consejos Estatales de Vivienda y los Consejos Municipales de Vivienda)											
	1965: COHAB-SP and COHAB-CT1969/1986: URBIS Bahia				1975: CDHU-SP							
	2002: São Paulo, Social Rent Program (Programa de Alquiler Social)											
	2004: São Paulo, rent subsidies											

Source: Authors' own elaboration, based on Moreira (2009).

## OVERVIEW OF THE CURRENT SITUATION: LEGAL AND FINANCIAL ISSUES

### Legislation on Rented Accommodation: the Rental Law

In Brazil, before the proclamation of the Republic, the relationship between owners and tenants was governed by arrangements dispersed in various regulations. In the 1920s, the government began to intervene more actively in this area. As Table 5.5 shows, the first intervention took place in 1921, with approval of the Rental Law (Ley de Inquilinato). The law was promulgated

**TABLE 5.5** History of the Rental Law, Decrees, and Laws

Year	Law	Commentary
1921	Decree No. 4.403	First property law on renting
1928	Decree No. 5.617	Increase in urban conglomerations
1934	Decree No. 24.150	Lease Renewal Law (Ley de Renovación del Alquiler)
1942	Decree-Law No. 4.598	Rent freeze
1944	Decree-Law No. 6.739	Reform of the previous law
1950	Law No. 1.300	Agreements on free rent for unoccupied properties
1955	Law No. 2.699	Unlimited rental period
1964	Law No. 4.494	End of tax exemption regime for property relations
1965	Law No. 4.864	Acceptance of index-linking for rents
1966	Decree-Law No. 4	Innovations in non-residential renting
1967	Law No. 5.334	—
1977	Decree-Law No. 1.534	—
1979	Law No. 6.649	Attempt to systematize rent legislation
1991	Law No. 8.245	Rent Statute (Estatuto de Alquiler)
2001	Law No. 10.267	City Statute (Estatuto de la Ciudad)
2002	Law No. 10.406	Civil Code
2009	Law No. 12.112	Changes to Law No. 8.245/91 to improve regulations and procedures concerning urban renting

Source: Mello (2007).

in the midst of a housing crisis in the country's major urban centers, following pressure exerted by workers demonstrating in Rio de Janeiro and São Paulo (Bonduki, 1998). This legislation was revolutionary at the time. Its purpose was to protect the least-favored parties: tenants.

### Evolution of Brazilian Legislation on Rented Accommodation

In 1942, the central government froze rents at their current value (Decree-Law No. 4.598). This temporary measure remained in force for 20 years and altered the behavior of the residential rental market in Brazil (Mello, 2007). According to Bonduki, the Rental Law was conceived as an "instrument for defense of the popular economy, a strategy to destroy the unproductive, rentier class, a measure for reducing the cost of workforce reproduction, a political-economic measure to boost growth in the industrial sector, and a way of legitimizing the populist State. All of this explains the emergence and the permanence of the rent freeze" (Bonduki, 2004: 245).

Freezing rent values changed not only the relationship between owners and tenants, but also the development of new housing for the lower- and middle-income segments of the population, by keeping the supply of new rental housing low.

The next significant step was taken in 1991 with the Rent Statute (Law No. 8.245). For the first time, the law consolidated urban real estate rentals, including residential, non-residential, and commercial, under a single statute, alongside the procedures pertaining to them. This legislation sought to balance the interests of different actors, introduce clarity into the real estate market, and demonstrate the government's interest in taking an active role in regulating the rental market.

In 2009, Law No. 12.112/09 amended the rental legislation, but it did not substantially modify the previous regulations. According to Bushatsky,<sup>3</sup> a lawyer specializing in property law, the Rental Law (1991) was amended after a year of discussion involving all representatives of civil society present in the Federal Senate, among them the community of real estate management companies. The legislation does not constrain renting for residential purposes, but it does grant the same rent guarantees enjoyed by non-residential owners to owner-landlords of properties for residential use. Also important is that the "judicial branch is committed to ensuring compliance with the law," which reflects the current conception that renting has to be

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<sup>3</sup> Interview conducted on July 28, 2012.



a civil relationship, with rules, regulations, and codes. This has been crucial for this market; one of the constraints on investing in rental property was how to repossess the property, since the previous legislation largely protected the tenant. The changes reduced the amount of time it took to evict a tenant. Currently, in São Paulo, the average time period is 60 days, and the maximum period should not exceed six months.

In this context, promulgation of the Rentals Law (Ley de Alquileres) in 1991—alongside stabilization of the economy—was useful for defending renting. Primarily, it led to a substantial reduction in lawsuits and the stabilization of the real estate investment market (Mello, 2007). Table 5.6 describes the principal characteristics of this law.

### Financing Housing in Brazil

In the mid-1960s, the SFH established the country's first mortgage loans. Until then, public housing initiatives in Brazil were virtually non-existent. Between 1937 and 1964, only 140,000 new social housing units were supplied, of which more than 85 percent were built with the pension funds of the main trade unions (Bonduki, 1998).

**TABLE 5.6** General Framework for Urban Rental Property Regulated by Law No. 8.245/91

Urban rental property	Residential	Common: period of 30 months or more (termination without cause)
		Less than 30 months (only for termination with cause, unless the contract is for longer than five years)
		Free negotiation
		By season-period of 90 days (termination without cause)
	Non-residential	Commercial: tenants who are shopkeepers, manufacturers, or entrepreneurs (termination without cause), with right of renewal
		Civil: civil tenants (termination without cause), renewal only when it benefits civil society
		Special: schools, hospitals, rest homes, etc. (termination with cause)
		Indirect professional benefit or advantage (termination without cause)

Source: Authors' elaboration.

The problem of high inflation is worth highlighting. Inflation discourages the formation of savings funds, as there is no mechanism for adjusting debt to the erosion of monetary spending power.

The SFH has been able to expand and grow for two main reasons. First, it introduced a monetary correction for inflation to the contracted loans, which enabled the formation of savings funds for long-term financing. The second reason is linked to the FGTS, whose mission is to compensate dismissed workers via mandatory contributions. Not all the funds for the SFH are provided by the FGTS, as it also receives funds from the Brazilian Savings System (Sistema Brasileiro de Poupança e Empréstimo, or SBPE). Private banks and other credit institutions, in compliance with strict government regulations, operate the latter.

### The Time Served Guarantee Fund

The FGTS collects 8 percent from all private sector salaries, thereby accumulating funds to finance unemployment insurance. The fund was coordinated and administered by the BNH until 1986, when the Federal Economic Savings Bank (Caixa Econômica Federal, or CEF), a government financial institution, assumed partial control of operations. The FGTS finances low-cost housing of up to BRL 80,000 (US\$39,000).<sup>4</sup> In cities with higher housing prices, the limit is raised to BRL 130,000 (US\$64,000).

FGTS loans are based on the beneficiary's income. The highest income that qualifies for an FGTS loan is BRL 3,900 (around US\$1,900), or approximately nine times the minimum monthly salary. In cities where property is more expensive, the limit is increased to BRL 4,900 (US\$2,400), which is 11 times the minimum monthly salary. While these resources have been used for financing urban and transport infrastructure, at least 60 percent of the funds have to be devoted to housing.

### The Brazilian Savings and Loan System

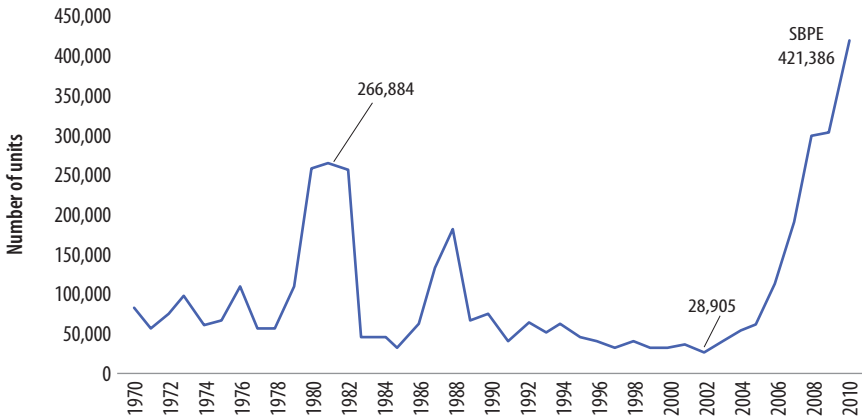
The SBPE finances housing for middle-income families. The funds are collected from savings deposits in commercial banks and from the CEF. The account holders receive a fixed annual interest rate of 6 percent plus a referential rate (RR),<sup>5</sup> and profits are not taxed. The SBPE can be used to

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<sup>4</sup> The exchange rate on June 1, 2012 was: US\$1 = BRL 2.04.

<sup>5</sup> The referential interest rate is floating, with partial correction for inflation by the SFH.

**FIGURE 5.1** The Evolution of Home Mortgage Loans in Brazil 1970–2010 (in units)



Sources: Associação Brasileira das Entidades de Crédito Imobiliário e Poupança (ABECIP), Central Bank, and CEF.

finance homes up to a limit of BRL 350,000 (US\$171,000). The maximum amount available for financing is BRL 245,000 (with a loan-to-value ratio of 70 percent). The maximum interest rate is 12 percent per annum.

In Brazil, the interest rate for a property loan is generally fixed for the duration of the contract. An SBPE mortgage might cover the construction or the acquisition of new or used homes. Most SBPE lenders impose the requirement of a trust clause<sup>6</sup> and use a constant depreciation system. The law requires the SBPE lenders to devote at least 65 percent of their savings deposits to housing.

### The Evolution of the SFH

Figure 5.1 shows how financing by the SFH has changed over time, identifying three main phases:

1. *Consolidation and growth (1964–82)*. Known as the “Brazilian miracle,” this was a period of rapid economic expansion. Brazil’s GDP grew at an annual rate of 8.7 percent. Boosted by the strong economy, demand

<sup>6</sup> Deeds with a trust clause: as in financial leasing contracts, the borrower only acquires full possession of the house after full repayment of the debt.

for housing grew alongside the demand for mortgage loans. To satisfy these needs, the National Housing Bank, the central actor during the 1960s, consolidated deposits and loans by forming a network of agents. In general, the system played a crucial role in turning Brazil's cities into massive population centers. The SFH financed around 70 percent of the new homes built in the country during this period.

2. *Crisis and breakdown (1982–2001)*. The entire housing financial system collapsed in 1982 during the Brazilian debt crisis. Faced with a global slowdown and rising unemployment, withdrawals from the FGTS increased sharply. As wages fell, the number of insolvencies rose, causing considerable problems for the housing financial system. There was also a hike in inflation and the number of new loans dropped significantly.<sup>7</sup> To tackle rising inflation, mortgage repayments were indexed to borrowers' salaries, although only partially.
3. *Restructuring and recovery (since 2001)*. The SFH has been able to gradually recover due to the improvement in economic conditions, including a reduction in inflation and lower interest rates, and to regulatory reforms, including a change in the accounting method for the FCVS for regulatory purposes. The lower inflation figures have significantly brought down interest rates, with a commensurate rise in mortgage credit, increasing the demand for housing.

Two further changes in the economy also helped the SFH renaissance: first, the redistribution of income in Brazil and, second, the creation of the Real Estate Financing System (Sistema Financiero de Bienes Raíces, or SFI). With regard to the former, the key was the establishment in 2004 of the *Bolsa Família* program, part of a social assistance package provided by the Brazilian government known as the Zero Hunger Program (Fome Zero).<sup>8</sup> The demographic change in Brazilian households has also led to significant

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<sup>7</sup> The annual rates of inflation were around 40 percent in the 1960s and 1970s, rose to 330 percent annually in the 1980s, and reached 764 percent annually in the period between 1990 and 1994.

<sup>8</sup> *Bolsa Família* provides direct income transfers to benefit families in poverty or extreme poverty. The program helps more than 12 million households nationally according to family income per person (limited to US\$140 per month), and the number and age of the children in the household. The amount of the benefit received by each family varies between US\$22 and US\$200. Various studies reveal that *Bolsa Família* has decisively reduced social inequalities and poverty. For example, the National Millennium Development Goals Monitoring Report (Informe Nacional de

improvement in income distribution, especially due to the decrease in household size, which follows the trend in the most developed countries. Between 1970 and 2010, the average size of Brazilian households dropped from 4.8 to 3.3 inhabitants. This decrease has led to a reduction in income inequality and has stimulated the creation of new households, with a corresponding increase in the number of new dwellings needed. According to calculations made by the Fundação João Pinheiro Brazil, the 2008 housing deficit reached 5.55 million units, 4.63 million of which were located in urban areas. Since the average number of inhabitants in each home in 2010 was around 3.3, the implication was that there was an unmet demand for around 18 million people, or about 10 percent of the Brazilian population.

## CONCLUSIONS AND RECOMMENDATIONS

The excessive rent burden accounts for 32 percent of the housing deficit, as calculated by the Fundação João Pinheiro Brazil. This figure reaches 44 percent in the metropolitan areas. In the metropolitan area of São Paulo alone, the deficit associated with the excessive rent burden is 256,000 units. Families who are paying high monthly rents are potential clients for a social rental program. Also important is the income of these families: of the total deficit of 691,000 dwellings in the three regions studied, 591,000 families, or 89 percent, earn less than three times the minimum salary. In Brazil overall, families earning less than three times the minimum salary comprise 89.6 percent of the housing deficit.

Analysis of property structure within Brazil and in the municipalities studied in this paper reveals a slight increase in renting over the last 10 years. The proportion of rented dwellings is greater in the central areas of the three cities studied, where there is also a concentration of cortiços and small kitchenette-type dwellings. Recent studies (Abramo, 2009; Baltrusis, 2005; Magalhães, 2012) indicate that the rented home also occupies an important place in the informal housing market, in the favelas, and in the irregular settlements.

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Seguimiento de los Objetivos de Desarrollo del Milenio) indicates that the program has led to a decline in extreme poverty from 12 percent in 2003 to 4.8 percent in 2008. Since 2004, Brazil has experienced a significant increase in real wages. Between 2001 and 2007, real income per family rose by 82 percent annually, which paved the way for an increase in the demand for mortgage loans to buy property.

In formulating public policy for rental housing, it is important to understand the historical dynamics and cultural roots of residential property development in Brazil. After four decades, culminating in the PMCMV (2009–12), the policy still maintains construction of new housing units for homeownership as its principal parameter. Some experiences with rental housing programs, such as the Programa de Locação Social in São Paulo, are limited, and they depend on specific municipal administrations, which can hinder their continuity and expansion.

Although social rental programs are often accepted as complementary to other housing initiatives, they still face the restrictions and stigma linked to the idea of living in rented accommodations. The most significant aspect of public housing goals that needs to be addressed is the cultural fixation with homeownership. It is time to move beyond the idea that “I own property, therefore I am,” a statement that implies that only by being a homeowner can one enjoy the right to a secure dwelling. Changing these values can only be achieved through a significant awareness-raising campaign.

As far as the public authorities are concerned, the most serious conflict has to do with the difficulties and costs inherent in maintaining a public housing complex. After 10 years of managing the rental housing complex in São Paulo, municipal authorities see the experience of Parque do Gato as a problem. The greatest difficulties arise from the practice of subletting without the consent or even knowledge of the agency in charge, the pillage of public property, obstacles in collecting rents and surcharges, the high cost of subsidies, and maintenance costs. These aspects, intrinsic to public social rental programs, make the authorities reluctant to introduce these programs on a wider scale.

For all of the aforementioned reasons, any program designed to encourage renting must provide viable solutions to the problems faced by the public authorities in managing these operations. Learning from international experiences that promote private-sector supply of social rental housing might be an option, as well as creating public-private associations. In this respect, draft legislation for Law No. 6.349 (2009), currently under consideration in the Lower Federal Chamber (Câmara Federal Baja), proposes an alternative by seeking to set up a Social Housing Service (Servicio de Vivienda Social) based on public and private social housing complexes. The hope is that “the operation will be managed by not-for-profit agencies, with statutes that establish the law with the aim of supporting and improving the quality of life for the lowest-income groups, via formal agreements with local organizations for this purpose (Art. 17).”

Another important consideration is that social rental programs in Brazil have been extended as housing programs aimed at satisfying a specific demand. Both in São Paulo currently, in the Municipal Housing Plan, and in the draft legislation, priority will be given to people over 60, the homeless, those living at social or personal risk, and people in high-risk areas, unhealthy areas, or areas that have been designated for environmental conservation. The criteria are clear and coherent, which demonstrates solid understanding of the role that renting must play in social housing policies in a context where private property holds sway.

The possibility of providing fiscal incentives is also a critical issue to include in a broad-scale social rental program. Fiscal stimuli could motivate small and large investors to undertake social rental housing projects. In interviews, many real estate developers indicated that this might be an attractive alternative.

With regard to land ownership, even when legislation is completely structured around urban development, as in the case of the City Statute (*Estatuto da Cidade*), access to land in urban areas still poses a problem in Brazil. The social role of housing has yet to take root. Therefore, subsidies aimed at creating a stock of land reserved for public use would be welcome.

Finally, the consolidation of a social rental housing program must integrate the construction of public housing complexes with expansion of existing rental subsidies. The program that subsidizes the demand for rental housing should be extended to offer citizens with the lowest incomes access to a decent home. Moreover, subsidies must be applicable in the real estate inventory in each municipality, in both the regular and the irregular markets, and to its local characteristics, such as the value of rents, the location of the unit, and the type of dwelling, in order to provide a real solution for beneficiary families.

In summary, housing policy should not be limited to the development of new units for sale. It should offer alternatives to those segments of the population that cannot, or do not want to, become homeowners. Any intervention aimed at encouraging rental housing in Brazil should be undertaken gradually and should take the characteristics and the context into consideration.

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# Renting as Part of a Dynamic Housing Policy in Chile

*Isabel Brain, Pía Mora, and Francisco Sabatini*

## INTRODUCTION

Rental housing market development seems set to become one of the central themes of public policy in Chile in the near future. Promoting rental housing will help to tackle the problems currently faced by vulnerable urban groups in their efforts to access well-located formal housing in the cities of Chile. For this purpose, a review of the rental market is a priority task.

Chile has significantly reduced its housing deficit with the implementation of a sustained social housing policy, which has provided demand subsidies since the early 1980s. For the lowest income quintiles, this deficit was reduced from 53.4 to 19 percent of households in the period between 1990 and 2006. Offering families a direct subsidy in the form of a *voucher*, based on a single point system that takes into account social vulnerability and willingness to save, has encouraged private businesses to maintain steady production of social housing. This policy has deliberately favored the poorest household quintile, enabling them to access their own home practically cost-free.

The State has played a significant role in building up the present housing stock. Between 1990 and 2006, 8 out of every 10 homes were acquired with the help of some form of housing subsidy (Funasupo, 2006). In 2010, 78.1 percent of households in the Metropolitan Region of Santiago (MR) Coquimbo, Valparaíso, and Araucanía regions owned their own homes (MINVU, 2010). Moreover, less than 1 percent of Chilean households live

in informal settlements (so-called *campamentos*).<sup>1</sup> In Chile, therefore, the housing deficit, which can be understood as the number of homes needed to keep up with demand, is not the main problem in social housing.

This successful housing policy, however, now faces significant challenges, mainly linked to access to well-located urban land. The efficient policy of allocating housing subsidies directly to households has had the effect of producing a massive amount of spatially and socially segregated housing, to the detriment of possible social integration and cohesion. In a context that demands labor flexibility, in which the location of urban housing is critical, residential segregation and the formation of huge agglomerations of social housing and consequently of social homogeneity become negative factors that make people poorer and put them at risk of suffering the problems of ghettoization.<sup>2</sup> Unemployment, lack of access to services, insecurity in the face of crime—which especially affects women—and fewer educational opportunities are among the phenomena that are exacerbated by residential segregation, especially in the largest Chilean cities.

The way that the building land market works, constant increases in land price, vertical integration of house building projects by real estate developers, regional urban public works plans, and the transformation of the traditional pattern of residential segregation are all factors that have led to the virtual expulsion of social housing for the most vulnerable households to beyond the city limits. Of the total number of homes built in the MR for the poorest quintile of households between 2006 and 2011, barely 8 percent were located within the Santiago Metropolitan Area (SMA), which portrays a worrying scenario of segregation on a regional scale.

Nonetheless, the country's cities show a clear, albeit recent, trend toward densification—that is, toward lower urban peripheral growth. This is due, among other reasons, to household location preferences, including those of lower-income beneficiaries of housing subsidies. Location is becoming ever more important as a factor in households' decision making about residential mobility, and the housing market is gradually beginning to

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<sup>1</sup> In Chile, there are 657 *campamentos*, with 83,862 residents and 27,378 households (MINVU, 2011b), which represents 0.5 percent of the country's population estimated in 2011 by the National Statistics Institute (Instituto Nacional de Estadísticas, or INE).

<sup>2</sup> Residential segregation is understood to be the degree of spatial proximity or territorial agglomeration of families belonging to the same social class, whether this is defined in terms of age, ethnicity, religious persuasion, or socioeconomic status, among other possibilities (Sabatini, Cáceres, and Cerda, 2001).

adjust to the location preferences of middle-income earners. Currently, the question of social housing no longer centers on access to a formal dwelling but rather on having a home that is integrated into the city and the opportunities it offers. Therefore, the key, in both functional and social terms, is how to access well-located urban land.

In this context, renting has a vital role to play. In contrast to other countries in Latin America, the main advantage of rental housing in Chile would not be a reduced housing deficit. Rather, it would help tackle the problem of social housing situated in remote and socially segregated locations—a phenomenon sometimes referred to as “urban deficit”—and would also help tackle the deterioration of a significant part of the housing stock, especially smaller apartments found in peri-central and peripheral areas.

Everything indicates that renting is a growing phenomenon in Chile. Flexible labor markets, characterized by short-term, poorly protected employment, and low levels of unemployment, mean that the location of their domicile has become a key factor for workers, and renting has become a good option for improving opportunities and reducing commuting time and distance. In fact, from the point of view of each household or worker, high public transportation costs possibly have an inverse relationship (or tradeoff) to the price of the rent.

Chile's achievements in terms of homeownership are not necessarily incompatible with rental market development. It is possible to separate the aim of capitalizing personal or family investment based on homeownership from the choice of residential location through renting. In fact, there are some indications that this process is already under way.<sup>3</sup> Moreover, Chilean housing policy should also resolve two traditional dilemmas: whether to focus on social or geographical targeting, and whether to favor demand subsidies or supply subsidies.

Presently, the authorities are open to the alternative of promoting renting at the public policy level, and the context appears favorable for such an approach in economic, mortgage, and regulatory terms. However, progress in this direction calls for greater knowledge of the rental market for houses and rooms for lower-income groups, especially in consolidated urban areas. This study aims to contribute to this knowledge by focusing

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<sup>3</sup> A study of the buying and selling of second-hand social housing, taking advantage of the housing subsidy, revealed that a high proportion of owners who disposed of their properties, a figure equal to 52.7 percent, did not live in the house that they were selling (Brain, Iacobelli, and Sabatini, 2005).

on three regions: the Metropolitan Region of Santiago, (MR), Valparaíso (V), and Coquimbo (IV).

## THE STRUCTURE OF HOUSING TENURE

### A History of Housing in Chile

#### *Housing Policy and its Effects on Urban Housing Tenure*

The history of housing in Chile in the twentieth century can be divided into two phases. The first is the rental phase, which occurred in the first half of the century. In this phase, renting was the main form of housing tenure for the great majority of the population, especially the poor, who rented rooms, tenements, and irregular plots. Starting in the 1950s, property began to be more accessible and homeownership rates gradually rose. This increase is attributable to the expansion of the construction industry and the housing-related financial sector, state housing provision and illegal land invasions, and the subsequent legalization of de facto occupations. More recently, however, rental households have increased at the same rate as homeowner households, which has cemented the relative importance of renting among the Chilean population. This is particularly visible in Greater Santiago (Gran Santiago), where in the last three decades some 20 percent of households have rented their homes, with a slightly rising trend.

The development of the construction sector throughout the second half of the twentieth century is closely linked to the importance that the Chilean State has given to reducing the quantitative housing deficit. During this period, economic agents, the State, and political movements were all reluctant to invest in rental housing. Almost all housing programs were aimed at building new dwellings for sale (Hidalgo, 2005). Homeownership thereafter became the holy grail for all political sectors; only the methods used to obtain it differed. In the 1960s and early 1970s, there was a significant movement to promote access to urban land. Thanks to the direct efforts of the State and fiscal incentives for building affordable housing, middle-income and salaried segments were able to access formal homes (Hidalgo, 2005). Low-income families, however, managed to become landowners largely due to land invasions. Tolerance by the authorities and state regularization of, and support for, self-building programs subsequently led to the legitimization of these encroachments (Garcés, 2002). Under the Unidad Popular government (1970–73), 400,000 people gained access to land in this manner (Rodríguez, 1983).

Under the dictatorship (1973–90), the State withdrew from construction activity and drastically repressed further land invasions. Renting was not an alternative for the poorest people in a context of high unemployment, inflation, and economic crisis. Consequently, cohabitation and overcrowding increased (Gilbert et al., 1993). To reactivate the building industry, the military government structured its housing policy around demand subsidies and a free market. Under this model, the State provided a subsidy for the free purchase of a home on the market, compensating for the gap between the beneficiary's savings and the mortgage loan value. The available subsidies were structured according to each household's socioeconomic level, which was established by a point system and the value of the purchased property.

During the transition to democracy, successive elected governments strengthened this system. A combination of formal residential construction, stimulated by economic growth, and state subsidy programs led to a reduction in both irregular occupations and the number of cohabiting households (Simian, 2010). Between 1992 and 2002, it is estimated that the housing deficit was reduced from 772,000 to 543,000 dwellings (Arriagada and Moreno, 2006).

### *Evolution and General Characteristics of Housing Tenure in Chile*

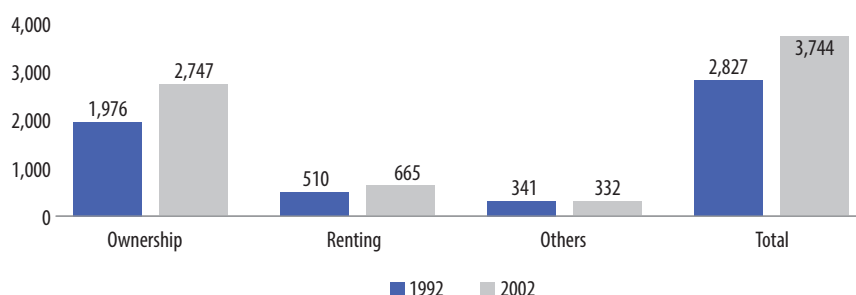
In a context in which access to homeownership was promoted, mainly for the lower-income strata, this form of tenure increased while renting, irregular tenure, and cohabitation all decreased (Simian, 2010). The decline in forms of tenure other than homeownership, from 30.1 to 26.6 percent, which was noticeable in the latest intercensal period (1992–2002) (Table 6.1), was due mainly to the decline in informal housing tenure and employer-provided accommodation. Whereas forms of tenure included in the “other” category decreased during the same period, the number of rented dwellings in the country rose in absolute terms from 510,000 to 665,000 units (Figure 6.1), thereby maintaining the relative share at around 18 percent of all homes.

The stability of renting in Chile is also noticeable in socioeconomic surveys (CASEN), although diverse regional trends are recorded. Whereas in the MR the incidence of rental households rose visibly between 1990 and 2011, in the Coquimbo and Valparaíso regions it fell in relative terms during the same period. In these regions, the proportion of tenants rose from below 15 percent and around 25 percent, respectively, in the first few years of the 1990s, to an average of 18.5 percent, according to the three most recent surveys.

**TABLE 6.1** The Housing Situation in Chile, 1952–2002

	1952	1960	1970	1982	1992	2002
Permanent dwellings (thousands)	955	1,159	1,530	2,078	2,826	3,744
Permanent dwellings, owner-occupied (thousands)	312	503	829	1,439	1,976	2,747
(percentage)	32.7	43.4	54.2	69.3	69.9	73.4
Permanent dwellings, occupied but not by owner (thousands)	643	656	701	639	850	997
(percentage)	67.3	56.6	45.8	30.7	30.1	26.6
Population (thousands)	5,933	7,375	8,885	11,330	13,348	15,116
Inhabitants/dwelling	5.4	5.3	4.8	4.5	4.0	3.9

Source: Adapted from Simian (2010).

**FIGURE 6.1** Housing Tenure in Chile, 1992–2002 (in thousands)

Source: Authors' elaboration, based on the 1992 and 2002 censuses (INE, 1992 and 2002).

Over the last two decades, state support for building new houses for transfer to owner-occupiers has not led to a significant reduction in the proportion of tenants in Chile's metropolitan areas. In the regions, despite the higher proportion of homeownership, renting has remained stable since 2006. Rental tenure therefore continues to play an important role in housing provision. In the MR in particular, the rental housing market is both vibrant and expanding. The large-scale metropolitan structure of the city makes it difficult to move around. Residential location and day-to-day mobility therefore become important assets when it comes to combining work and family life or improving social standing. Households, whether consciously or not, value the location of their dwelling above other considerations such as type of housing tenure or size. In comparison, in small or

medium-sized cities, settling down in one place with one's own home has less of an impact on labor activity.

### Household Attitudes toward Different Types of Tenure

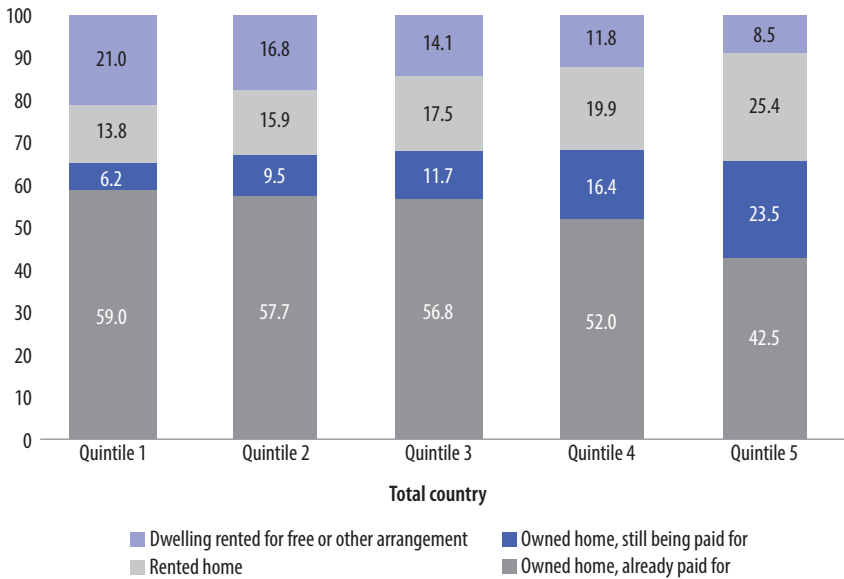
In the case of Chile, there are few studies on the determining factors in buying or renting a home. Only two studies have been conducted (Chamorro and Caro, 2010; Desormeaux and Vespa, 2005) based on data from the CASEN survey and on a model that considers the decision to buy or rent within a constant flow of household resources and restrictions on the credit needed to acquire property. The latter aspect is decisive in bridging the gap between the desire to buy and the possibility of doing so.

Chile has one peculiarity in this respect: housing programs eliminate the mortgage loan barrier to homeownership to a large extent. The State makes it possible for thousands of poor households to access a home that has been almost entirely paid for, whereas middle-income households receive a subsidy to compensate them for the gap between their real capacity to access mortgage credit and the price of the home. These homeownership programs strongly contribute to keep down rent prices for the middle- and lower-income strata. However, if households that received a housing subsidy are excluded, then a normal tenure distribution curve results, according to which lower-income households rent in higher proportion than the wealthiest households. For each CLP 100,000 of income (approximately US\$200), the probability of being a homeowner increases by 1.8 percent (Desormeaux and Vespa, 2005).

Work, age, and marital status are the most significant factors influencing the choice between renting and buying (Chamorro and Caro, 2010). Households with a young adult head of household tend to rent in higher proportions. Buying a property is something that usually happens with the passage of time, even more so if the household consists of a married couple and their children. Finally, the crucial factor is stable employment. People with an employment contract have more stable earnings and are therefore more likely to think about investing in a property.

In Chile, there is a correlation between low rental rates and lower income that differs from Northern Hemisphere countries. If the non-homeowners are compared overall, it is notable that irregularly held dwellings or homes rented free of charge are solutions more often adopted by poorer people, whereas renting is more heavily concentrated among households with more spending power.

**FIGURE 6.2** Housing Tenure in Chile, according to Income Quintile, 2009 (in percent)



Source: Authors' elaboration based on MIDEPLAN database (2009).

Figure 6.2 shows that homeownership is distributed similarly throughout all income levels. Nonetheless, the great majority of lower-income households live in a house that is entirely paid for. Whereas wealthy households can access mortgage credit and extend the payment of their investment for this asset over several years, the poorest people do not get into debt over their properties, as the majority benefit from state housing subsidies.

### Demographic Changes

The structure of housing tenure might be affected in the future by changing demographic patterns, which in Chile include a decline in the fertility rate and reduced household size, alongside an increase in the number of households and in their diversity. Households made up of a couple and their children are losing their relative significance, while there has been a steady rise in the number of single-person and single-parent households. Likewise, children appear to be leaving home at an older age than before.

In general, the number of households is growing faster than the total population. In the last 20 years, average household size has decreased



from four people in 1990 to 3.6 people in 2009. The reduction in household size is especially noticeable in the first income quintile, which—despite maintaining the highest average size—recorded a 17.5 percent decline over the same period. The likelihood that a person lives alone today is now 10.1 percent, compared to 6.9 percent in 1990.

Single-parent households also grew considerably. Between 1990 and 2009, the proportion of single-parent households increased by 30 percent. Single-parent households are 22.2 percent of all households and nearly 29.9 percent of households in the first income quintile. These households are generally headed by women who are the income earners, and they are among the poorest households in the country.

Another interesting phenomenon is the higher incidence of children over 18 still living at home. Nationally, the likelihood of finding a household with a son or daughter over the age of 18 still at home increased from 38.8 percent to 46.5 percent between 1990 and 2009 in all income quintiles.

In summary, the number of households is increasing due to the reduction in household size. At the same time, non-nuclear households are becoming the majority, which is transforming the models of the traditional family path to accessing homeownership. Today's population has much more flexible and temporary residential behavior than people of previous generations. Children are becoming independent later in life, but not necessarily to get married and start a family. If they do start a family, the probability of divorce is much higher than it used to be, which forces many people to start over with a new life and, consequently, a new type of housing. The fact that homeownership is relatively less important than before, and more complex, should tend to reduce its attractiveness and lead to an appreciation of more flexible ways of living.

## THE RENTAL MARKET

### Supply<sup>4</sup>

In Chile, renting is part of an expanding real estate market that specializes in rentals, especially in the MR. The market, however, is characterized by a

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<sup>4</sup> No detailed information on the Chilean rental market is available, especially on cheap or informal rental agreements. The following analysis is based on proxies for the phenomena studied.

housing supply that is segmented according to households' ability to pay. Whereas in the middle- and high-income sectors the relative share of apartments as a proportion of the total housing market has increased—driven by new developments mainly in the most consolidated and well-located areas of the city—for the lower-income sectors, the situation is different. Since real estate investment has never been targeted specifically at these sectors, the available affordable rental homes<sup>5</sup> are often used homes whose owners, who generally received them as part of the State's social housing program in the first place, have completed the initial cycle of occupation. Data from the CASEN 2009 survey (MIDEPLAN, 2009) indicate that affordable rents are generally found in houses and rooms in run-down or second-hand properties rather than in apartments or in new real estate ventures.<sup>6</sup>

The main characteristics of these new real estate ventures are: the profitability of investing in the rental market, estimated at between 7 and 9 percent (*El Mercurio*, 2006); the greater economic security that the real estate business provides, especially in a context of the international financial crisis and stock market instability; and the framework of tax incentives and government policies in Chile, set forth in Law DFL-2<sup>7</sup> and in the Urban Renovation Subsidy (Subsidio de Renovación Urbana).

The location of cheaper properties is one of the central elements that explains the status and the development of affordable rental housing in Chile. As previously observed, the formal rental market is concentrated among society's highest earners, who generally live in central areas or near urban centers with more employment opportunities and services. Furthermore, the location of lower-income homes, specifically social housing (which, in Chile, is transferred in ownership), has been progressively displaced toward the periphery of large cities. Although they are currently located far from the urban center (above all in the country's major cities), in the past this has created a stock of used, affordable housing, which is now

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<sup>5</sup> Affordable rent is defined as one-third of the average income of a household in the second regional quintile.

<sup>6</sup> In Chilean cities, 80.1 percent of affordable rental housing is made up of houses and rooms (76.8 percent and 3.3 percent, respectively). This a trend is even more noteworthy when compared with the higher rent levels (above CLP 133,000), a segment in which 57.2 percent of households live in apartments and only 42.8 percent in houses and rooms.

<sup>7</sup> These are the amendments to the Law introduced in 1999, referred to as DFL-2.

**MAP 6.1** CNT and AVC Projects in Santiago, corresponding to Households from the First Two Income Quintiles, Beneficiaries of the Housing Solidarity Fund during the Period 2007-10, according to the Communes with the Highest Concentration of Rental Households at the General Level (in percent)

**TABLE 6.2** Distribution of Housing with Rent below One-Third of Quintile 2 Income (CLP 133,000), Greater Santiago, 2009

Area	Rental housing with price equal or below CLP 133,000 (percentage of Greater Santiago)	Total number of dwellings in area (percentage of Greater Santiago)
Central Santiago	11,976 (6.0)	57,253 (3.5)
Pericenter	31,902 (16.1)	203,236 (12.6)
Northeast Cone	6,387 (3.2)	258,755 (16.0)
West periphery	47,263 (23.8)	348,215 (21.5)
Southeast periphery	50,124 (25.3)	347,712 (21.5)
South periphery	33,169 (16.7)	264,305 (16.4)
North periphery	17,454 (8.8)	136,701 (8.5)
Greater Santiago	198,275 100.0	1,616,177 100.0

Source: Authors' elaboration based on the MIDEPLAN (2009) database.

Although many AVC units are located in peripheral areas (as are some CNT projects), there are no, or very few, CNT projects in well-located communes, where the AVCs are mostly found (Recoleta, Macul, Ñuñoa, San Joaquín, San Miguel, Maipú, La Florida, Lo Prado, and so on). This is important, since the government is planning to implement a rental policy that prioritizes the use of existing social housing. Analysis of affordable rentals based on the CASEN 2009 survey (MIDEPLAN, 2009)<sup>8</sup> (Table 6.2) reveals that although this type of dwelling is not found in the highest-income areas, it is found in areas near them, which have better opportunities and, in most cases, are within the consolidated city. This is true at least in relative terms

<sup>8</sup> This rent is calculated at CLP 133,000, a figure roughly equivalent to US\$260.

when compared to affordable rents in privately owned property. The phenomenon is magnified in the larger cities, especially Santiago.

Finally, the overall quality of rental units is generally similar to that of privately owned units.<sup>9</sup> According to the CASEN 2009 survey (MIDEPLAN, 2009), 75 percent of the dwellings are in an acceptable state, 24 percent are reparable, and 1 percent are beyond repair.

## The Demand

### *Characteristics of Renting and of Low-income Tenant Families*

Generally, low-income tenant family households do not sign formal rental contracts. This does not mean that they are illegal, since current legislation in Chile stipulates that standard and verbal contracts are proof that a rental agreement exists.

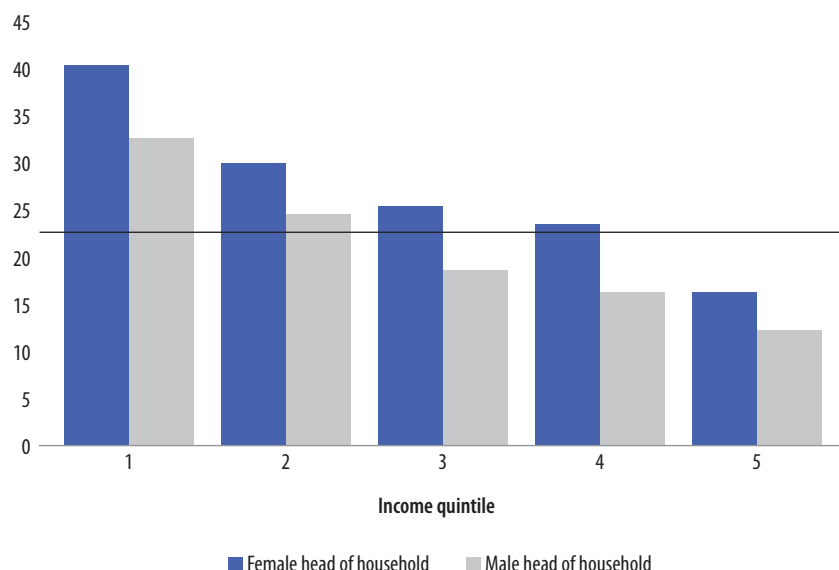
Analysis of the characteristics of renter households from quintiles 1 and 2, compared to owner households from the same segments, indicates that there are significant differences between the two. Tenants tend to be younger heads of household than owner heads of household. They are more educated (which is possibly related to the fact they are younger and have benefited from the country's progress in education in recent years) and have more children still at home. There is also a significant proportion of two-parent households, as well as the presence of older adults. Finally, this group suffers more from overcrowding.

In economic terms, the proportion of total household income spent on rent is 20.7 percent when all tenants in the country are included (Figure 6.3). There are no significant differences between the average rent paid in the three cities studied. This stands at 19.6 percent of cash income in the Coquimbo Region, 21.8 percent in the Valparaíso Region, and 20.7 percent in the Metropolitan Region of Santiago.

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<sup>9</sup> The Global Housing Quality Index (Índice de Calidad Global de la Vivienda, or GHQI) includes all of the indices related to building materials, sanitation, and types of dwellings. This indicator divides the housing stock into the categories of acceptable, reparable, and beyond repair. The index classifies as acceptable all dwellings with adequate materials, sanitation and type, as reparable those dwellings with inadequate sanitation but reparable materials, as long as the type of building is not beyond repair. Dwellings considered beyond repair are those whose materials and type cannot be refurbished (irrespective of sanitation). All dwellings of the "medi-agua" type are deemed beyond repair, even when their sanitation or building materials are acceptable or reparable.

**FIGURE 6.3** Average Proportion of Monthly Income Spent of Rent in Tenant Households in Chile, according to Income Quintile, 2009 (urban areas)



Source: Authors' elaboration, based on MIDEPLAN database (2009).

However, the data confirm that, in terms of accessing rental housing, there is clear inequality between households from different socioeconomic strata and with different head of household characteristics. The problem of affordability affects low-income sectors more drastically than those that are better off. In fact, the poorest Chilean households spend proportionally twice as much of their income on rent than do the wealthiest households. Similarly, in all regions of the country, female-headed households spend 7 percent more of their income on rent than their male peers. Thus, paying rent is relatively more expensive for lower-income and female-headed households, who may spend up to 40 percent of their incomes on rent.

### *Location of Lower-income Households by Type of Tenure*

Analysis of the location of households in quintiles 1 and 2 reveals differences between owners and tenants, and enables four conclusions to be drawn about vulnerable tenants (Table 6.3). First, there is a clear difference between the locations of owner and rental households. Second, among rental households, there tends to be a marked preference for living in the

**TABLE 6.3** Communes with Percentages of Tenant and Owner Households from Quintiles 1 and 2 of the Regional Average, Metropolitan Region, 2009

Tenants ranking MR		Owners ranking MR	
Vitacura	66.50	María Pinto*	79.41
Santiago	53.66	Lo Barnechea	78.65
Independencia	35.49	Alhué*	73.87
Las Condes	27.95	Las Condes	72.05
Estación Central	26.10	Colina*	69.62
Conchalí	23.31	Ñuñoa	68.34
San Joaquín	21.49	Huechuraba	68.28
La Florida	21.29	San Bernardo	67.96
El Bosque	20.17	Paine*	67.88
Pudahuel	20.15	La Reina	67.73
<b>Regional average</b>	<b>15.92</b>	<b>Regional average</b>	<b>62.01</b>

Source: Authors' elaboration based on MIDEPLAN database (2009).

Note: The blue indicates the communes located within the SMA, whereas an asterisk represents those outside.

communes that offer the best possibilities for employment and services. In the regions of Coquimbo and Valparaíso, this coincides almost exactly with the central communes (La Serena and Coquimbo, and Valparaíso and Viña del Mar, respectively). Given the higher quantity and diversity in the central communes,<sup>10</sup> in the Metropolitan Region renting is more significant in the subgroup formed by communes with more resources and that are more centrally located within the SMA, such as Santiago, Providencia, Independencia, and Las Condes, among others.<sup>11</sup>

Third, as the tables and maps presented in this chapter show, the lower-income strata prefer to live as tenants in the more centrally located areas that have more opportunities. Therefore, comparing communes with more rental housing with socioeconomic level, it is notable that both among the general population and among the lowest-income quintiles, the communes with the highest proportion of rental households are in the central

<sup>10</sup> There are 34 central communes in the SMA.

<sup>11</sup> This is further borne out by the fact that tenant households are mostly found in areas where land prices are highest.

**TABLE 6.4** Rental Households, according to Central Location and Income Quintiles, Metropolitan Region, 2009 (percentage)

	Rental households, all quintiles	Rental households, Quintiles 1 and 2	Variation
Central communes	20.62	16.88	-3.75
Peripheral communes	11.20	10.67	-0.54
Regional average	19.54	15.92	-3.62

Source: Authors' elaboration, based on MIDEPLAN database (2009).

areas with the highest land prices.<sup>12</sup> Among the top quintiles, Vitacura, the wealthiest commune in the country, has a high proportion of rental housing, while the percentage of rental housing rises in the central communes such as Santiago and Independencia (see Map 6.2).

Finally, poorer households face limitations in accessing housing in the best-located communes, despite the fact that their preferences are the same as those of households in general. Although there is a notable reduction in the proportion of rental households among the first quintiles for both groups of communes (which also occurs in the case of homeowner households),<sup>13</sup> this reduction is greater in the central communes with the highest land values than in the outlying communes. The only exception is found in the Coquimbo Region, where the reduction is marginally greater in the peripheral areas. Considering that location is a more strategic issue for lower-income households in the largest cities, affordability and promoting rental housing for the vulnerable sectors in well-located communes with more opportunities are critical factors to be taken into account.

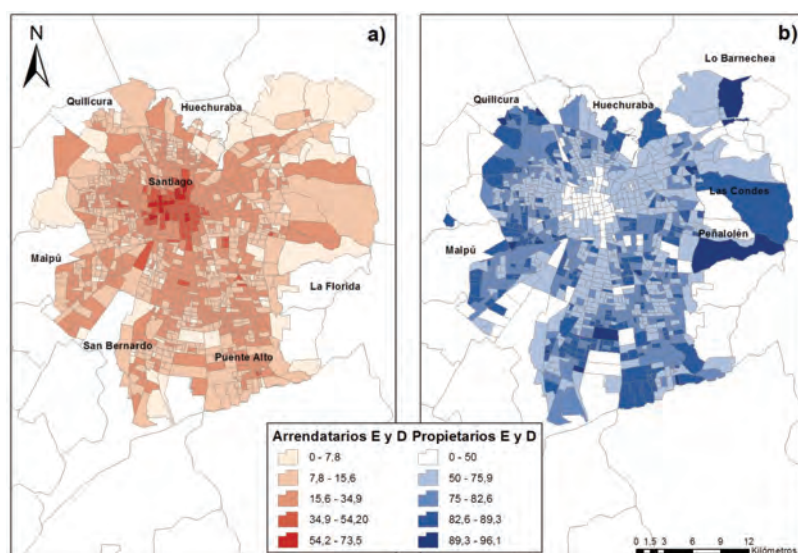
When considering the characteristics of renting described above and the high land prices in central areas, the data seem to support the view that lower-income households prefer a central location above other factors. These households would be willing, on the one hand, to forego the possibility of owning (or using) a home provided by the State on the periphery and, on the other, to set aside a higher proportion of their earnings to pay rent in the city center.

<sup>12</sup> See Footnote 11. Although this relationship is seen most clearly in the MR, it can also be observed in the other regions studied.

<sup>13</sup> This is attributable to the increase in irregular property tenure, or by the cession by family or third parties, which is highest in this segment.



**MAP 6.2** Location of the Tenant and Owner Households from Quintiles I and 2, Metropolitan Region of Santiago, 2002



Source: Authors' elaboration, based on the 2002 Census Database (INE, 2002).

Note: The parameters of this analysis are set according to the renting and ownership averages among groups D and E, based on information provided by the 2002 Census, which varies slightly with regard to the renting and ownership averages among quintiles 1 and 2 obtained from the CASEN survey.

**TABLE 6.5** Households according to Type of Tenure, Land Values, and Income Quintiles, Metropolitan Region, 2009 (percentage)

ASC <sup>a</sup>	Tenants			Owners		
	All quintiles	Quintiles 1 and 2	Variation	All quintiles	Quintiles 1 and 2	Variation
Low	12.9	12.3	-0.6	67.2	63.6	-3.6
Medium-low	17.4	16.2	-1.1	67.5	62.5	-5
Medium-high	19	16	-3	66.7	61.9	-4.8
High	35.2	29.4	-5.7	55.9	50.7	-5.2
<b>Average</b>	<b>19.5</b>	<b>15.9</b>	<b>-3.6</b>	<b>65.6</b>	<b>62</b>	<b>-3.6</b>

Source: Authors' elaboration based on the MIDEPLAN database (2009) and compared to areas with similar characteristics. Inland Revenue Service (Servicio de Impuestos Internos, or SII).

<sup>a</sup> Areas with similar characteristics.

Therefore, given the economic limitations faced by poorer households when it comes to buying their own homes in well-located areas, their chances of living in these areas are mainly reduced to renting or, eventually, being given a home.

As the following section reveals, studies and analyses regarding the situations of immigrant households, cohabiting households, and households residing in informal settlements bear out the importance of location and lower-income households' preferences for living in central areas.

### *Renting among the Immigrant Population*

Over the past two decades, the wave of immigration from other Latin American countries into Chile, and especially Santiago, has had an impact on housing. Since a large proportion of these immigrants are from lower-income quintiles and therefore lack the necessary resources to buy their own homes (as well as a welcoming family network), immigration has tended to increase the country's housing deficit. The restrictions faced by immigrants, both of a legal nature due to their immigration status and with regard to public policy requirements, limit their chances of accessing a home except through the rental market or irregular occupation. Data from the Census 2002 (INE, 2002) bear this out, showing that the rental rate is significantly higher among foreigners than among the total population (Table 6.6).

Furthermore, the location of immigrant households mainly in the central and pericentral communes of the MR reveals a preference for the consolidated areas that are closer to employment and services. This clearly shows that because they lack incentives to own their own homes, which are often only to be found on the periphery, immigrants' preference for living in the central areas via formal or informal renting is a good option. The reasons for this are related to the opportunities to be found in those areas. These include economic benefits, such as reducing the distance between the unskilled job market and the places favorable for small businesses and the social advantages offered by the networks concentrated in those areas, such as pooling job-hunting information, exchanging services, and providing mutual support and protection against discrimination.

This is borne out by the study conducted by Brain, Prieto, and Sabatini (2010), comparing Peruvian households with the Mapuche households residing in Santiago, which found a marked difference in location.<sup>14</sup> Whereas

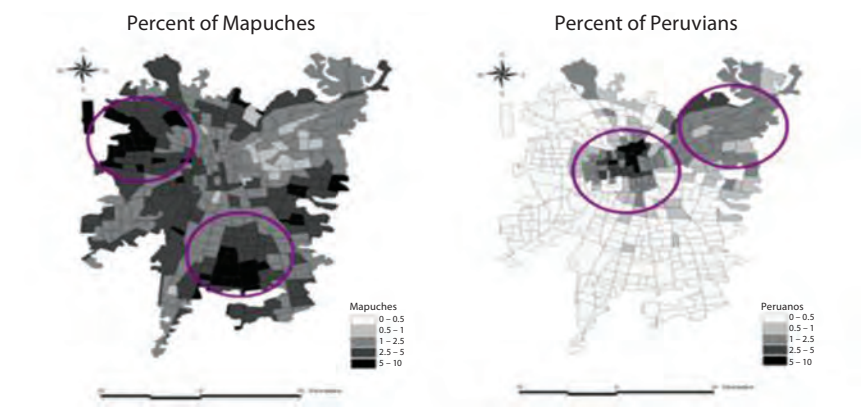
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<sup>14</sup> The Peruvian community is the largest and most visible in the country. The number of Peruvian immigrants in Chile grew by 600 percent between 1992 and 2005, reaching 130,000 inhabitants in 2009.

**TABLE 6.6** Housing Tenure of Households with Foreign-born Head (urban areas), Three Study Regions (percentage)

Region	Ownership	Rental	Others
Coquimbo	51.3	43.1	5.6
Valparaíso	54.3	39.2	6.5
Metropolitana	44.1	51.8	4.1
Total extranjeros	47.1	47.4	5.5
<b>Total population</b>	<b>72.7</b>	<b>19.8</b>	<b>7.5</b>

Source: Authors' elaboration according to data from the Census 2002.

**MAP 6.3** Place of Residence of the Mapuche and Peruvian Immigrant Populations, according to their Spatial Concentration, 2002

Source: Brain, Prieto, and Sabatini (2010), based on the 2002 Census Database (INE, 2002).

the former tend to live in the center of the city because they are “freer to choose,” the Mapuche households, which are subject to government housing policy, are located primarily in areas closer to the outskirts of the city (Map 6.3).

This preference for central areas is also notable with regard to the price that families are prepared to pay to live in them. Torres and Hidalgo (2009) found that many of the Peruvians living in the capital (the majority of them with low incomes) live in overcrowded, substandard dwellings. When the prices paid for such dwellings are taken into account, this seems to indicate that they prefer to live in these conditions in a well-located home rather than out on the periphery but in better conditions (if the amount paid for

the dwelling remains constant).<sup>15</sup> Thus, according to the Census 2002, 35.8 percent of the Peruvian and Bolivia immigrants in the country live in collective or tenement-type dwellings, a figure that dwarfs the proportion of Chileans living in these kinds of homes (7.5 percent). These data indicate that, although they prefer to settle in a central area, immigrant households face difficulties accessing good-quality rental homes in the more central areas of the capital.

### *Situation and Location of Households with Cohabitation*<sup>16</sup>

The trend toward cohabiting also highlights the importance of location. For the three regions included in the study, it is notable that the lower the income, the more households tend to prefer cohabitation in areas that are either more central or offer greater resources and opportunities (ProUrbana, 2010).<sup>17</sup> Cohabitation can also be viewed from a different perspective than merely quantitative deficit, which until now has been the approach of housing policy. In this context, locating through cohabitation appears to be a tool that lower-income groups use to counterbalance their vulnerability.

### *Informal Settlement and its Territorial Aspects*<sup>18</sup>

Location is crucially important to the poor living in informal settlements. In the MR, for example, these settlements are found in communes where the price of land is higher than in those where social housing has been built. Although 51 percent of the region's informal settlements are located in areas where land has a high and medium-high value, only 37.3 percent of social housing is located in these areas. The settlements' advantageous position in terms of location is also expressed by their proximity to services and sources of employment, which operate as a lure for households.

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<sup>15</sup> The data indicate that better-quality dwellings (generally former social housing) are offered for rent at a similar price to poor people on the periphery.

<sup>16</sup> Analysis of the location of cohabiting households from quintiles 1 and 2 in relation to households in general, based on data provided by the CASEN 2009 survey (Mideplan, 2009).

<sup>17</sup> The analysis focused on family cohabiting (two or more related nuclear families in the same household), as this was the most common form seen in Chilean households in 2009 (21 percent vs. 18 percent cohabiting in one building plot, and around 6 percent cohabiting with unrelated families).

<sup>18</sup> Information obtained from a study by Brain, Prieto, and Sabatini (2010).

Moreover, 60 percent of settlement dwellers took up residence there between 2000 and 2008 (ProUrbana, 2010), which indicates that the current inhabitants are not the children of those who originally occupied the site, but rather new households seeking to maximize their opportunities in terms of housing and location. The lure of the settlements is also related to the location of the families that have been re-housed in other sites, since 70 percent remain in the same commune in which the settlement is located, in contrast to families that have never lived in one of them. Therefore, these households hold an advantage over others, since they have more control over their fate once they leave the settlement and are more able to satisfy their preferences in terms of location.

### *The Benefits of Location (Settlements and Renting) versus Homeownership for Lower-income Households*

Analysis of the characteristics of households residing in settlements and lower-income rental households enables the effects of location to be fully understood. More than half of the households residing in informal settlements do not live below the poverty line, and many of these households enjoy access to more and better employment than the vulnerable sectors who have been given access to social housing (with some exceptions, according to the land values in which the settlements are located).

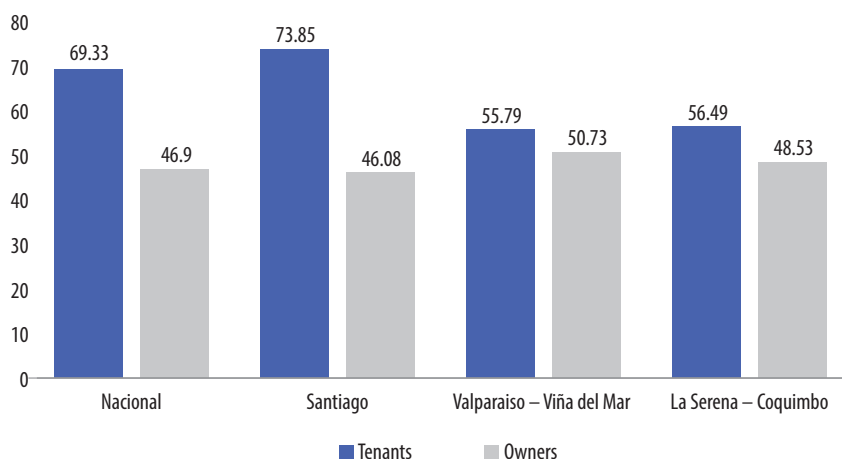
This difference in poverty and employment between informal settlement dwellers and social housing residents is comparable to the disparity between rental households and lower-income homeowner households. Nationally, households that rent enjoy autonomous income on average 6 percent higher than that of homeowner households. This advantage is also seen in the capital, with a difference of 8 percent in rental households' favor.<sup>19</sup> In terms of employment, rental households achieve far higher scores than homeowner households with respect to job access and formality. Although this is seen more clearly at the national level and in Santiago than in the other two regions studied, a similar relationship is detected in all cases (Figures 6.4 and 6.5).

With regard to lower-income tenant households in the MR, those located in the SMA achieve better indicators with regard to vulnerability

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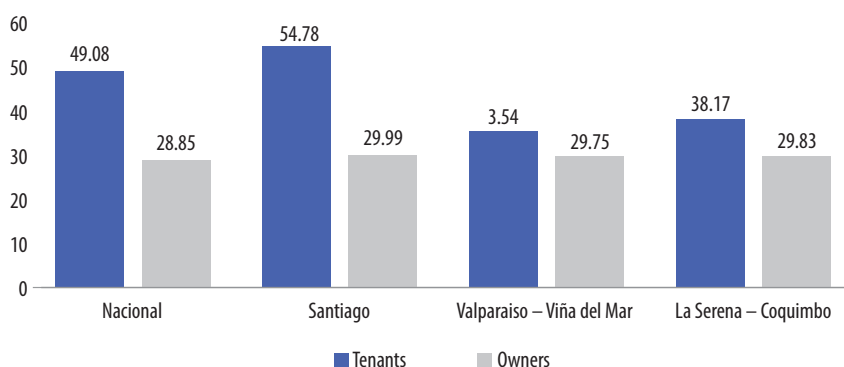
<sup>19</sup> In the Valparaíso-Viña del Mar and La Serena-Coquimbo conurbation, this relationship is inverted. The tenants earn lower autonomous income than do homeowners—4 percent less in La Serena-Coquimbo and 10 percent less in Viña del Mar-Valparaíso, where the greatest difference is seen.

**FIGURE 6.4** Heads of Household in Formal Employment. Tenant and Homeowner Households from Quintiles 1 and 2, Central Communes of the Three Regions Studied, 2009 (in percent)



Source: Authors' elaboration based on MIDEPLAN database (2009).

**FIGURE 6.5** Heads of Household in Formal employment. Tenant and homeowner households from quintiles 1 and 2, central communes of the three regions studied, 2009 (percentage).



Source: Authors' elaboration based on MIDEPLAN database (2009).

compared to those on the outskirts. Thus, for example, whereas 73.9 percent of tenant heads of household in the SMA have full-time employment, only 68.4 percent of those living outside of the SMA are employed full-time.

Likewise, 54.8 percent had a formal job in the SMA, whereas only 47.2 percent of those outside the SMA were formally employed. This indicates, on the one hand, that location is highly significant and is an aspect to take into consideration when attempting to reduce economic and social vulnerability of the lower-income strata; and, on the other, that the differences observed between tenant and homeowner households might be attributable more to the geographic location of each group than to any intrinsic difference between them.

## THE DEVELOPMENT OF RENTAL HOUSING: LIMITATIONS AND OPPORTUNITIES

### Housing and Urban Planning Policy

#### *General Policy Description*

Chilean housing and urban planning policy is organized by a centralized institutional system that designs policies and programs and sets annual budgets through the Urban Planning and Housing Ministry (Ministerio de Vivienda y Urbanismo, or MINVU). MINVU has branches at the regional level: the Regional Ministerial Secretariats (Secretarías Regionales Ministeriales, or SEREMI) and the Regional Housing and Urban Planning Services (Servicios de Vivienda y Urbanismo, or SERVIU).

In 2011, Minvu's budget accounted for 9.5 percent of total social expenditure for that year (Ministry of Social Development [Ministerio de Desarrollo Social], 2011). Traditionally, around 85 percent of these resources are earmarked for housing, and the rest is reserved for urban planning (Budget Directorate [Dirección de Presupuestos], 2011).

Housing finance consists of a housing subsidy for poorer families, where the role of private-sector supply is to provide dwellings, following the logic of the land market. Thus, social housing competes toe-to-toe with other uses for available building land. Consequently, it ends up in those locations where land is cheapest, which tend to be the worst locations. This subsidy is designed to totally or partially finance an owned home for households up to the third income quintile.

For the poorest households, the subsidy covers almost the entire value of the dwelling, and families are asked to save only around 3 percent of the total value of the property. As beneficiary household income rises and therefore the risk they represent diminishes, state support for subsidized

housing declines. In return, families are asked to save a higher amount and to access a loan from a private bank.

### *Housing Deficit*

In practice, over the last few decades, housing policy guidelines have revolved around the problem of quantitative deficit. Its persistence as the guiding policy criterion is associated with the significant pressure exerted by the real estate sector and the land market on housing policy.

Viewed quantitatively, Chilean housing policy has been successful: during the period 1992–2002 alone, the deficit was reduced by 30 percent (Rodríguez et al., 2006). Likewise, the State has had a strong influence on regularization. Only 0.5 percent of households now live in informal settlements (MINVU, 2011a). With respect to service provision, according to Census 2002, more than 90 percent of the country's households receive all of the basic services. With respect to the construction of cities, between 1990 and 2006, 8 out of 10 homes were acquired with some form of government help or subsidy (Funasupo, 2006), and as for encouraging homeownership, up to 72 percent received government assistance (Census 2002). With regard to the latter point, residential mobility in Chile tends to be low (Simian, 2010).

### *Socio-residential Segregation: the Unintended Consequence of Housing Policy*

Unfortunately, the achievements of housing policy have also had a high cost in terms of widespread social segregation of poorer households. There is evidence suggesting that in Chile, social segregation of lower-income groups has pernicious effects on youth activities, pre-school attendance, and educational outcomes (Larrañaga and Sanhueza, 2008; Sierralta, 2010). One recent study (Sabatini et al., 2008) revealed that poor households living in large-scale, segregated social housing projects have worse employment indicators for both heads of household and spouses, lower incomes, longer commutes to work, and higher social stigma when compared to households from similar economic strata that live in less-segregated areas.

### *Recent Housing Policy Milestones*

Under the Bachelet administration (2006–10), in addition to seeking ways to resolve the quantitative and qualitative deficits, a further objective was promoting urban social integration. This was understood from two



perspectives: (i) *the functional perspective*: to guarantee access for vulnerable households to both diverse urban goods and services such as health, education, green zones, and connectivity, and (ii) *the social perspective*: to promote a better mix in terms of spatial and social composition. The introduction of this second dimension was this administration's most innovative contribution.

Two significant policy instruments from this period were a subsidy for location and a social integration subsidy, which responded to the government's functional and social integration objectives, respectively.<sup>20</sup> A rent subsidy was also applied, in the wake of the eruption of the Chaitén volcano (2008). Unfortunately, it encountered many problems in implementation, especially with regard to targeting.

The administration of Sebastián Piñera (2010–14) set about the difficult task of rebuilding several of the south-central regions of the country that were the worst affected by the 2010 earthquake. This rebuilding policy generally maintained the regular MINVU guidelines and instruments. Among the innovations carried out was the creation, in 2012, of a special rent support subsidy for those families who, two years after the disaster, were still living in emergency accommodations (so-called “mediaguas”). The measure has garnered both support and criticism.

At the policy level, these same structural guidelines have also been maintained. However, there have been some amendments intended to improve targeting for the neediest groups and to help lower- and middle-income groups to increase their social and residential mobility. These

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<sup>20</sup> The location subsidy, designed for the most vulnerable families, consisted of up to an additional 200 UF (US\$8,000) to be used to pay for land for dwellings that met certain location criteria, namely, proximity to goods and services. The ProUrbana (2010) study of the effects of this instrument found that: (i) the qualifying requirements for this subsidy were so basic that practically any urban site could satisfy them; (ii) over time, the use of the subsidy became generalized; (iii) in general, those who took the subsidy did not end up better located than those who did not; and (iv) an unintended consequence was that land prices tended to rise artificially. With regard to the social integration projects (proyectos de integración social, or PIS), based on the observation of two mixed projects developed in the MR, the preliminary conclusions were that: (i) the neighborhoods examined were quite heterogeneous from a socioeconomic standpoint; (ii) although there were conflicts of coexistence between residents, these were not deemed to be serious; and (iii) the residents of these housing projects recognized that there were benefits arising from social diversity (ProUrbana, 2010).

amendments rely on incentives and competition to correct irregularities and shortcomings.

### *Recent Rental Housing Policy*

One significant program from the standpoint of its linkage to possible future rental housing policy—and which dates from previous administrations—is social housing leasing. This scheme “enables people to access the private supply of new or used housing of up to 1,000 UF throughout the country (...) by signing a rental agreement with a real estate home leasing company that includes the right to buy”.<sup>21</sup> According to bank representatives, this alternative, which has not been extensively used (in 2011, only 871 subsidies were provided using this model), constitutes an option for lower-middle- or emerging lower-class families that, despite having borrowing capacity, tend not to be served by traditional bank loans due to the degree of risk that they represent.

Presently, MINVU is drafting a rental housing policy, which represents an innovative and promising initiative. The central elements of this policy are:

1. Recognizing that location is a new component of housing demand that is just as important as quantitative deficit.
2. Guaranteeing a roof and quality of life for the most vulnerable households does not necessarily imply transferring property to them.
3. Focusing on the young, the elderly, and vulnerable immigrants, groups that generate temporary housing demand and that require residential mobility.
4. Targeting the rental subsidy to families that have not previously received social housing,<sup>22</sup> although this does not exclude them from opting for this benefit in the future.
5. Treating the demand subsidy as a cost-sharing subsidy. The state subsidy (i) complements existing private sector resources; (ii) reduces uncertainty for suppliers by introducing a fixed contribution from the State; and (iii) mitigates the risk of artificial distortion of market prices due to speculation.

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<sup>21</sup> If the dwelling is situated in certain special areas, its price might rise to 2,000 UF. See: [http://www.minvu.cl/opensite\\_20070212162237.aspx](http://www.minvu.cl/opensite_20070212162237.aspx).

<sup>22</sup> Except when they are beneficiaries of a “second opportunity” (segunda oportunidad) subsidy for having lived in a State-built ghetto.

6. Using existing stock that meets minimum location requirements, which must be certified by a third party, without discounting the possibility that the State may build new rental housing stock. It does not envisage restricting this benefit to certain cities or communes, although a decision may be made not to apply it in sectors deemed extremely deficient at the urban or social level.
7. Encouraging contracts between private individuals within the framework of the existing law, with incentives for promoting protection for landlords (e.g., by formalizing contracts).
8. Introducing the subsidy gradually, without minimizing the importance of traditional subsidies, at least not at the beginning.

## The Structure of the Mortgage Market

### *Financing the Home: the Role of Mortgage Loans Provided by Banks*

In Chile, the banking sector plays a crucial role in the real estate market, as it is the main source of financing for both real estate investors and potential homeowners. On the demand side, the banking sector provides the bulk of the loans made to the housing sector. Although the market share of other providers, such as the administrative agents of endorsable mortgage loans of insurance companies, home leasing companies, and cooperatives, has grown in absolute terms, it continues to be a minor share of the overall market. In terms of credit stock, these agents' share remains below 15 percent (Aparici and Yáñez, 2004).

Bank placements for housing are the second most important type after consumer loans.<sup>23</sup> Housing credits, both bank and non-bank, have seen solid and sustained growth in recent years. This is attributable to the tax incentives granted to the private housing market, such as the Decree with Force of Law (DFL-2) (Decreto con Fuerza de Ley No. 2), which envisages tax breaks for owners of properties with a surface area equal to or below 140 square meters.<sup>24</sup>

Another factor that has significantly boosted growth in the real estate sector is that mortgage interest rates remain at historically low levels.

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<sup>23</sup> These placements attract a small share of capital flows, due to their longer terms of maturity.

<sup>24</sup> Among the advantages worth mentioning are that homes only pay 50 percent of the territorial tax and 50 percent of stamp duty, and that they benefit in the event of extensions, inheritances, and donations of property.

Irrespective of the terms and types of products, mortgage rates are 50 percent lower than they were 12 years ago, when they were around 10 percent, and they have stayed there since 2005, despite a slight hike in rates around mid-2008.

According to the latest Household Financial Survey (Encuesta Financiera de Hogares) conducted by the Central Bank in 2009, 16.6 percent of households in Chile are in the process of repaying a loan taken out for the purchase of their primary residence (Banco Central de Chile, 2009). Despite the significant proportion of homeowners among the lower-income segments, most of the loans are concentrated among the wealthiest. In 2009, households from Stratum 1 represented 8.5 percent of the total of loans for whereas Stratum 3 households represented 30.5 percent.

### *Main Mortgage Products*

The current system of mortgage financing, created in 1977, was based on long-term bank loans ranging between 12 and 20 years. The first instrument offered consisted of letters of credit issued to the bearer. In 1988, endorsable and non-endorsable mortgage loans were made available. Later, Law 19.281 (1993), amended in 1995 by Law 19.401, established the system of renting with option to buy (Morandé and García, 2004). In 2002, financial institutions began offering mortgage loans denominated in pesos and with variable interest rates.

### *Composition of the Mortgage Loan Portfolio in the Financial Sector*

The composition of the loan portfolio has undergone a marked change. At the end of 2000, 84.17 percent of the total amount of current mortgage loans in the market consisted of mortgage letters of credit. By August 2011, this percentage fell to 21.58 percent, of which endorsable mortgage loans represented 7.71 percent and non-endorsable credits 70.71 percent of the total.

### *Bank Perceptions on Incentives for Promoting the Rental Market*

Most banks have a real estate unit responsible for evaluating all investment projects in the sector. Developers present a project that includes a description of the kind of dwelling they wish to build and request the required financing. Generally, they seek funding for construction, since in most cases the land is already in the hands of the developers. All new houses are mortgaged to the bank, and are paid off when the units are sold. Therefore, the sector's main priority is to speed up the selling process to reduce the risk associated with the investment.

The largest share of the profits that the real estate enterprises can make corresponds to the proceeds from the land rather than from the building itself. According to the Housing Committee of the Banks and Financial Institutions Association (Comisión de Vivienda de la Asociación de Bancos e Instituciones Financieras), the best way to incentivize the rental market from the private sector perspective would be to promote the purchase of real estate rather than build it. By providing greater incentives for investors to invest in property, the demand for new projects would grow, which would have a positive impact on construction companies without the need for direct incentives. This would also stimulate the purchase of used buildings.

One of the incentives with the greatest potential, according to those interviewed, is the aforementioned DFL-2, although restrictions established in 2010 disqualify legal entities from claiming the benefit and set a limit at just two properties per taxpayer. From the supply-side perspective, the greatest obstacles to rental market development are not the characteristics of the mortgage market, but the opportunity costs in this business compared to other investment alternatives.

## Regulatory Framework<sup>25</sup>

### *Laws on Renting in Chile*

In Chile, the main document that regulates renting is the Civil Code (Código Civil). It establishes the general framework within which property can be rented and defines rental contracts, the parties (landlord and tenant), and their rights and responsibilities, including compensation in the event of noncompliance. It also establishes the circumstances that might justify prematurely terminating a rental contract, as well as specific rules relating to the rental of houses, warehouses, and other urban buildings.

Alongside the Civil Code, the main regulation that addresses renting on urban land is Law No. 18.101 (1982), and its most recent amendment (April 2003).<sup>26</sup> This establishes, among other things, the rights and

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<sup>25</sup> This section is based on a review of the rules and the information obtained from interviews with Isabel Espinoza, Clerk of the Court (Secretaria Juez) at Civil Court No. 26, Santiago, and Rodrigo Moya, South Metropolitan Director of the Legal Aid Corporation (Director Metropolitano Sur de la Corporación de Asistencia Judicial) of the MR.

<sup>26</sup> Among the main reasons for this amendment was the perception that the law has previously provided too many guarantees for tenants to the detriment of the interests of landlords.

responsibilities of real estate landlords and tenants and the legal procedures applied to these kinds of contracts,<sup>27</sup> including the means of evidence, lengths of contracts, and conflict resolution mechanisms. Law No. 19.281 (Housing and Urbanism) of 1993 regulates leasing of housing, and its regulation is D. S. No. 120 (Housing and Urbanism) of 1995.

### *Critical Analysis of the Laws Governing Renting in Chile*

Between 1930 and 1970, there were a number of rent control mechanisms in place. The Unidad Popular government strengthened them, decreeing that the maximum rent payable could not exceed 11 percent of the property's assessed value. In 1982, the military regime loosened rent control but maintained a degree of protection against evictions, including the right to be given between 4 and 12 months' notice before eviction could take place.

Rent controls in the past have probably helped to limit the development of private sector rental housing supply. The difficulty of repossessing a property or raising the rent was undoubtedly one of the factors behind the residential decline in the traditional centers of Santiago and Valparaíso in the 1970s and 1980s.

Current regulations tend to balance the rights of landlords with those of tenants. Although the law does not fix the amount by which rents can be raised, it is customary for contracts to set an automatic rise in line with the retail price index. In Santiago, more than any price control it is the pace of construction of new apartments in the center and uptown that has led to supply being maintained and housing prices remaining stable for the middle classes.

This effective balance was achieved following the amendments introduced to Law 18.101 in 2003, which have on the whole led to more processes by, among other things, establishing time limits for trials involving rent disputes. In this way they have better safeguarded owners' right to repossess their property.<sup>28</sup>

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<sup>27</sup> Understood as formal contracts or agreements that lack registered deeds (in which cases other means of proving the existence of a contract can be presented).

<sup>28</sup> This, however, can be put into perspective by comparison with other countries. The current protection for tenants may in fact be rather weak, owing to the lack of rent controls or rules adjusted to local characteristics, among other elements. By way of comparison, Uruguay and Argentina stipulate between two and five years as the minimum rental contract, renewed annually, while the rent itself can only increase in line with the RPI.

Different actors perceive this new scenario in different ways. Whereas from a political standpoint there is no clear desire to amend the law—which was apparent before the changes were made in 2003—and, at the judicial level, the law is generally considered adequate, in practice, there are several noticeable imbalances. These are related to considerable ignorance of the current law, especially among the poor, which leads to the perception—not wholly justified—that owners lack sufficient protection from their tenants. Due to this lack of information and ignorance of the protocol, many of the conflicts that arise from renting take longer to be resolved than they should<sup>29</sup> if the established procedure were followed.

The biggest problems facing landlords are the difficulty of repossessing their property and the execution of the sentence. Because the Chilean legal system requires a court order to enable the police to proceed with an eviction, the procedure becomes extremely bureaucratic, and six or seven months might elapse between the sentence and the eviction. Therefore, it may take two years to solve the problem, starting from the moment it arises. Although mechanisms exist to shorten this process, such as arbitration agreements leading to a negotiated solution between both parties, in most cases tenants prefer to avoid an agreement and attempt to draw out the time until the eviction eventually occurs.

Nonetheless, given the high incidence of informal renting in Chile, mainly consisting of affordable rents, local legislation tends to protect both the formal and the informal sectors. In this context, although certain difficulties exist, especially regarding the presentation of proof by both landlords and tenants who lack contracts, this does not disqualify them from exercising their rights.

### Toward a Rental Housing Policy: the Role of Real Estate Companies and Developers

The real estate sector accepts the assessment of the problems of segregation and the growing centralization of locations for vulnerable people.<sup>30</sup>

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<sup>29</sup> This is either because of the unnecessary waiting time from the beginning of the conflict until the start of the legal process, or because the parties involved engage in actions that lengthen the process.

<sup>30</sup> The opinions expressed here were taken from the interviews with Vicente Domínguez, President of the Building Developers' Association (Asociación de Desarrolladores Inmobiliarios), and Javier Hurtado, Head of Studies (Gerente de Estudios) of the Chilean Chamber of Construction (Cámara Chilena de la Construcción, or CChC).

Although the sector recognizes the need for a rental policy that targets these social groups, it fails to show any interest in participating in either the ownership or the management of these kinds of housing projects. Although real estate sector representatives do not explicitly admit it, this is due to the high opportunity costs involved in renouncing or reducing the profits they earn on their land. They consider that the business of producing rental housing that guarantees that the units built are well located, and that therefore the land itself is not a source of profit, might be just a niche industry for builders.<sup>31</sup>

Furthermore, they do not believe that the State should take an active role in these matters, either as a direct producer of housing units or by shouldering their management. Therefore, they see that there are greater possibilities of developing a rental housing market by providing demand subsidies and taking advantage of the existing stock. This view coincides with the government's position.

Finally, applying this kind of policy, however suitable and necessary, is seen as a minor concern. In principle, it is assumed that the practice of transferring ownership to beneficiaries will continue and will therefore continue to be much more important than rental housing policy.

## CONCLUSIONS AND RECOMMENDATIONS

Promoting the rental housing market, both the poor urban households' demand for residential spaces and the supply of housing units by private individuals and businesses, requires a policy that is consistent with the needs of lower-income groups, trends in the real estate market, and urban development policies. The existing discrepancies between homeownership and renting, social targeting and territorial support, and demand subsidies and supply subsidies must be overcome. The new policy would seek to curtail people's natural ambition to own the property they live in, to balance focusing on people with targeting areas, and to combine supply and demand subsidies harmoniously.

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<sup>31</sup> The CChC believes that its members' activity is currently concentrated on producing homes for middle- and upper-middle income groups, which cost between 1,500 UF and 3,500 UF. In a context of increasingly scarce building land, this means that not only is building social housing less and less attractive for them, so is all real estate business aimed at lower-income groups in general.



The instruments, programs, and policies thus inspired could be of various kinds: on the supply side, incentives for businesses and owners to refurbish part of the extensive stock of basic housing in all Chilean cities to make it available for renting, as well as providing incentives for building homes and second residences for households in poor neighborhoods; and, on the demand side, rent subsidies for young people or immigrants that do not jeopardize their future chances of becoming homeowners, or support for residential mobility via information systems and legal advice. In addition to helping to reduce the housing deficit, the policy of encouraging renting would also help poorer households to improve their residential mobility and their place of residence within the city.

### The Role of the State in Promoting Rental Housing

Any policy designed to promote rental housing must be implemented within the context of the transformation of the contemporary city. One of the current trends is to put a brake on urban sprawl by promoting higher density. The time and cost of commuting caused by traffic congestion, increased environmental consciousness, and the priority on quality of life, as well as a re-evaluation of diverse, pedestrian-friendly urban living, are probably the factors driving the “return to the city” seen worldwide in recent decades, such as in the metropolitan areas of the United States (Ehrenhalt, 2012) and in Latin American cities like São Paulo, Mexico City, Bogota, and Santiago. In Chile, while only 9 percent of the homes built between 1992 and 2002 in Santiago were located in the communes within the Américo Vespucio central ring road, this proportion rose to 38 percent in the period from 2002 to the present (Poduje, 2011).<sup>32</sup>

A second trend is the transformation of the pattern of residential segregation, stimulated by the liberalization of land markets, massive public works programs, the emergence of a robust real estate promotion sector, and an increase in informal employment among the poor. This transformation consists of spatial dispersion of elite and upper-middle class homes toward the low-income periphery, where developers can capitalize profits from building land. It also involves the “structural propensity” of vulnerable households to move into the city and live closer to the affluent neighborhoods and urban centers to reduce their social vulnerability (Cáceres and Sabatini, 2004). The

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<sup>32</sup> Iván Poduje’s analysis dates from the pre-2011 census period (Poduje, 2011).

internal structure and the pattern of segregation in U.S. cities are also undergoing radical transformation (Ehrenhalt, 2012; Jargowsky, 2003; Moss, 2011), which can be attributed to the same factors at work in Latin America.

A third element is the risk of excluding social housing entirely from cities. The reduction of spatial social segregation that results from the aforementioned transformation has its counterpart in widespread re-segregation of new housing for the poor. The spatial dispersion of middle- and high-income earners, which usually takes the form of “gentrification without evictions” (Sabatini et al., 2008), implies the arrival of people prepared to pay more for land in these areas. This radically changes landowner expectations and helps push up land prices.<sup>33</sup> The construction of shopping malls, business parks, and other mega-projects in districts on the periphery that are now better serviced by urban infrastructure, especially in terms of roads, have also contributed to this effect. Faced with such a poor income distribution structure, neither the households at the bottom end of the scale nor social housing programs can afford the land prices, which tend to be set by the higher bidders that gentrification has brought to the neighborhood of the low-income periphery and its surroundings.

In Bogota, Mexico City, and Santiago, the social housing constructed over the last 10 years has all been built outside the city, sometimes kilometers away from its compact border.<sup>34</sup>

Furthermore, formulating a pro-rental housing policy implies renewing the main axes of debate concerning the role of the State in the housing markets. These axes can be organized around four questions:

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<sup>33</sup> Reese (2011) observed the effect on land prices after closed condominiums for middle- and upper-class groups were installed on the periphery of Argentina's three major cities. In Santiago in recent decades, land prices have risen more in the low-income peripheral communes than in others. One study of land prices by communes of Greater Santiago for the period 1990–2004, commissioned by the Chilean Real Estate Agents Association (Asociación de Corredores de Propiedades de Chile, or ACOP) from the Gemines consultancy, clearly demonstrated this trend (Brain and Sabatini, 2006). The ACOP has now become the National Chamber of Real Estate Services, Trade Association (Cámara Nacional de Servicios Inmobiliarios, Asociación Gremial).

<sup>34</sup> In the case of Santiago, this trend was already noticeable in the period 1994–2004. The average distance between the new social housing (constructed between 2002 and 2004) and the city center was 5 kilometers greater than in 1994, while the average distance to the sub-centers located toward the periphery had also increased (Brain and Sabatini, 2006). Recent data (Negrete, 2012) reveal that the distance to the city center from the social housing projects has continued to grow in recent years.

1. *How can a policy that seeks to expand rental housing be implemented in a context of widespread homeownership aspirations?* The key here might be to avoid the traditional incongruity between renting and homeownership, and defining as a policy goal the fact that people can be, or become, both homeowners and tenants, that is, to divorce the concepts of homeownership and renting and make ownership of one home compatible with renting another to live in. The justification would be that homeownership and renting satisfy different needs, although both are associated with economic security, as previously demonstrated. One useful measure might be to postpone access to homeownership, for example by providing a rent subsidy that does not exclude other state support for homeownership, such as a leasing scheme.
2. *How can social targeting be combined with geographic targeting?* Social targeting has been, without a doubt, part of the success of Chilean housing subsidy policy. The very design of a demand subsidy facilitates permanent re-targeting. Paradoxically, however, this success has contributed to the current crisis. The higher the social targeting, the more socially homogeneous are the resulting housing projects, and an area's social homogeneity is the dimension that is most clearly detrimental to residential segregation, which can be measured by isolation indices. Cities have historically been powerful mechanisms of social integration, but some have become veritable poverty and social degradation traps for the growing proportion of poor residents who are concentrated in informal neighborhoods or social housing projects. The ghettoizing of these neighborhoods is a growing problem in Chile's cities. Supporting or subsidizing renting in affordable homes in districts with greater social and functional diversity would provide a solution to this disjunction.
3. *How can developers be prevented from capitalizing demand subsidies as profits from land?* By displacing subsidies from the supply to the demand side, Chilean housing policy placed the figure of the property developer at the top of the industry. Due to the profits derived from building land—the added value of land in Chile—the developer manages to capitalize an increasing proportion of the housing subsidy as profit.<sup>35</sup>

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<sup>35</sup> In its Financial Stability Report (Informe de Estabilidad Financiera), the Central Bank of Chile analyzed the performance of around 20,000 real estate companies and concluded that “despite what is said in the industry, its profitability has been relatively high. The large businesses made a profit of between 16 and 21 percent in the period between 2007 and 2010” (*La Tercera*, December 21, 2011).

In this way, given the imperfections of the land market, the demand subsidy gets transformed into a subsidy for real estate companies (supply). Between 1994 and 2004, developed land rose from representing 15.3 percent to being 33.1 percent of the cost of a basic dwelling in Santiago. This explains the 67 percent increase in the unit cost of a home and the 84 percent readjustment of the housing subsidy in that period, while the size of the home remained the same and its average distance from the city center increased (Brain and Sabatini, 2006). The location subsidy, a supplement to the housing subsidy, created in 2007 to improve the location of social housing, was based on definitions that were so lax in terms of establishing what a good location was that it achieved very little, although its widespread uptake by property developers (ProUrbana, 2010) was eventually “transferred to prices (of land) (...), which was very regrettable...” (Poduje, 2012). The question is whether a combined policy of demand and supply subsidies might not be preferable. By subsidizing supply, the policies could help to improve the location aspect of rental housing, both with regard to accessibility and to an area’s functional and social diversity.

4. *How can state support be shared between spending on guaranteeing access to land and other expenditure aimed at producing rental housing?* It seems reasonable to call into question a demand subsidy policy that leads to a significant part of social investment being capitalized as profits from building land. Creating neighborhoods of affordable rental housing in each city, where ownership of land by the State, cooperatives, or private foundations is combined with ownership of buildings by private investors, using schemes such as public works concessions, would be a way of targeting state subsidies to provide low-income households access to well-located land.

## Policy Guidelines for Encouraging Rental Housing

### 1 *Increase the Supply of Rental Housing*

- 1.1 *Convert part of the existing social housing stock into spaces available for rent.* The rental demand subsidy would be the main (indirect) incentive for supply. As these are contracts between private individuals, there would be no administrative agency. The role of MINVU would be to certify the material quality and the suitability of the location of possible rental units, which could be carried out by a sub-contractor (certifying agency). However, this model

might be rather limited: supply could be lower than demand, in part because the residential spaces might not comply with the new requirements.

- 1.2 *Provide an extra boost to the existing housing stock by encouraging owners in well-located lower- and middle-class communes to build dwellings and second residences in their backyards.* Possible incentives to encourage owners to rent their homes, or a part of them, might be: (i) the municipality guarantees the rent; (ii) the municipality provides legal advice (signing of contract, conflict resolution, evictions, and so on); (iii) there is architectural advice regarding building extensions and refurbishment; (iv) additional points are awarded for opting for subsidies (either existing or new) for home improvements or extensions provided by the MINVU; and (v) low-interest loans are made available for refurbishing or making improvements to a dwelling.
- 1.3 *Build new, affordable rental housing stock.* A third option is that property developers purchase building land and develop housing projects for low-income tenants. Under current conditions, the banking and real estate sectors do not see this as a viable option. It will probably call for additional supply incentives to complement the demand subsidies.

## 2 *Support and Strengthen Demand for Rental Housing*

- 2.1 *Create a demand subsidy (voucher) that would cover all or part of the rent.* The first option, in the view of private landlords, minimizes the risk of non-payment, but it also makes the possibility of market distortions more likely (as the supply is artificially adjusted to the amount of the subsidy, especially in less competitive markets). In the second option, the State tops up the beneficiary's capacity to pay the rent, thereby enabling tenants to access better homes and neighborhoods. Although this model increases the chances of non-payment of rent, it helps to align supply more closely with demand and, as tenants are paying rent, makes it easier for them to exercise their rights.
- 2.2 *Make markets more flexible and support residential mobility.* Create, manage, and permanently update rental housing market observatories and databases, a task currently in the hands of the regional SERVIU, as a free, or low-cost, public service. A second action would be to offer legal support to landlords and tenants for drafting and signing contracts and resolving rent disputes.

### 3 *Focus on People and on Households*

- 3.1 *Offer support to vulnerable tenant or cohabiting households, whether migrants or not, living in badly located homes within the city, or in well-located homes but with overcrowded conditions.* The priority households should be those whose heads have little education, whose members are in unskilled or insecure jobs, those headed by young or elderly people, single-parent households, and those headed by women with small children.
- 3.2 *Divorce the concept of homeownership from the place of residence.* State support given to satisfying homeownership aspirations should be provided independently, so that people can benefit from access to rental housing under diverse circumstances or at different stages of their lives (migration, youth, unemployment, and so on). The possibility that everyone can combine the benefits of both kinds of tenure at some point in their lives depending on changing circumstances calls for a form of social targeting that takes these households' situation into account regardless of their socioeconomic status at any given moment. Lower-income segments see the transition from tenant to homeowner as a one-way journey: "The transition to homeownership is a one-way process; only those who experience financial problems run the risk of returning to renting or sharing" (UN-Habitat, 2003:107). A policy that combines different measures and programs to focus on people and households can help facilitate residential mobility toward renting, allowing people to adjust to their changing housing requirements and financial restrictions without having to renounce homeownership.
- 3.3 *Postpone access to homeownership via housing leasing.* The precarious nature of employment, especially for young people and immigrants, added to recurring economic crises, makes it reasonable for people and households to postpone the moment when they first join the category of homeowners. Housing leasing is an attractive alternative for combining the need to rent with homeownership aspirations.

### 4 *Achieve Territorial Targeting via a New Policy on Land*

- 4.1 *Formulate public land management policy.* This supply-based urban land policy would help to create and preserve well-located and socially diverse urban neighborhoods, with housing space set

aside for affordable renting. This policy would include instruments and programs such as the three mentioned below (points 4.2, 4.3, and 4.4).

- 4.2 *Establish public land trusts for affordable rental housing that are built and exploited under concession schemes to the private sector, commodatum contracts with non-governmental organizations, or managed by public agencies or municipalities.* Providing urban land in perpetuity for affordable rental housing might be achieved by purchasing or expropriating private land or using public land for social housing projects or, in better-located areas, by exchanging public land for suitable sites. The public agencies that own property in cities or on the outskirts currently adopt one of two managerial approaches: the first, in which they act like state land banks, albeit without clear objectives,<sup>36</sup> and the second, which is akin to adopting private sector profitability criteria. Our proposal is for the State to manage public land in accordance with the objectives of an affordable rental housing policy. Under these trust-style schemes, land is earmarked for “affordable rental housing,” thereby guaranteeing a permanent stock of such housing in each city. The separation of ownership of land from ownership of rental housing would focus social investment on the critical matter of providing access to well-located land with good public services, and it would furthermore enable this housing supply to be maintained over time.<sup>37</sup>
- 4.3 *Establish private land trusts for rental housing.* Private alternatives can be encouraged with state support, such as the Canadian model of tenant cooperatives. These cooperatives own the land, which cannot be sold although houses can be built on it, or like the kind of land trusts seen in the United States, which separates the ownership of the land (non-disposable) from ownership of the homes

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<sup>36</sup> Even if these state reserves were managed under urban criteria, for example to expand the quantity supplied as a way of controlling prices, it is unclear whether this aim could ever be achieved, given the characteristics of the property and the imperfections associated with real estate markets.

<sup>37</sup> The community land trust model, commonly found in the United States, which consists of cooperatives that own rural and urban land in which they build housing for third parties, whether private individuals or businesses, has undergone steady expansion since its first appearance in the 1960s (see Davis, 2010).

built on it (which can be bought and sold), and which could include a section earmarked for low-cost rental housing.

- 4.4 *Create a social integration subsidy.* As a specific budget item of the rental subsidy, the social integration subsidy will help to socially diversify neighborhoods and improve access for lower-income tenants to central areas with decent services.
- 4.5 *Carry out land readjustments.* As a way of establishing a pool of building land to achieve higher density and better quality for residential spaces, this alternative can contribute to the production of low-cost rental housing in socially and functionally diverse neighborhoods. It is widely used to promote urban renewal or refurbishment programs in various countries.



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# Renting and Urban Development in Colombia

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## INTRODUCTION

The size of the *housing stock* and the rate of formal housing production in Colombia are currently inadequate for the size of the country's population. This discrepancy causes a considerable quantitative housing deficit and affects both housing quality and the price of services. In 2005, the country's quantitative deficit stood at 12.4 percent.

Moreover, the quality of the existing housing stock is affected by problems of structural vulnerability, habitability, comfort, and environmental sustainability. Overcrowding and cohabitation are particularly glaring problems, but there are also shortcomings in domestic service provision, especially with regard to sewerage in rural areas. One of the factors that contributes to this combination of deficiencies in housing stock quality is the shortfall in the production of formal housing, which stimulates development of the informal rental market and encourages self-built and self-managed housing solutions. In 2005, the qualitative housing deficit reached 23.8 percent.

There is a third aspect of the critical housing problem, which includes socio-spatial, residential, and urban amenities segregation, and exclusive property developments. The root of this problem lies mainly in the lack of an effective public land policy, whose knock-on effect on the high prices demanded for developed land for social housing means that the social housing must be built in peripheral, marginal sectors, or in areas that have yet to be fully integrated into the consolidated city.

Despite these housing problems, Colombia boasts one of the lowest conventional housing deficits in Latin America. It stands out in the region for its dynamic production of social housing relative to the size of its population, although it has failed to reduce either the amount or the pace of informal housing construction. Colombia does, however, have an institutional and regulatory framework that allows a higher degree of intervention in the urban land market. This is an area where the country also leads the region, although it has yet to reach the required level of urban land availability.

In this complex context, the rental market, which is mostly informal in origin and operates informally, has contributed decisively to creating the current conditions of the housing stock. Colombia has the highest proportion of tenant households in the region, reaching 31 percent at the national level and around 45 and 46 percent in Bogotá and Cali, respectively.

The rental market is a valid alternative for providing accommodation and effectively satisfying people's housing needs, as well as for offering security of tenure. However, it needs to be expanded and defined in physical terms with regard to application of legislation and legal security of tenure. Developing the country's rental market would help increase the available *housing stock*, with a positive knock-on effect on the price of housing services, and offer diverse alternatives for satisfying the location preferences of urban households.

## THE STRUCTURE OF TENURE

### Evolution of Property Tenure in Colombia and in the Cities Studied

Despite the sector policy emphasis on homebuying programs and the consequent concentration of public spending on state subsidies for home-ownership, in recent years in Latin America there has been a reduction in the proportion of homeowners, a phenomenon noticeable in the majority of countries (UN-Habitat, 2012). This trend has been visible in Colombia for more than two decades and is most clearly seen in Bogotá and the other major cities. The change in the structure of property has been balanced by an increase in the proportion of rental tenants and, especially, in the “other kind or usufruct” format.<sup>1</sup>

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<sup>1</sup> These are homes that are let for use in exchange for partial or total payment of public utility bills and administration charges, among other non-rental costs.

On the supply side, the size of the rental market can be measured based on the rental housing stock<sup>2</sup> or the number of rental homes available. Demand is measured by counting the number of households living in rented accommodations. According to information recorded in 2007, the inventory of housing units in Colombia stood at 9,530,375, for a total of 11,374,978 households. With respect to type of occupation, 63 percent of these properties were registered as owner-occupied, 30.6 percent rented, and 6.4 percent another, different form. Likewise, the distribution of the total number of households according to type of tenure reveals a 54.4 percent share for homeownership households, 31.3 percent for tenant households, and 14.3 percent for households occupying their homes under some other form of tenure. In the three regions of the country examined in this chapter,<sup>3</sup> 6 out of 10 rental housing units are found in Bogota, three in Antioquia, and one in the Atlantico department.

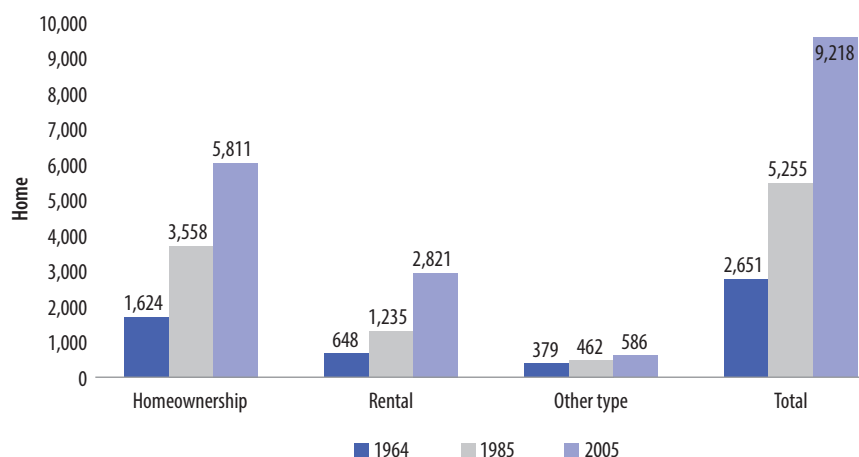
Not only is rental tenure highly significant; its growth has also gained considerable traction over the last 30 years. The rental housing *stock* increased by 90.6 percent and more than 100 percent between the intercensal periods 1964–85 and 1985–2005, respectively (Figure 7.1). Similarly, the growth in the rental housing stock exceeded the rate of growth in both the total and the tenant population. Therefore, between 1993 and 2005, where the total number of households at the national level increased by 34.7 percent, or from 8,067,686 to 10,871,082, the number of tenant households grew by 50.8 percent, from 2,234,749 to 3,370,035.

Comparing the results of the 1985 and 2005 censuses, rental housing expanded its market share in Bogota, whereas in Barranquilla and Medellin, in that order, the share of rental housing remained constant (Table 7.1). Between 1990 and 2007, the national housing stock increased 1.4 times over, rising from 6,641,196 to 9,530,375 units. With regard to type of occupation, rented homes increased the most (1.7 times), followed by owner-occupied homes (1.4 times), and homes occupied under some other tenure arrangement (1.2 times).

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<sup>2</sup> Due to a lack of data on this specific subject, breakdowns can be made only at the geographic location level. Not enough data has been generated for the country as a whole regarding income, type of structure, housing stock quality, or state of repair.

<sup>3</sup> The geographic range of this study comprises the cities of Bogota, Medellin, and Barranquilla. The available data disaggregate some variables at the level of Bogota and the departments of Antioquia and Atlantico, whose capital cities are Medellin and Barranquilla, respectively.

**FIGURE 7.1** Number of Homes by Occupation, National Total

Source: DANE.

During the 2000-06 period, Bogota recorded the highest increase in rental housing stock, with an average annual increase of 1.9 percent. Antioquia (Medellin) and Atlantico (Barranquilla) both posted a 1.2 percent increase (Figure 7.2).

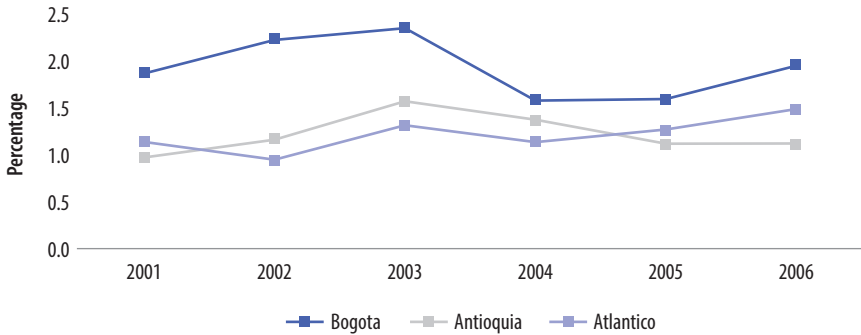
**TABLE 7.1** Distribution of Households by Type of Property Tenure in Three Major Cities, 1985-2005 (percentage)

Type of tenure	City						
	Bogota			Medellin		Barranquilla	
	1985	1993	2005	1985	2005	1985	2005
Homeownership	57.1	54.0	46.0	64.9	54.0	72.5	66.0
Rental or sublet	39.9	41.6	43.0	30.3	30.0	23.3	22.0
Usufruct	—	—	3.0	—	7.0	—	6.0
Homeownership, without formal deeds	—	—	1.0	—	1.0	—	1.0
Other types	3.0	2.0	2.0	4.8	2.0	4.2	2.0
No available data	—	2.4	5.0	—	5.0	—	3.0

Source: DANE (1985, 1993, 2005), according to available information.



**FIGURE 7.2** Annual Increase in Rental Housing Stock by Region (percentage)



Source: DANE.

### Housing Deficit

Colombia's Supreme Housing Council (Consejo Superior de Vivienda) defines quantitative deficit as that which affects households living in sub-standard accommodations or in homes built from substandard or unstable materials that share their living space with others and/or live in dwellings that suffer from intolerable overcrowding. There is a qualitative deficit for households living in buildings built from stable materials but where the apartments are substandard, households with tolerable overcrowding, households in homes with inadequate service delivery, and households living in dwellings lacking a safe area for food preparation.

According to the 2005 census, 36.2 percent of households in Colombia suffer from some form of housing deficit. This situation is much more common in rural than in urban areas—68.2 percent and 27.0 percent, respectively. The qualitative deficit has a much higher impact, considering that the proportion of households affected by qualitative deficiencies practically doubles the number of households facing quantitative deficit, or 23.8 percent compared to 12.4 percent. Proportionally, Medellin is the least affected by a housing deficit both on the total and the quantitative levels. By contrast, Barranquilla's quantitative deficit exceeds the national average (Table 7.2).

With regard to types of tenancy, 4 out of 10 households suffering from a housing deficit occupy their homes under a rental agreement (Torres, 2007). Homeownership, in turn, shows an even higher proportion, reaching

**TABLE 7.2** Total Quantitative and Qualitative Housing Deficit, Nationally and in the Three Cities Studied, 2005 (percentage)

Territorial Division	Housing deficit		
	Total	Quantitative	Qualitative
Nationwide	36.2	12.4	23.8
Bogota <sup>a</sup>	19.2	14.6	4.5
Medellin	14.0	6.7	7.3
Barranquilla	27.4	15.2	12.3

Source: DANE (2005).

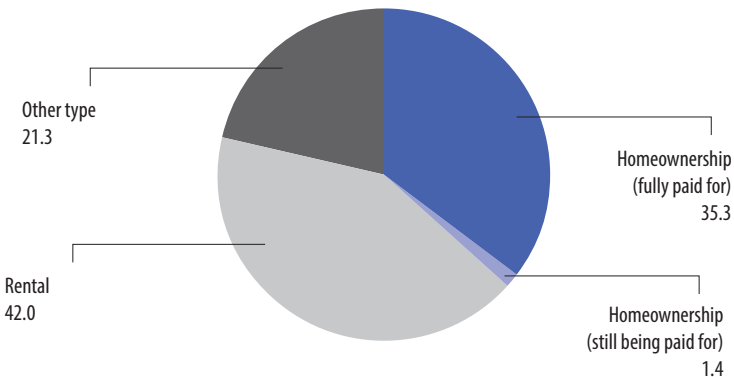
<sup>a</sup> According to the Bogota Multipurpose Survey (Encuesta Multipropósito para Bogota), EMB-DANE 2011, Bogota's total, quantitative, and qualitative deficits are 11.8 percent, 5.3 percent, and 6.5 percent, respectively.

nearly 60 percent of the total number of households with a housing deficit (Figure 7.3).

Although Bogota, Medellin, and Barranquilla all saw a decline in the proportion of homeowners, there are still differences between these cities in terms of the dynamics of rental tenure. Whereas the proportion of tenants in Bogota increased significantly over the latest intercensal period, in Medellin and Barranquilla this form of property tenure has remained fairly constant.

One factor that might explain these differences is that the rate of informal home building in Barranquilla leads to the creation of more homeowners, even though the dwellings built are substandard. Of the three cities studied,

**FIGURE 7.3** Housing Deficit by Type of Tenure, National Total, 2003 (percentage)



Source: DANE.

Barranquilla produces less housing in proportion to its population, or 2.6 homes per 1,000 inhabitants. The shortfall is made up more by informal building than by renting. For the rest of the country, residential informality is expressed in illegal building plots bought by households. In Medellín, where the availability of vacant developed land has been exhausted, informal growth takes the form of redensification and locating in other municipalities both inside and outside the Metropolitan Area of the Valle del Aburrá. In Bogotá, informality in new sectors has slowed somewhat and has become more concentrated in redensification (CENAC, 2012).

## Factors Underpinning the Change (Evolution) in the Ownership Structure in Colombia

### *Population Size, Structure, Evolution, and General Characteristics*

The way that the structure of tenure in Colombia has evolved is expressed in various ways. The behavior of its demographic variables is typical of a country immersed in a process of demographic change, often characterized by an annual rate of new household formation that outstrips the rate of population growth. This situation generates pressure due to the increasing demand for housing services from a housing stock that is growing at a slower pace. This is a key element in defining trends in the Colombian rental housing market.

Between 1985 and 2020, in Colombia and the regions examined in this study, the rate of new household formation will have exceeded the rate of population growth. This period began with annual growth rates of between 1.9 percent for the country as a whole and 2.1 percent for the regions, but it will end with rates of 1.1 percent and 1.2 percent, respectively. The change in the rate of new household formation is even more significant. At the national level and in Antioquia and Atlántico, the period starts with rates of 3.5 percent to 4.0 percent and ends with 1.8 percent and 2.1 percent, respectively. In Bogotá, new household creation will have dropped most sharply, as the rates recorded in the 1980s and 1990s ranging from 5 to 6.3 percent (1985–86) are set to fall to 2.1 percent by 2020. In this respect, the 1990s saw the highest informal growth in the city, with an average annual rate of 212 hectares.

This imbalance between the production of formal housing and new household formation has been partially resolved by the rental market. It is expressed, on the demand side, by a significant increase in the proportion of rental tenants since 1985. Moreover, it gives clear signs that encourage an expansion of supply. This partially explains the dynamic of progressive

housing development and subdivision processes that characterizes the country's rental housing supply.

There has also been a noticeable decrease in household size. At the national level, it fell from 4.5 to 3.9 persons over the 1993–2005 intercensal period, whereas in Medellín and Barranquilla, it fell from 4.4 to 3.8 persons, and from 5 to 4.5 persons, respectively. Bogotá saw the largest decline in household size, from 3.9 members in 1993 to 3.4 in 2011.

### *The Failure of Government Social Housing Policy Schemes*

Since 1990, public housing policies in Colombia have been based on a system of direct demand subsidies for households with insufficient income to meet their housing demands. Presently, however, it is obvious that the results of these policies have not been entirely satisfactory, as they have not benefited the target population, especially households that receive less than twice the current legal minimum salary and those linked to the informal economy. Moreover, in spite of the complex nature of housing, housing policy fails to recognize many of the ways in which households meet their housing needs. Housing policy is limited to helping the target population through one program and two instruments: new housing, and direct demand subsidies and credit, respectively.

Furthermore, the public resources allocated for investment in national social housing policy are inadequate to meet the needs of the target population, due to the size of the housing deficit, the rapid formation of new households, and the demand for changes in tenure and second homes. The available amount is very low and represents a share of GDP that is considerably lower than that allocated to other social sectors. The same is true of its share of total public social expenditure.

The market has significant limitations when it comes to the supply side of social housing. Market size is insufficient to absorb the annual rate of new household formation, and there is not enough diversity with respect to location, type of dwelling, area, and specification. Supply is concentrated in the highest price segments of social housing.

### *Availability of Land*

In Colombia's cities, the highest demand for developed land comes from the housing sector, although there is a trend toward transferring rural land for industrial purposes in the major cities' spheres of influence as a way of encouraging betterment processes. In the case of residential use, there is no distinction between land used for new housing projects for sale and for

rent, which means that there are no restrictions that might affect the rental market. Urban renewal areas are on land with the greatest potential for providing cities with new rental units. This is because the rental market tends to be denser and the land on the periphery is often used for *greenfield* development, and is therefore earmarked to provide units for sale.

Territorial planning regulations do not place significant barriers on urban building market development in general, even in the case of housing built for sale or for rent inside areas designated for urban consolidation or expansion. Nonetheless, partial development plans<sup>4</sup> and capital gains sharing have sparked considerable debate, as they have placed restrictions on housing production, and especially on social interest housing (SIH). According to certain construction sector specialists and land reserve owners, this is because this kind of planning tool has increased the time and costs involved in the homebuilding process.

The main obstacle to developing housing markets in Colombia, including rental housing, and especially with respect to lower-income household demand, is related to the limitations placed on production by speculation surrounding the high prices paid for urban land. This occurs despite the instruments envisaged in the legislation on public land management, which are only sketchily applied throughout the country, although there are notable exceptions, such as *Metrovivienda* in Bogotá.

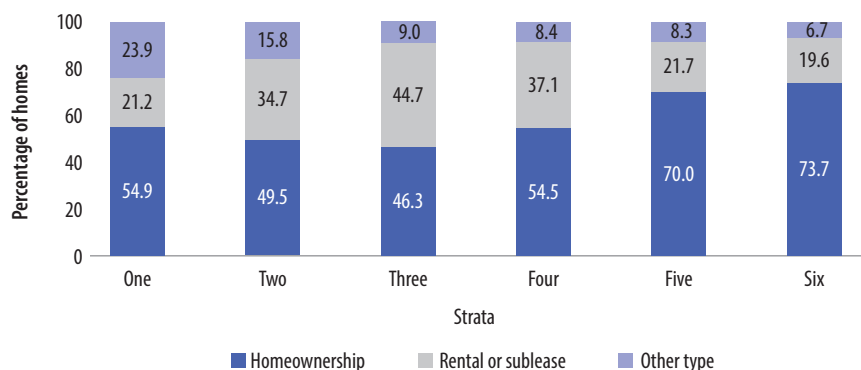
## THE RENTAL HOUSING MARKET: THE CURRENT SITUATION IN THE THREE CITIES STUDIED

### The Demand Side

The rental market in Colombia is mainly urban. Nine out of ten tenant households live in urban areas. On the socioeconomic scale, rental housing is concentrated among the middle classes. An examination of the quintile

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<sup>4</sup> The partial development plan (Plan Parcial) is an urban development or land redevelopment planning mechanism, which establishes who is responsible for financing and executing building works. It is formulated for urban land defined in the Territorial Ordinance Plan (Plan de Ordenamiento Territorial, or POT), as well as for urban expansion areas, which must be developed by urban action units, macro-projects, or other special urban development operations, according to the authority granted by urban planning rules.

**FIGURE 7.4** Distribution of Households by Type of Tenure, by Socioeconomic Level, National Total, 2008 (percentage)

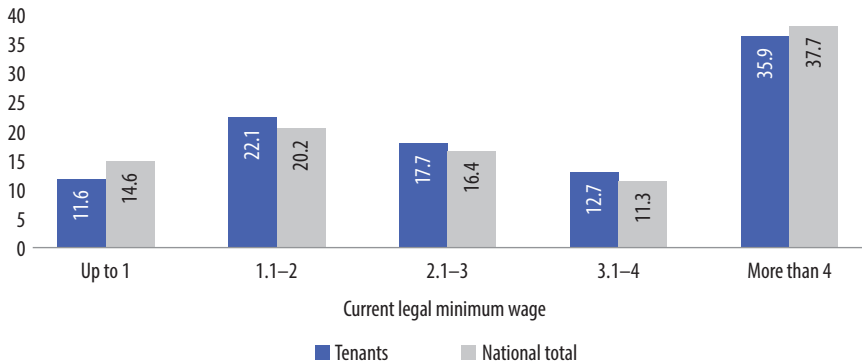
Source: DANE.

classification reveals that renting is not situated at the extremes of either economic wealth or poverty (Figure 7.4). Nationally, renting has higher relative weight in socioeconomic strata two to four. Specifically, among the population of tenant households, 7 out of 10 are found in strata two and three. In contrast, owner-occupiers record a higher share of the lowest stratum (one) but also of the two highest strata (five and six).

The distribution of monthly income of tenant households, calculated in multiples of the minimum salary, is similar to that of the population as a whole (Figure 7.5). Therefore, according to the criteria that determine subsidy allocation to households targeted by public policy, two out of every three tenant households could be beneficiaries, as their incomes are below four times the minimum salary. Nonetheless, for the middle ranges from 1.1 to four times the minimum salary, the proportion of tenants is higher than for the total population in that same income range, whereas for the extremes of income below one minimum salary and above four times the minimum salary, the opposite is true. This indicates that renting is more prevalent among the middle-income sectors.

Similarly, if the distribution of the household population according to per capita income quintiles in 2008 is the reference point, deciles three and four contain the highest share of rental tenants (Figure 7.6). This confirms that renting is more prevalent among middle-income groups. Also, for every 10 poor households in Colombia, nearly five are homeowners, three are rental tenants, and the other two live under a different form of tenancy.

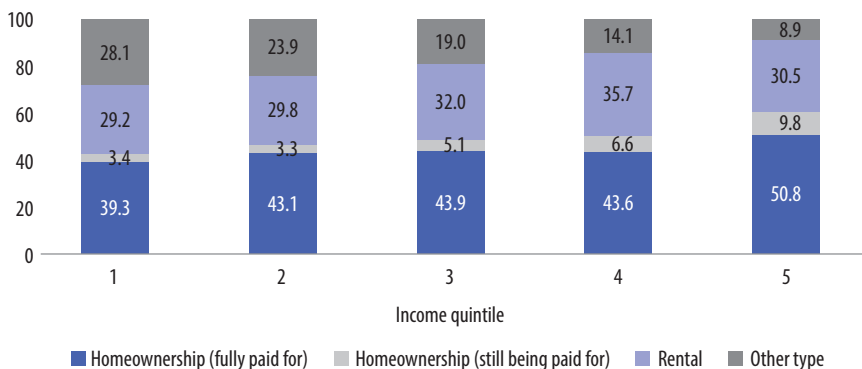
**FIGURE 7.5** Distribution of Tenant Households and National Total by Income Level in Multiples of the Minimum Salary, 2008 (percentage)



Source: DANE.

There is great variation among the cities studied, which means that the predominant characteristics in terms of location according to socio-economic stratum, income calculated as multiples of the minimum salary, and distribution by per capita income quintiles are used to identify the differences. In Bogota, economically less vulnerable tenant households are found, with a predominance of households from quintiles two and three, household income of above three times the minimum salary, and

**FIGURE 7.6** Distribution of Households by Per Capita Income Quintiles and Type of Tenure, National Total, 2008 (percentage)



Source: DANE.

membership in quintiles four and five. By contrast, in the Atlantica region, tenant households live in more precarious economic circumstances. They are concentrated in quintile one, their earnings are equal to or less than three times the minimum salary, and they are in quintiles one to three. In the region of Antioquia, household characteristics are somewhere in between: location in quintile two, income at over twice the minimum salary, and membership in quintiles four and five.

### Location of the Rental Housing Market

In Colombia, there is no marked socio-spatial segregation of rental tenure in urban areas. In the cities studied, tenant households are in all localities.<sup>5</sup> Residential segregation in Colombia derives from the price differentials for urban land and, therefore, is expressed in terms of house prices, regardless of the form of tenure. Nonetheless, Maps 7.1 and 7.2 show that the highest incidence of renting is found in the more central parts of Bogota and Medellin.

### Origin of the Supply of Rental Housing

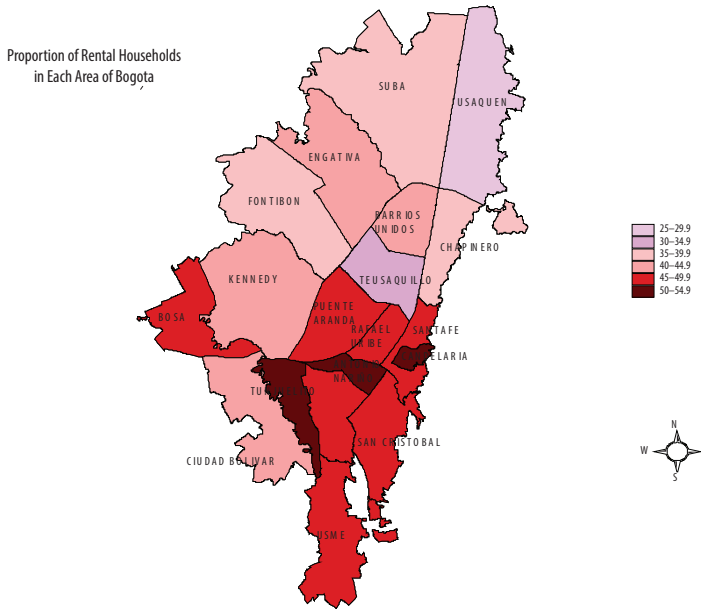
The effects of the imbalance between the *housing stock shortage* and the rate of formal housing production can be seen in two processes: the constant increase in the proportion of tenants both nationally and in the major cities, and the persistence of the informal housing production trend, the latter accounting for 65 percent of all new units during the most recent intercensal period 1993–2005.

On the supply side, other forms of social housing production in the rental housing inventory, such as self-management, progressive development, and the subdivision or extension of properties, outstrip formal production. The market scenario is complemented by limited specialized real estate intermediation, which is concentrated in the medium-high and high price segments, in contrast to a high proportion of owner-landlord households that offer a rental service, or 1 percent and 99 percent, respectively. Unifianza S.A., the agency that represents real estate agencies that include guarantees or insurance policies in their rental contracts, estimates that, by September 2011, there were around 2,500 real estate agencies of different

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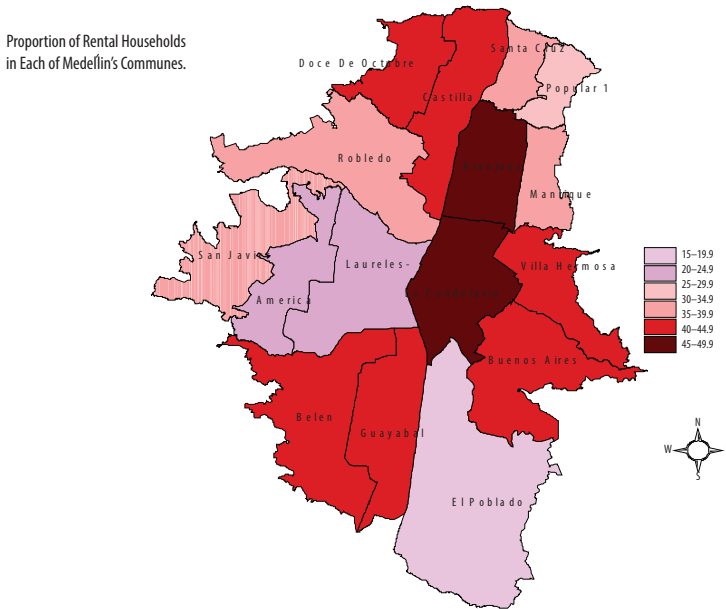
<sup>5</sup> The locality or commune corresponds to a category included in Colombia's urban property register nomenclature.



**MAP 7.1** Location of Rental Housing in Bogota (percentage)

sizes, grouped into various trade organizations. In the studies carried out by the National Center for Construction Studies (Centro de Estudios de la Construcción y el Desarrollo Urbano y Regional, or CENAC) for the Colombian Federation of Real Estate (Federación Colombiana de Lonjas de Propiedad Raíz, or FEDELONJAS), it was estimated that 1.1 million rental contracts are signed or renewed every year in Colombia.

In significant segments of the population, the economic potential of property as a possible source of rent induces a preference for homeownership. This is a question of survival for a good many households in the low and medium-low socioeconomic strata that frequently face periods of unemployment or have few resources with which to meet their daily needs. Approximately 6 out of 10 owner-landlords receive more than one rent; 2 out of 10 have two dwellings rented out in the market, two have three dwellings, and one has more than three. Although this situation might suggest a relative concentration and presence of large-scale owner-landlords, the kinds of dwellings that predominate among tenant households usually consist of rooms inside an extension of a larger building, reflecting the common practice of subdividing dwellings with a view to making more spaces to let.

**MAP 7.2** Location of Rental Housing in Medellín (percentage)

### Types of Dwellings Occupied by Lower- and Middle-Income Tenants

In the country's main cities, the supply of rental housing for low- and medium-low income sectors is fundamentally of informal origin (CENAC, 2007).<sup>6</sup> In general, informal letting is located in a neighborhood that (i) is considered unsafe, especially due to delinquency, drug-taking or trafficking, and the presence of gangs; (ii) is predominantly residential, although with a significant amount of land used for commercial or institutional purposes; (iii) suffers from pollution due to the proximity of sewers, markets, or slaughterhouses; (iv) both the access roads and the neighborhood's internal streets are sufficient and in good repair, and there is good formal public transportation; and (v) tree planting in public spaces is poor, and urban amenities are insufficient or nonexistent.

With regard to specific market characteristics in each city, the best-quality rental housing supply is found in Bogotá, given that the proportion of

<sup>6</sup> A group of seven cities were included in the geographical range of this study: Bogotá, Medellín, Cali, Barranquilla, Cucuta, Pereira, and Pasto.

tenants affected by the qualitative deficit is lower, although there is considerable quantitative deficit, as well as cohabitation. The phenomenon of the shared dwelling is seen almost exclusively in Bogota and Medellin, where multi-family homes predominate, whereas single-family homes are the norm in Barranquilla. The most precarious urban environment is found in Barranquilla, and the best in Medellin and Bogota.

The fact that Barranquilla has fewer shared dwellings but more precarious urban environments might be related to the ease with which lower-income households in this city gain access to informal homes through land invasions. In Bogota and Medellin, the informal home is usually the product of illegal subdivisions rather than land invasions, which means that for a young family it is comparatively more expensive to access this kind of solution, and cohabitation with family members therefore becomes the favored option.

## Access to the Rental Housing Market

### *Evolution of Rent Prices*

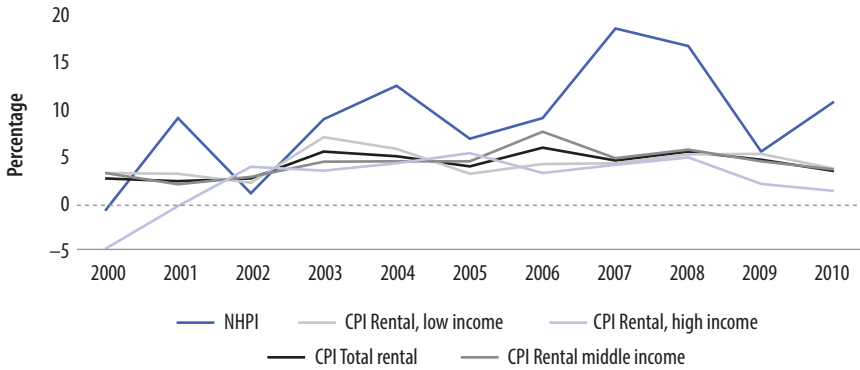
Prices in the rental market have remained stable over time, according to the trends revealed by the variations in the new home price index (NHPI) and the consumer price index (CPI) for rents (Figures 7.7 to 7.9). Together, these comparisons show that the price variations for new housing are much more volatile than the variations in rent rates for all ranges of income in the cities in question.

With regard to rent price levels, according to the 2008 Quality of Life Survey (Encuesta de Calidad de Vida, or ECV), carried out by the National Statistics Administration Department (Departamento Administrativo Nacional de Estadísticas, or DANE), at 2012 values,<sup>7</sup> the estimated average cost of renting at the national level was US\$145.3 per month. Rent in Bogota is recorded at a higher average level, at an amount 1.3 times the national average. Barranquilla is the most affordable city in this respect. With regard to the current legal minimum monthly salary, US\$317.6, the average cost of rent at the national level represents 45.8 percent of this sum (Table 7.3).

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<sup>7</sup> Using the respective value of the current minimum legal monthly wage (MMLW); and a representative exchange rate of 1,784.60 COP = US\$1.00 (on June 30, 2012) as an updating variable.

**FIGURE 7.7** Annual Variation of NHPI and CPI in Relation to Total Rent and by Income, Bogota (percentage)

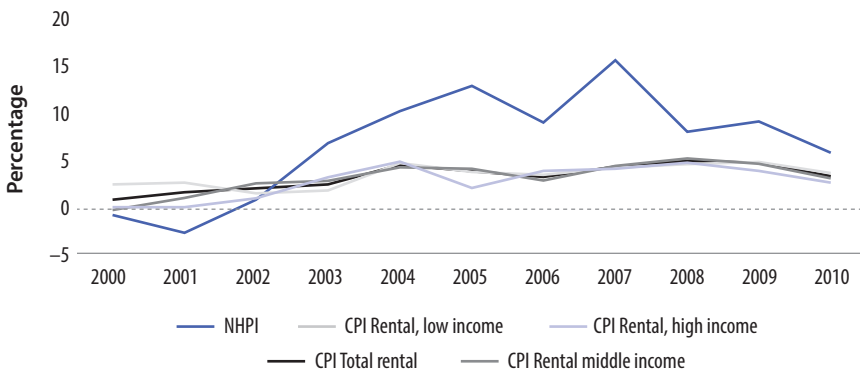


Source: DANE.

### *The Proportion of Tenant Household Income Spent on Rent*

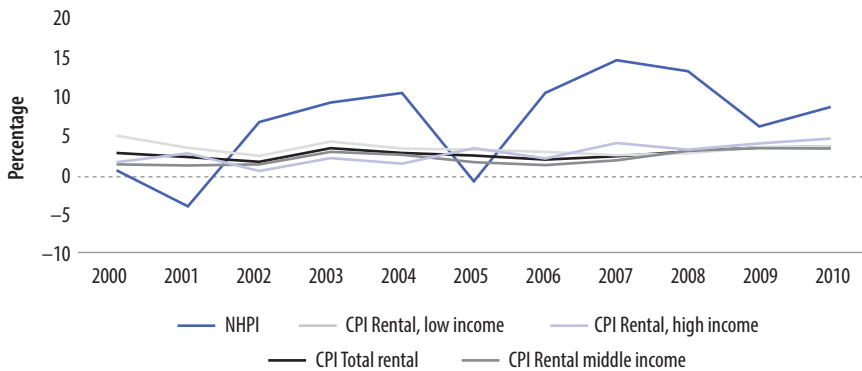
Between 2001 and 2008, there was a continuous decline in the relative share of monthly income that tenant households had to spend on rent. In 2008, this represented between 10 and 11 percent of monthly household income, a marked reduction from the 23.9 percent level recorded in 2001. Nonetheless, according to income ranges, the cost of renting can reach more than 60 percent of monthly income for those earning no more than the minimum salary (Table 7.4).

**FIGURE 7.8** Annual Variation of NHPI and CPI in Relation to Total Rent and by Income, Medellin (percentage)



Source: DANE.

**FIGURE 7.9** Annual Variation of NHPI and CPI in Relation to Total Rent, and by Income, Baranquilla (percentage)



Source: DANE (2000–2010).

### Socioeconomic Characteristics of Owner-Landlords

A study by CENAC (2007) describes the typical owner-landlord household in Bogota: its average size is 3.5 persons, with a male head of household aged 59 who has completed primary education, is self-employed or works for a private firm, or is a renter or pensioner. The head of household's average income is 1.1 times the minimum salary and the household's total earnings are 2.3 times the minimum salary. The payment received for rent might represent 30 percent of household income. If additional sources of income are considered apart from rent, then paid employment and pensions play an important part in providing income for owner-landlord households.

The main reason that prompts these households to develop or refurbish areas of their homes to offer them in the rental market is the need to generate additional earnings to complement the required household income. The landlord is aware, however, that the service he provides is possible by sacrificing the quality of his own house. This is reflected in the reduced private space available for his own household. Another perceived

**TABLE 7.3** Average Cost of Renting: National and Regional Totals, 2012 (in US\$)

Region	Average rent
National total	145.3
Bogota	189.7
Antioquia	163.1
Atlantico	114.3

Source: DANE (2008).

**TABLE 7.4** Cost of Renting as a Proportion of Income, according to Stratum and Income Range (Minimum Salaries), National Total, 2001-2008

	Strata						Income (minimum salaries)						
Year	Low-low	Low	Medium-low	Medium	Medium-high	High	0-1	1.1-2	2.1-3	3.1-4	More than	National total	
2001	23.3	26.3	26.5	23.0	17.0	19.7	61.4	34.6	27.2	23.0	12.8	23.9	
2002	18.6	17.5	19.4	16.1	14.6	15.8	57.3	31.4	22.4	19.5	11.7	17.4	
2003	13.7	15.2	16.2	13.6	13.0	13.6	62.6	28.8	21.1	18.0	10.4	14.8	
2004	13.0	13.3	15.4	13.8	14.1	14.1	66.6	28.0	21.8	17.9	10.9	14.3	
2005	12.3	14.4	14.9	13.2	13.8	14.1	68.6	28.2	21.4	18.0	11.1	14.2	
2008	10.1	11.3	10.8	9.6	8.9	10.5	62.7	20.1	15.4	12.7	7.9	10.6	

Source: DANE (2001-2005); DANE (2008).

risk in providing this service is associated with choosing the right tenants to ensure that the rent is paid on time and that maintenance costs are covered.

## RESTRICTIONS ON THE DEVELOPMENT OF THE RENTAL HOUSING MARKET

From the real estate entrepreneur's perspective, the main factor that hinders the development of the formal rental market in Colombia by building new rental homes is the legal insecurity involved in repossessing the property. Even where there is just cause for eviction, the average time invested in the repossession process is eight months. The real estate entrepreneurs interviewed all believe that this is too long, given that non-payment of rent during this period affects the expected rate of return for investors.

Obstacles also arise from real estate and construction sector business preferences for short-term investments. This predilection for short-term investment gives these sectors a special profile and structure: in Colombia, only 19.5 percent of building firms are constituted as limited liability companies; 82.2 percent record annual sales of up to US\$1 million; 50 percent are less than two years old, and 70 percent have been in business for less than five years, whereas the average scale of production is around 200 homes (ICPC, FICEM, and CENAC, 2006). All of this points to a sector in which

profits are invested in short-term instruments. In other words, while the average Colombian construction entrepreneur intervenes when conditions are favorable for obtaining short-term profits, investment in rental housing implies a longer-term transaction and a more stable business structure capable of handling administration and maintenance. In the absence of such a structure, the entrepreneur must be able to set up financial vehicles to intermediate and guarantee a return on the investment. This calls for a different business model.

A further element that discourages private sector participation in the rental market is the existence of a competitive, robust, and dynamic informal supply, which intervenes according to profitability criteria that differ from those of formal private enterprises. Any formal business seeking to enter the rental market finds that the informal landlord is a strong and well-positioned competitor for the existing demand, who has monopolized supply to the low- and medium-low socioeconomic strata. The informal landlord, who is, economically speaking, a small business agent, enters the market with the aim of generating income for his household, rather than investing like an entrepreneur. Moreover, the rent price he offers, although stable, is also flexible, as owner-landlords tend to adjust the rent they charge their tenants during periods of economic recession. This flexibility is possible because the rent charged is not the return on an investment but rather a complement to household income. The impossibility of competing in a segment of the market in which prices rise only moderately and, moreover, tend to adapt to the incomes of potential clients, constitutes a disincentive for real estate businesses to enter the market. There are studies that reveal declining and negative profitability during the period 1994–2003 (Jaramillo, 2004).

Finally, despite the limitations on rental housing production, it is not accorded preferential treatment. The institutional rules of the game and the market are the same for both the sale and the renting of new housing. When it comes to providing financing for building, rental projects are developed under the same guidelines as those applied to building for sale. There is also a situation of equivalence in market terms regarding land prices and urban planning regulations. By the same token, there are tax incentives to encourage SIH production, as well as for rental projects in the social sector.

### The Legal and Regulatory Framework of the Rental Housing Market

The low levels of intervention by private sector businesses in the rental market are also a consequence of the prolonged regime of rent controls,

a form of regulation that was in effect from the 1950s until the 1980s. This legislation included rent freezes in certain periods to provide protection for the tenant.

Law 820 of 2003, the Law on Rentals (*Ley de Arrendamientos*), was an improvement over the previous legislative framework, which discriminated against landlords. The regulations set out in the new law also protect tenants while leaving landlords' rights vulnerable in certain cases, mainly in procedural aspects such as repossessing a property. Due to the lack of regulatory protection and the costly nature of the process, in most cases owner-landlords prefer to reach an out-of-court settlement, renouncing their economic claims to speed up repossession of the property.

From the legal framework perspective, and apart from the time consumed by processes, the current legislation does not erect obstacles to rental market development because it covers all of the aspects inherent in the landlord-tenant relationship. Nonetheless, there are still aspects that need to be clarified in the legislation, such as those relating to intermediaries or real estate agencies, property investment funds, and specialist rental companies.

At present, there are two possible conflict resolution scenarios: alternative conflict resolution mechanisms (ACRMs), or by judicial means. ACRMs are systems established by the community or by law to arrive at peaceful, out-of-court settlements of conflicts. These were introduced gradually in Colombia in the mid-twentieth century, but it was only in 1991, with the new Constitution and Law 23, that conciliation and arbitration were consolidated within the field of informal justice. The number of such mechanisms have increased in recent years, due to multiple factors such as the interest shown in peaceful conflict resolution by the public, universities, civil society organizations, and donors.

Legally, ACRMs carry the same weight as a judge's ruling, but with the advantage that agreements can be reached far more quickly. The disadvantage of ACRMs lies in their higher cost over the short term. Today, the following ACRMs exist in the country: transaction, conciliation, amicable settlement, and arbitration. These mechanisms are put in practice by chambers of commerce, notaries, university legal consultants, trade organizations, private and official centers of conciliation and arbitration, and lawyers.

The number of evictions is not significant, bearing in mind the number of rented homes in the country. In effect, the defaulted mortgage portfolio is situated at 7.3 percent (Superintendencia Financiera de Colombia, 2012). Evictions take place in the case of homeowners who are behind with their



mortgage repayments, although creditors prefer to reach a deal, given the costs of repossessing the property, which include surveillance, public utilities, administrative costs, and others.

According to the provisions of Law 820 of 2003 with regard to urban housing, both the landlord and the tenant are obliged to notify the other party at least three months in advance if the contract is not to be renewed. According to Colombia's Civil Code (Código Civil), this notice has to be given in accordance with the period of rent payment in the event that a rental period has not been fixed.

The landlord can terminate the contract unilaterally during the contract extension period, but must give formal, written notice at least three months in advance and pay compensation equal to the value of three months' rent. Likewise, the tenant can terminate the contract unilaterally, after four or more years of occupation, in which case the tenant is obliged to pay the landlord the equivalent of the value of one and a half month's rent.

Today, the country has the following legal rules for governing procedural aspects: the Civil Procedure Code (Código de Procedimiento Civil), Art. 408 and Art. 424; Law 820 of 2003 (Art. 7, Art. 10 [out-of-court payments], Art. 12, Art. 17, Arts. 22 to 25, Art. 26 [right of retention], Arts. 35 to 40); eviction for de facto occupation; Law 57 of 1905, Art. 15; Decree 992 of 1930 (Arts. 1 to 15); and repossession and eviction for de facto occupation in the law on urban reform (Law 9 of 1989, Art. 43 and Art. 69).

With regard to increases in rent prices for urban properties, Article 20 of Law 820 of 2003 establishes that: "After 12 months of a contract have elapsed without a rent increase, the proprietor is entitled to increase the rent in a proportion not exceeding 100 percent of the increase recorded by the retail price index (RPI) in the preceding calendar year."

The legislation envisages that payment for public utilities is the responsibility of the tenants and, at the landlords' behest, rules have been introduced to ensure that utility bills are individualized, even when the dwelling is being rented under a sharing arrangement. Nonetheless, the majority of service providers have yet to implement the regulations and in practice it has failed to have much of an impact. The owner-landlords continue to be billed for the use of public utilities. When it comes to intermediate rentals, real estate agencies are responsible for rent collection and paying for services such as condominium administration, and they demand payoff of debts before a lease can be broken. In the case of non-intermediate rentals, or those without a contract, the problem of who pays the utility bills persists.

## Regulatory Restrictions on Land (use) and Building

Urban land use regulations create conventional restrictions on all housing project development. These are, among others, the limitations imposed by territorial planning itself, such as those derived from the Main Ecological Structure (*Estructura Ecológica Principal*, or EEP) identifying areas that cannot be developed for various reasons, controlling activities incompatible with residential use, and deciding where to locate amenities and facilities. These rules are more like rules of the game than restrictions on building activities. Moreover, the fact that the same arrangements exist for both social housing and for higher-cost housing for lower-income households negatively affects the development of these kinds of projects, given that they impose the same costs, but for the higher-income stratum the profits are higher. Therefore, there are ongoing discussions on whether to reestablish the system of minimum urban development rules for all SIH projects.

The promulgation of Law 388 of 1997 gave rise to a new generation of urban development rules, especially regarding public urban land management and capital gains sharing. One of the options offered by the new regulations is the so-called partial development plan, which operates as a planning and urban management instrument and, in addition to fulfilling other functions, constitutes a tool for guaranteeing that land owners share in the financing of local urban development charges. Generally, partial development plans are required for project developments in areas of urban expansion and in sectors of the urban area that involve larger expanses of land. Their implementation has been fiercely debated, and building activity is perceived to have been curtailed in the cities in which plan implementation has been enforced, in view of the long time required for plan approval. In Bogota, however, the inter-institutional coordination problems that caused excessive delays and, consequently, high transaction costs for developers have now been resolved. The partial development plans are probably the only impediment that urban planning regulations have placed in the way of housing production.

Urban development laws and building regulations do not therefore necessarily produce conditions that have a negative effect on the way that housing markets, including the rental market, operate. The most severe limitations arise from high prices and building land speculation, and from the financing costs faced by developers. The latter is related to the fact that the interest rates charged in Colombia compare unfavorably with the rates applied generally in the international arena.

## Public Policy<sup>8</sup>

Three main periods can be discerned in the history of public housing management in Colombia.<sup>9</sup> The first model, which was applied from 1930 to 1971, corresponds to the idea of the State as benefactor, according to which the State assumes an active role in providing formal housing solutions, either by building or by providing mortgage credit; the construction business sector was also consolidated during this stage. Likewise, several public institutions were created to solve housing finance issues, including the Central Mortgage Bank (Banco Central Hipotecario, or BCH) in 1936, the Territorial Credit Institute (Instituto de Crédito Territorial, or ICT) in 1939, the Military Savings Bank (Caja de Vivienda Militar) in 1947, and the National Savings Fund (Fondo Nacional del Ahorro, or FNA) in 1968.

The second period runs from 1972 until the end of the 1980s. During this time, the Unit of Constant Purchasing Power (UCPP) began to operate, which established an indexing mechanism for maintaining the currency's purchasing power and thereby facilitating access to mortgage credit for households and capturing savings in real terms. This increase in credit capacity enabled home building to proceed on a massive scale, which had a positive effect on employment for unskilled labor and on economic activity in general. During this period, the construction sector became the leading recipient of financial capital investment and an important driver of economic activity.

The third period, which runs from 1990 to the present, is characterized by a new housing policy focused on the instruments of direct demand subsidies<sup>10</sup> and mortgage credit. These are considered appropriate mechanisms for promoting the social housing property and mortgage market.

Actors in the housing sector saw the need to improve public policy in terms of efficiency and effectiveness, especially regarding large-scale

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<sup>8</sup> This section is based on Giraldo (1997), the Comptroller General of the Republic (Contraloría General de la República) (2006), Ceballos (2008), and Silva (2011).

<sup>9</sup> Ceballos (2008) identifies five periods in which legal considerations illustrate the changes of emphasis in State policy: the hygienist phase (1918–42), the institutional phase (1942–65), the transition phase (1965–72), the savings and housing corporations phase (1972–91), and the National System of Social Interest Housing (Sistema Nacional de Vivienda de Interés Social) phase (starting in 1990).

<sup>10</sup> Money provided to households by the State, which is based on the LMMW and whose amount is fixed based on housing prices and the economic conditions of the beneficiary groups.

project execution and ensuring that direct demand subsidies for buying a new home reached the less fortunate members of society. Moreover, they pointed out that improvements were also needed in terms of architectural and urbanistic quality, more participation by territorial authorities, long-term financing to stimulate housing supply, reinvestment of capital gains in housing projects, greater program and instrument diversity, and solving the financial closure problems faced by a large proportion of households.

With regard to the tax regime, in Colombia real estate intermediaries are considered to be commercial businesses and, therefore, are subject to value-added tax (VAT) on the services offered, corporate income tax, industry and commerce tax (ICA), and withholding tax at the source, among other tax charges. Urban land is subject to other kinds of levies, such as cessions of land to the municipality in exchange for building permission, property tax, a betterment levy, and capital gains sharing (Table 7.5).

Article 41 (Encouragement for investment) of the Urban Rental Housing Law (Law 820 of 2003) (Ley de Arrendamiento de Vivienda Urbana) establishes the following incentives:

- 1. Authorizes setting up enterprises specialized in building and letting social housing, as well as real estate investment funds.
- 2. Considers rental income collected by these agencies to be tax free for the 10 years following construction.

**TABLE 7.5** Taxes on Tenants, Landlords, and Land

Item	Tax	Observations
Home rental	Exempt	Tax statute, Art. 476, Num. 5 (Law of 2002, Art. 36).
Urban land	Property	According to each municipality <ul style="list-style-type: none"><li>• Home:<ul style="list-style-type: none"><li>• Barranquilla: 4.7 to 11 per 1,000</li><li>• Bogota: 2 to 9.5 per 1,000</li><li>• Medellin: 6.5 to 14.5 per 1,000</li></ul></li><li>• Land:<ul style="list-style-type: none"><li>• Barranquilla: 4 to 33 per 1,000</li><li>• Bogota: 12 to 33 per 1,000</li><li>• Medellin: 14.5 to 33 per 1,000</li></ul></li></ul>
	Betterment	Decree 1.604 of 1966 establishes that this tax contribution is levied to recover investments in infrastructure.

Source: Authors' elaboration.

3. Authorizes the State and territorial agencies to establish rental housing subsidies targeted to low-income families.

### Housing Financing and the Structure of the Mortgage Credit Market

Following enactment of the Housing Law (Law 546 of 1999) (Ley de Vivienda), a specialized long-term financing system was created, with a series of distinctions differentiating it from traditional lines of credit. The objective of this legislation is to make it easier for people to access a decent home by purchasing, building, repairing, refurbishing, subdividing, or improving used housing and to establish the parameters governing long-term individual financing. The law is also concerned with loans for building and social housing and envisages special conditions that differentiate them from other lines of credit, such as fixed interest rates, payback periods of up to 20 years, no-interest capitalization, and total or partial mortgage cancellations without penalties. Moreover, during the mortgage period the relationship between the monthly quota and the borrowers' capacity to pay remains stable, insofar as both are regularly updated in line with inflation. In 2003, following Law 795, the housing lease option was added to the system.

In Colombia, the credit establishments, social sector agencies, savings and loan mutual societies, financial cooperatives, employees' funds, and the FNA, among others, can offer housing loans in either legal Colombian currency or in real value units (unidades de valor real, or UVR), although such operations have to be monitored by either the Financial Superintendency (Superintendencia Financiera, or SFC) or another superintendency.

Private mortgage financing has maintained a steady trajectory over the last four decades and, from the supply side, has been a driver of building activity, especially house building. There are market failures in providing financing for households with low formal incomes and for households whose members work in the informal economy. A financing system that is related to the conditions of supply in the rental housing market, however, has yet to be developed, although this is attributable more to lack of demand by builders and property developers than to lack of interest on the part of banks.

Table 7.6 presents the general characteristics of the credits provided for building homes both for rent and for sale, and of mortgage credits in general in Colombia. With regard to building for sale, there are special products for developers consisting of a mortgage on the land with a term equivalent to the length of the building process and the sales process,

**TABLE 7.6** General Characteristics of Credit Available for Building Homes for Sale (Construction Loans), Credit for Building Rental Housing, and Mortgage Loans, Colombia

Loans for building homes for sale (construction loans)	
Conditions	Characteristics
Effective annual interest rates	<ul style="list-style-type: none"> <li>• Social interest housing (SIH) in pesos (COP): 12.82 percent.</li> <li>• SIH in UVR: 5.89 percent.</li> <li>• Non-SIH in pesos: 11.85 percent.</li> <li>• Non-SIH in UVR: 6.66 percent.</li> </ul>
Repayment period	Period of duration of the building process plus some extra months for the sales process.
Guarantee	Open land mortgage, and promissory note signed by the legal representative.
Loans for building rental housing	
Conditions	Characteristics
Effective annual interest rates	<ul style="list-style-type: none"> <li>• Mortgage credit for building (only applicable to individuals): 12.70 percent.</li> <li>• Free investment credit for businesses not registered as building firms: between 6.5 +FTD and 8.5 +FTD, according to the repayment period.</li> <li>• Credit for building firms for building rental housing: rates agreed with the bank and lower than in the two previous options.</li> </ul>
Repayment periods	<ul style="list-style-type: none"> <li>• Mortgage credit for building (only applicable to individuals): 15 to 20 years.</li> <li>• Free investment credit for businesses not registered as building firms: 1 to 5 years.</li> <li>• Credit for building firms for building rental housing: repayment periods agreed with the bank.</li> </ul>
Administrative process involved in financing a rental housing project	<p>A first mortgage is required, open and with an unlimited amount on the building plot where the project is to be developed, plus promissory note.</p> <p>Basic mortgage loan requirements.</p>

*(continued on next page)*

with fixed interest rates at around 12 percent in Colombian pesos, and with slightly better rates on offer for the construction of SIH. There is also a UVR mode. In the case of rental housing, there are products for individuals, firms not registered as builders, and building firms, all with different terms and repayment periods. In most cases, these are free investment loans, or

**TABLE 7.6** General Characteristics of Credit Available for Building Homes for Sale (Construction Loans), Credit for Building Rental Housing, and Mortgage Loans, Colombia (*continued*)

### Mortgage loans

Characteristics	Details
Temporary interest rate subsidy, using resources from the Mortgage Portfolio Stabilization Fund (Fondo de Estabilización de la Cartera Hipotecaria, or FRECH)	Temporary interest rate subsidy for credits provided for purchasing a new home, building one's own home, or housing leasing contracts, whose value does not exceed COP 172.5 million. It was designed as a countercyclical instrument to promote new housing construction. To date, two quotas have been allocated, and the national government announced that they would be valid over the course of the 2010-14 administration. This subsidy is a payment made in the beneficiary's name to reduce the mortgage payment. The value of the subsidy is based on the value of the dwelling.
Typical repayment period	Minimum of 5 years and maximum of 20 years.
Documentation required for mortgages or mortgage credits for buyers	The conditions and documents required vary according to the entity.

Source: Consultation with commercial and mortgage bank establishments.

home building or improvement loans. With regard to mortgage loans, a temporary rent subsidy is available.

## CONCLUSIONS AND RECOMMENDATIONS

### Expanding the Supply of Rental Housing

Expanding the rental housing stock is a strategically important market development task, since the gap between the available stock and annual growth in the number of households is putting pressure on the price of housing service delivery.

The total housing supply can be expanded using new formal and social housing production models, and by creating extra units derived from the existing stock via redensification, heritage restoration, urban renewal, and changes in building uses, among others. It is therefore fundamental that housing policy go beyond the combination of stimulus measures envisaged

in Law 820 of 2003 for professional building firms, and establish other measures that provide support to households wishing to develop spaces for let.

Public policy proposals must include technical assistance, subsidies, and incentives for rental housing. These actions should be primarily aimed at promoting the formal supply of new rental housing units, urban renewal programs, and reconversion of buildings not originally intended for residential purposes, as well as redensification of the existing stock.

### Subsidies for Tenant Households

The incorporation of tenant support programs and instruments, such as rent subsidies, would reduce the risk that those segments of the population that spend too much of their household income on housing opt for informality, which often means informal housing built in unsuitable areas. Such a policy would recognize both the importance of the rental market as a potential housing service supplier, and the fact that renting could satisfy many households' housing needs.

A rent subsidy would make it possible to locate households in consolidated urban areas with easier access to basic infrastructure and domestic services. This could in turn bring about improvements in housing quality and an increase in household disposable income, thanks to reduced housing, transportation, and public service costs, among others. Similarly, cities would benefit enormously by reducing the amounts currently spent on regularizing, legalizing, and upgrading substandard housing and neighborhoods.

A conditional, temporary subsidy is proposed, based on the results obtained by linking beneficiary households to poverty reduction programs. As poor households "graduate" from these programs, the probability of their becoming dependent on the State will decline significantly. The rent subsidy would be aimed at a target population made up principally of households affected by forced removals, poverty, and vulnerability, people living in precarious settlements and in extremely high-risk areas, as well as households shattered by natural disasters.

A rent subsidy would stimulate an increase in rental tenure, and consequently in the rental housing stock. Likewise, it would compete with illegal urban development and could thereby help reduce informal house building. In general, a program of this kind could improve housing conditions for the target population, providing both protection from economic shocks and security of tenure.



Despite its potential, the subsidy would represent a significant cost to the nation and the municipalities. However, such a commitment must be analyzed bearing in mind the cost of remedial interventions in informal settlements, added to the cost of providing social assistance to their communities. The experience in Bogota illustrates how remedial costs triple the expense of providing solutions within a legal, well-planned, and institutional city (Aristizábal and Ortiz Gómez, 2002).

Likewise, this type of subsidy can be partially captured by rent price increases, with the perverse effect of benefiting the landlords more than the tenants. In Colombia and elsewhere in Latin America, however, the housing services market is supported by various direct and indirect subsidies to stimulate demand as well as supply. There are tax exemptions for building developers, interest rate subsidies for mortgage financing, bank accounts to stimulate demand via tax incentives, and temporary rent subsidies for displaced and resettled households, among others. If this distortion were to ensue, it would not be severe and would probably be offset by other elements in this range of subsidies. Finally, this risk should also be contrasted with the improved quality of life that the rent subsidy could provide for the households included in the target group.

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# Renting as a Response to Housing Market Duality in El Salvador

*Irene Vance*

## INTRODUCTION

In El Salvador, as in the rest of the Latin American and Caribbean (LAC) region, the share of rental housing declined in the last decades of the twentieth century, while homeownership increased. The proportion of owner-occupiers grew as a result of “homes for all” government programs, as well as in response to frenetic private sector activity subdividing and selling urban land and building enormous housing projects. Following the economic recession of 2008–09, incomes fell and urban poverty increased, placing homeownership out of reach for a growing number of Salvadoran families, especially the poorest.

Ninety percent of El Salvador’s unmet demand for housing is concentrated in the lower part of the income pyramid. Historically, renting was the primary option, especially for low-wage workers. Although the dynamic of this particular submarket has been ignored, to a large extent because rental housing has failed to attract the attention of public policymakers, this form of tenure continues to be the best option for a small yet stable proportion of Salvadoran households. Presently, there are some indications that renting may be on the rise, especially among heads of household who are unable to access a new self-contained housing unit.

## THE CHALLENGES OF THE HOUSING SECTOR

El Salvador is the smallest and most densely populated country in Central America. More than 6 million inhabitants, comprising some 1.5 million

families, live within a total surface area of just 21,040 square kilometers. Although the population increase has slowed in recent decades, around 36,800 new households are formed each year. In the 1990s and between 2000 and 2008, increased private sector homebuilding led to excess supply in the market. At the height of the construction boom, more than 300 construction companies bought land and built large housing developments. During the peak production years,<sup>1</sup> these residential areas represented more than 50 percent of annual supply.

According to official figures, the *total housing stock* is 1,668,227 units, 284,000 of which are currently unoccupied. The percentage of vacant dwellings has increased constantly, up from 2.7 percent in 1971 to 11 percent in 1992. It presently stands at 17.7 percent. Although there are no official data disaggregated by income group, there is growing evidence that this phenomenon prevails at both the high and the low ends of the housing market.

Remittances were partially responsible for the increase in construction. A portion of the stock of vacant dwellings belongs to households whose owners are absent, as they are part of the Salvadoran diaspora.<sup>2</sup> Approximately a quarter of all Salvadorans, or 2.5 million people, live abroad, mainly in the United States. Their remittances, invested in real estate, have driven the rapid expansion of gated communities and condominiums. The uncontrolled growth of new residential areas has added to urban sprawl. The cities with the highest inflow of remittances have the greatest number of unoccupied homes. San Miguel, the third-largest city in the country, with a population of 218,410, is the second-highest recipient of remittances; more than 34 percent of San Miguel's households receive money from overseas (UNDP, 2005). It has been calculated that a fifth of the city's 71,054 dwellings are empty (Klaufus, 2010). Real estate agents also report a 40 percent vacancy rate in the luxury apartment market.

Remittances have also caused the price of land and housing to rise throughout the country. In the department of La Unión, 47 percent of the population receives remittances. Almost three-quarters of home buyers are Salvadorans who live abroad, and they pay purchase prices that range from US\$39,000 to US\$93,000. In the provincial cities, urban expansion outstrips population growth, mainly because new homes remain empty,

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<sup>1</sup> The production of houses costing between US\$6,000 and US\$9,000 reached its highest point in 1994, with 2,300 units, and had fallen to 1,300 units by 1999.

<sup>2</sup> A survey of 100 households, conducted in 2007, revealed that 25 percent of vacant properties were built for emigrants.

either because they are an investment or meant to be future residences for grown children. At the other extreme of the income spectrum, government efforts to provide low-cost mortgages have fuelled the increase in construction in the main cities and in coastal areas. This has contributed to the high rate of homeownership among the low-income population: 87 percent of households in the Metropolitan Area of San Salvador (Área Metropolitana de San Salvador or AMSS) are owner-occupiers.

Despite the noteworthy achievements in extending homeownership, the growing social problem of organized crime and violence poses a threat to inhabitants. It is increasingly common to find large public and private low-cost developments that are empty. Neighborhoods located mainly in the cities of the AMSS have been taken over by criminal gangs, which impose extortion and general insecurity. Newspapers frequently report that homeowners have been forced to abandon their homes. Many of them continue to pay mortgages while no longer living in the property and have opted to move to rented accommodation in a safer area. According to the Social Housing Fund (Fondo Social para la Vivienda, or FSV), 63 percent of the dwellings abandoned between 2007 and 2011 were located in the AMSS.<sup>3</sup>

Paradoxically, El Salvador still has a large housing deficit, estimated at 360,301 units, which is closely related to the accessibility gap associated with poverty and low incomes. Poverty fell significantly during the 1990s, but since 2008 the country has experienced an economic decline. The most recent figures reveal that 67 percent of heads of families who work but do not own their homes earn below three times the minimum wage (Harth et al., 2013). Despite government efforts to expand access to housing through a combination of below-market interest rates and subsidies, the vast majority are unable to access a self-contained housing unit. As a result, 64 percent of housing is produced informally by gradual self-building. Consequently, of the total housing deficit of 360,301 units, 88 percent, or 315,918 units, is qualitative. The qualitative housing deficit is due to the large number of self-built homes that lack basic services and infrastructure.

A second problem is the loss of housing caused by natural disasters. El Salvador's location on the Pacific coast and its geotectonic characteristics make it highly vulnerable to earthquakes, hurricanes, and volcanic eruptions. El Salvador is among the countries most susceptible to natural disasters in the world. The available estimates indicate that 41 percent of

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<sup>3</sup> For more information, see: <http://impremedia.com/article/20120814/NEWS/04/308149891/0/NEWS/07>.

the population live in high-risk areas and are vulnerable to flooding and landslides. High population density, shoddy land-use planning, environmental damage, and poorly built houses all exacerbate this vulnerability. The frequency and intensity of disasters present a complex challenge for housing provision and infrastructure. Since Hurricane Mitch in 1998, there have been eight major natural disasters, including earthquakes, a volcanic eruption, and nine tropical storms. In 2010, tropical storm Agatha affected 120,000 people in 116 municipalities. The economic losses were estimated to be on the order of US\$112 million, or 0.5 percent of GDP.<sup>4</sup> In October 2011, Tropical Depression 12E affected more than 1.4 million people, and the damage and losses amounted to more than US\$840.4 million.

Given the frequency of natural disasters, the construction of replacement units, financed to a large extent by international aid, has become a permanent characteristic of public housing programs. This traditional housing policy bias toward new units is a high-cost option. In practice, many families repair the damage themselves. Rental options have never been included in the solutions menu, either as a temporary or a permanent alternative for prevention, mitigation, and post-emergency response. Rental housing, built in safe areas, close to centers of employment, with good access to transportation and services, could help to provide a preventive housing solution, given the combination of natural vulnerabilities affecting the country.

A third fundamental problem is the supply of affordable housing for the poor and the deceleration of economic growth. The benefits of the 2001 dollarization were hardly noticed, while low interest rates prevailed only from 2005 to 2007. The cost of the basic food basket in urban areas for an average family of three ranges from US\$168 to US\$336 (Digestyc, 2011), whereas the minimum wage is just US\$207.6. Thus, 27 percent of the population earns less than the minimum wage, 34 percent earns below twice the minimum wage, and 17 percent earns between two and three times the minimum wage.<sup>5</sup> As in other LAC countries, income insufficiency is a major factor limiting access to homeownership for poor families and even middle-income earners. In San Salvador, the accessibility gap affects 27 percent of households, which lack the resources to ever own their own home (Bouillon, 2012).

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<sup>4</sup> For more information, see: <http://www.presidencia.gob.sv/tecnica>.

<sup>5</sup> Quoted in the Integrated Neighborhood Upgrading Program (Programa de Vivienda y Mejora Integral de Barrios Informales), Phase II, of the Inter-American Development Bank (IDB).



## THE STRUCTURE OF TENURE

In El Salvador, there are five distinct types of private tenure: ownership (fully paid off); ownership (loan from public mortgage lending institution); ownership (loan from private mortgage lending institution), renting, and rent-free occupation. Homeownership has increased over the last 40 years, rising from a little less than half the total housing stock to today's figure of nearly 70 percent, if all properties that are still being paid off are included.

The high rate of homeownership is similar to that observed in the rest of the LAC region, where it reaches 73 percent, but less than in other Central American countries, such as Nicaragua (84 percent), Honduras (80 percent) and Panama (76 percent). It is estimated that 87 percent of households in the five major cities of the AMSS are homeowners. The vast majority of owners live in self-contained or private units, which is partly a reflection of cultural preferences and partly of the design of the newly built units available on the market.

The official data show that 95 percent of rental housing is located in urban areas and only 5 percent in rural areas. The majority of tenants come from poor households in the first income quintile, and pay an average monthly rent of US\$34. The self-contained dwelling also predominates in rental accommodation (81 percent), followed by rooms with shared facilities (*mesones*) or tenements (12 percent).<sup>6</sup>

As Table 8.1 reveals, between 2005 and 2010 the total number of households has remained more or less constant, at around 1.6 million, whereas the proportion of tenants has remained between 12 and 13 percent. The most recent estimates by the Multi-Purpose Household Survey (Encuesta de Hogares de Propósitos Múltiples, or EHPM) (DIGESTYC, 2011) indicate that the number of rental units is 218,650, which is equivalent to 13.7 percent of the housing stock. The majority of tenants are concentrated in the lower-income segments: 61 percent are in the first and second quintiles of

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<sup>6</sup> These *mesones* are rented rooms with shared services that are usually found in the central areas of cities, in old colonial buildings that were once owned by wealthy families. They are generally considered to represent the first experience of urban housing for low-income families, and their appearance is related to the process of rural-urban migration and industrial development. In 1930, 50 percent of the population of San Salvador lived in *mesones* (CHF, 1987).

**TABLE 8.1** Structure of Tenure in El Salvador, 2005-10

Tenure	2005		2006		2007		2008		2009		2010	
	Number of households	Percentage	Number of households	Percentage	Number of households	Percentage	Number of households	Percentage	Number of households	Percentage	Number of households	Percentage
Tenants	198,283	12	223,603	13	188,698	13	188,271	12	190,472	12	92,968	12
Owners	1,162,987	71	1,157,538	69	964,500	68	1,061,650	70	1,057,360	69	1,081,502	69
Rent-free	286,050	17	302,087	18	260,192	19	266,509	18	287,704	19	289,413	19
Total	1,647,320	100	1,683,228	100	1,413,390	100	1,516,430	100	1,535,536	100	1,463,883	100

Source: DIGESTYC (2006, 2007, 2008, 2009, 2010 and 2011).

the population, 23 percent in the third, and the remaining 16 percent in the fourth and fifth (Harth et al., 2013). Eighty-four percent of tenants earn less than US\$102 per month.

Some 289,413 households occupy their homes free of charge (*usufruct*), a number that slightly exceeds the number of tenants. Little is known about the arrangements for living rent free, but in general these properties are inhabited by family members or acquaintances in exchange for services rendered. It is possible that these arrangements are a response to the limitations faced by younger family members who are unable to become independent and who, instead of paying a rent, contribute in other ways toward the general costs of running a home. They could also be a response to the high levels of insecurity, whereby absentee landlords can offer rent-free accommodation in exchange for protection and maintenance of their property.

## THE EVOLUTION OF HOUSING TENURE AND URBAN SUBMARKETS

Several factors have influenced the increase in homeownership to the detriment of renting among the urban poor. Historically, the low-income urban population of El Salvador took refuge in one of three types of housing submarkets: *mesones* (rented rooms with shared facilities), illegal colonies (non-permissible subdivisions), and slums (precarious settlements). Over several decades, *mesones* have been a popular option for poor families and low-wage earners, due to their central location within the cities. Before 1935, no public housing was built. Large, colonial-style buildings, originally belonging to wealthy families, were subdivided and rented to provide accommodation to the growing influx of workers. At the same time, the elite abandoned the city centers and relocated in the new residential areas in the suburbs.

Government urban planning institutions, created in the 1950s, drafted the first urban development laws in response to the rapid rate of urbanization. For example, the Urban Housing Institute (*Instituto de Vivienda Urbana*, or IVU) drafted the Urbanism and Development Act (*Ley de Urbanismo y Construcción*), which regulates the purchase and sale of urban land and construction. As an accommodation provider, the State has sponsored highly subsidized public housing projects. The IVU acquired large expanses of land at very low prices and built blocks of apartments

for middle-income and public sector workers.<sup>7</sup> For example, an area known as the Zona de la Cuatrocientos provided some 12,000 housing units. Government-sponsored sites and services schemes were common in the 1970s. These initiatives notwithstanding, public rental housing was also built.

Rent controls were introduced to protect tenants against forcible evictions and rent hikes. This law had an adverse effect, since owners, faced with the prospect of reduced rental income, preferred to sell their properties rather than investing in improvements and maintenance. As the old properties were sold off, the population living in the mesones dwindled and the precarious informal settlements began to grow. By 1977, the percentage of inhabitants of San Salvador who lived in mesones had fallen to a third.

### Land Subdivisions

Starting in the 1960s, land subdivision offered an option for medium- and low-income families to access the urban land market. Real estate promoters became experts in buying, selling, and managing subdivisions on the urban periphery and in semi-rural areas. The promoter managed the sale in the landowner's name by collecting payments from the buyers and taking a commission for administrative costs. This market continues to grow to this day. Sales are based on a rent-to-buy arrangement, with a clause obliging the tenant to vacate the property in the event of more than three months of arrears. The monthly quotas of US\$15–US\$25, payable over an eight to 12-year period, are affordable for low-income families with monthly earnings of around US\$170. Although these subdivisions significantly increased access to urban land for poor people, the lack of government controls gave rise to unscrupulous practices, especially the failure to transfer title deeds and noncompliance with obligations to install the necessary infrastructure. In the 1970s, as a consequence of the rapid development of illegal subdivisions, 55 percent of the rural population and nearly two-thirds of the urban population lived with no security of tenure and limited basic services.

In the 1980s, a few businesses controlled more than 50 percent of the subdivisions. One of the largest firms built more than 240,000 homes at a

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<sup>7</sup> For example, building took place in La Libertad, Santa Anita (Málaga), and José Simeón Cañas (Zacamil). The housing solutions consisted of dwellings measuring 52 square meters and 70 square meters, in four apartment blocks.

rate of 7,200 per year. Some estimates suggest that around 35 percent of all dwellings started out this way. Although this market has caused serious problems due to improvised and uncontrolled land use, environmental conflicts, and a huge shortage of domestic water supply, sewerage connection, and urban services, subdivision has been a fundamental instrument in enabling the poor to access urban land. Studies carried out on subdivisions show that a quarter of these settlements are at risk from flooding, and 4 out of 10 are vulnerable to landslides (FUNDASAL and UNDP, 2009).

Presently, there are around 28 real estate promoters working in the area of agricultural land subdivisions. This very lucrative submarket, estimated to be worth US\$3 billion, continues to produce some 200,000 plots each year. In 2012, the government promulgated a new law in response to irregularities in this market in legal, commercial, environmental, and land use planning terms.

### Irregular Settlements

As in the rest of the LAC region, informal settlements proliferate on land close to river banks, roads, and valleys. Single-room dwellings are built with improvised materials (cardboard, canvas, or zinc sheeting for roofing), with limited access to water, sewerage connections, and electricity supply. Informality is the only option available to families that are too poor to either buy a subdivided plot or rent.

There are scant data regarding types of tenure in different cities. However, one survey carried out in 1975 by the Foundation for Salvadoran Development and Affordable Housing (Fundación Salvadoreña de Desarrollo y Vivienda Mínima, or FUNDASAL) in the five major cities of the metropolitan area of San Salvador revealed that, at that time, mesones represented 37 percent of the sample, illegal subdivisions 20 percent, and illegal settlements 12 percent. The survey indicated that between a third and more than half of the inhabitants of Santa Ana were tenants, as were more than a third in San Salvador.

The number of people living in illegal settlements increased significantly after the 1986 earthquake, which left more than 200,000 people homeless and destroyed a significant number of old colonial, adobe-built buildings in the process. More than half of the displaced residents moved to cities near the metropolitan area. Many families occupied the land upon which the old demolished buildings had stood. They were not expelled, as the owners failed to reclaim their property. Owners and tenants were offered economic

**TABLE 8.2** Number of Housing Units and Residents of Mesones in the Five Largest Salvadoran Cities, 1975

City	Total urban population	Population in mesones	Percentage	Number of mesones
San Salvador	564,967	185,120	32.7	4,000
Santa Ana	98,433	50,586	51.3	1,086
San Miguel	61,940	23,602	38.1	510
Sonsonate	33,302	15,735	47.2	340
Usulután	19,783	9,117	46.0	197

Source: FUNDASAL (1975).

incentives to promote reconstruction. However, the owners were reluctant to invest in restoring the buildings, given that investing in new buildings was more attractive. Government and nongovernmental organization (NGO) programs converted the tenants into owners, which greatly reduced what was left of the traditional mesones and the rental tenant population in the city center. However, demand for housing significantly outstripped supply, so that the proliferation of informal settlements in the center and on the periphery of San Salvador continued. In 1980, of the capital's 858,000 inhabitants, an estimated 643,000 were occupying illegal settlements.<sup>8</sup>

The demographic shift toward the major cities during the years of the armed conflict increased the pressure on urban land. The figures show that illegal settlements grew from 31 in 1968 to 293 in 1992 (Lungu, 1992). Compared to other cities, Santa Tecla was less affected by the war, which meant that it became a destination for displaced persons. According to the municipality, more than half a million people moved into the area. The historic center of Santa Tecla underwent a process similar to the one seen in San Salvador: the higher-income segments abandoned the center and went to live in gated communities and condominiums, while low-income inhabitants, including elderly people, moved into the central areas. Today, Santa Tecla is a bedroom community.

During the 1990s, after the peace accords were signed, El Salvador enjoyed a period of sustained economic growth. Population growth in certain municipalities increased by more than 20 percent. San Salvador saw the highest growth in population. The low income, high-density neighborhoods

<sup>8</sup> Material provided by: <http://countrystudies.us/el-salvador/34.htm>, the United States Library of Congress.

situated to the north and east of the city (Apopa, Soyapango, Ilopango, and San Martín) expanded rapidly. Although much of this expansion occurred in line with the AMSS Master Plan (Plan Maestro), the pressure to build new settlements gave rise to extensive building on land previously reserved for agricultural production. Consequently, around 14 percent of the building development in San Salvador in 2010 occurred in areas not designated for urban use. This expansion mainly took the form of precarious settlements, which represented up to 45 percent of new urban development in the first decade of 2000, according to the most recent estimates. The same study shows that a quarter of households in the AMSS would be unable to afford the price of land at even the extreme bottom end of the market. In certain departments, such as Santa Ana, this proportion increased to 40 percent and in San Miguel to 80 percent.

In 2008, another study of informal settlements in 32 cities conducted by FUNDASAL found 192 illegal subdivisions, equivalent to more than 16,166 houses and 563 illicit settlements located in highly perilous areas. As Table 8.3 shows, although the number of mesones is higher in relation to other types of settlements, fewer than 10 percent of low-income households live in them. In fact, nearly a quarter live in illegal subdivisions, and the majority occupy informal settlements located in the geographic areas studied. The cities with the highest number of inhabitants living in precarious settlements are San Salvador, Mejicanos, Soyapango, Ciudad Delgado, and Santa Tecla. Illegal subdivisions predominate in 25 of the 32 cities, including Quezaltepeque, Ciudad Delgado, San Marcos, Tonacatepeque, San Vicente, and San Miguel. The mesones are concentrated in the city of Zacatecoluca and in the municipalities of Chalatenango and Colon-Lourdes. Sixty-three percent of the population living in informal settlements are found in the central area, principally in the AMSS and in the municipality of La Libertad.

**TABLE 8.3** Typology of Settlements in 32 Cities

Type	Settlements		Number of inhabitants	
	Number	Percentage	Number	Percentage
Illegal subdivisions	192	7.50	77,411	24.2
Informal settlements	563	22.00	212,308	66.5
Mesones	1,809	70.50	29,721	9.3
TOTAL	2,564	100.00	319,440	100

Source: FUNDASAL and UNDP (2009).

## TENANTS AND OWNER/LANDLORDS

Because rental housing has been nearly absent from housing policy and practically ignored when it comes to data gathering, very little is known about the characteristics of tenants and owner/landlords or about the relationships between them and the dynamic of the rental market within the informal settlements. As part of this research, San Salvador and Santa Tecla were chosen for a field study. Two hundred owner/landlords and tenants were interviewed.<sup>9</sup> The study was conducted in the historic centers of both cities and in several low- and middle-income neighborhoods to collect a wide range of views. However, the high degree of insecurity in certain sectors of the cities presented a significant obstacle, as many people were reluctant to answer questions.<sup>10</sup> The following section presents some of the results:

1. *Age, gender, and household composition:* In both cities, less than half of the tenants are under the age of 40. Most owners are middle-aged or elderly: 54 percent are between 40 and 60, and 22 percent are over 60. In San Salvador there is a uniform distribution of owners of both sexes, whereas in Santa Tecla the majority of owners and tenants are male. Among owners, 25 percent are single-parent households, compared to tenants, 44 percent of whom are single. In Santa Tecla, just over 10 percent of tenants are widows. The majority of owner

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<sup>9</sup> The methodology employed in this study included in-depth interviews with key specialists from both the public and the private sectors. The field research is a vital part of this paper. In San Salvador and Santa Tecla, a survey was conducted using a random sample. Twelve neighborhoods in San Salvador and eight in Santa Tecla were included in the study. The choice of neighborhoods was based on the following criteria: origin, history, types of dwellings, and socioeconomic composition. Sixty percent of the neighborhoods are low-income areas, 30 percent are middle-income, and 10 percent are high-income areas. Care was taken to guarantee the safety of the interview team. Two hundred interviews were conducted in low- and middle-income households with individuals over 18 years of age. The sample consists of 50 percent owners and 50 percent tenants in each city. The survey gathered information about general characteristics (age, gender, marital status, and income) as well as about history and experience with various rental options, preferences, costs, contractual arrangements, tariffs, living conditions, and access to services. A combination of questions dealt with the characteristics of the homes and with tenants' and owners' expectations and perceptions about the rental market.

<sup>10</sup> The maps drafted for a previous study carried out by FUNDASAL were helpful when it came to finding areas with different forms of tenure, as well as for illustrating the urban limits in the study areas.



households are couples with children. Family size is similar between owners and tenants: more than half live in four- or five-person households, a figure significantly higher than the national average.

2. *Living conditions:* In general, the owners and tenants interviewed live in similar conditions. Dwellings are built with solid materials: brick, mortar, and zinc roofing sheets. Most have two or three rooms. Around a quarter of tenants and owners occupy a single room. In the lowest-income households, the size of the bedrooms ranges from 4 to 16 square meters. Very few homes exceed 25 square meters. Most have a bathroom and sanitary facilities, except the mesones, where facilities are shared. In general, accommodation for tenants is larger or similar to the average unit offered in public and private housing projects for low-income families. Tenants are responsible for paying for water, electricity, and trash collection.
3. *Permanence and tenant turnover:* The results suggest that renting is a long-term option for the majority of tenants. A third have been renting for over a decade and another third for more than five years. However, their parents were not tenants. The owners confirmed that tenant turnover is low and that many have rented the same property for several years. Tenants stay for longer in Santa Tecla than in San Salvador; 42 percent have rented the same dwelling for more than 10 years and another third have done so for over five years. In contrast, in San Salvador the numbers of short-term (one to five years) and long-term (five to ten years) renters are very similar. The majority of tenants indicated that they intended to stay in the same property for another one to three years.
4. *Rent prices and affordability:* Most tenants consider the rents to be reasonable: 40 percent pay less than US\$100 per month. A slight difference was found between the two cities, as rent is usually lower in San Salvador, where more than half of the tenants pay less than US\$100, whereas in Santa Tecla one-third of tenants pay less than US\$100. Fifty-four percent of those interviewed reported that they paid less than US\$200. The highest rent in the entire sample did not exceed US\$500, even for apartments with the highest standards in exclusive residential areas. Online information about rentals and interviews with real estate agencies corroborate these findings. According to the owners, prices are fixed at the prevailing rate in the area and are rarely raised, as they are already considered profitable. The main perceived benefit is the financial security offered by the additional income.

5. *Scale of operations:* Owner/landlords are small-scale operators. The vast majority possess only one property to rent; some have two; but only 3 percent have more than five. None of those interviewed had bought land or properties for the purpose of renting. The houses were originally exclusively for family use and only subsequently rented out. For small-scale owner-landlords, renting space provides a complementary source of income. Fewer than a quarter depend solely on renting out houses as their principal source of income.
6. *Income and employment:* Few owner-landlords and tenants were willing to provide information about their incomes. Despite this, the data suggest that both groups usually belong to the same social class and engage in similar economic activities. A slightly higher proportion of tenants are wage earners, and a little under a third are self-employed. Even though owner-landlords enjoy additional income through rentals, their income tends to be similar to that of their tenants. In Santa Tecla, 42 percent of owners earn less than US\$500 (equivalent to 2.5 times the minimum wage), whereas in the higher-income groups, owners earn between US\$1,000 and US\$2,500. Tenants with incomes of between US\$1,000 and US\$2,000 in San Salvador and Santa Tecla represent 15 and 8 percent of the total, respectively.
7. *Relations between owner-landlords and tenants:* Generally, the two parties enjoy good relations. Owner-landlords express few complaints about their tenants, and the reverse is also true. Punctual payment is the norm and, from the owner-landlords' perspective, when there are problems, they are usually about overdue rent or tenants leaving the property before their lease is up. The majority have never had cause to evict their tenants, but when they do, the main reason is failure to pay. For their part, the tenants complain mainly about the failure to invest in repairs and maintenance. This seems to be justified, as the owner-landlords themselves admit that their investment in property maintenance is minimal: around US\$100 after a tenant has vacated the property.
8. *Rental contracts:* Owner-landlords enter into formal contractual relationships at all income levels. More than half indicated that they had signed contracts in the presence of a notary, a third pointed to a reciprocal exchange agreement, a third group said that they had a private signed document, and a few indicated that they relied solely on a verbal arrangement. By contrast, tenants operate mostly on the basis of a verbal agreement. Guarantees are not likely to be included in the contractual obligations, but when they are, the most common is a one-month

deposit. Given that relations between tenants and owner-landlords are on the whole benign, the survey is unclear about the degree to which these actors are familiar with the Tenant Law (Ley del Inquilinato).

9. *Social networks:* Both tenants and owner-landlords point out that, in general, there are no family relationships between them, although the latter prefer to rent to acquaintances or friends. Tenants usually find a place to rent by word of mouth and rarely through advertisements or the newspapers.
10. *Location:* According to those interviewed, location and affordability are the two most important factors that influence the choice of where to live. Although renting offers benefits such as easy access to the city center and employment, the main reason for choosing this type of tenure is economic. Another interesting finding is that, despite widespread crime in residential areas, most tenants report that they have never been personally affected by violence. Only a small proportion stated that they felt threatened, and 8 percent said that they felt very threatened. Few owners live in the same neighborhood as the tenants, and they tend not to worry about safety. Overall, the results of the survey paint a positive picture of renting. Even those who live in the most basic accommodation—individual rooms with a shared bathroom—enjoy proximity to the services found in the city center, which translates into significant benefits when compared to life in large housing developments on the periphery.
11. *Future expectations:* Most tenants report that they do not own land to build a house on, although a few have inherited land, borrowed money, or used remittances to buy land. However, 88 percent aspire to become homeowners in the long term and are saving to buy a house in the future. Tenants are largely unaware of the government housing programs available, and only a few have sought housing loans from the FSV. Moreover, none of the tenants interviewed had requested information about the public subsidy programs or were on the public social housing waiting list.

## THE RENTAL HOUSING MARKET

Since the global economic crisis, the real estate market in El Salvador has experienced a serious decline. The severe restrictions placed on home purchase loans by the banks in 2008 have greatly reduced the financing available for building, buying, and selling property. Despite the slight

recovery underway since 2010, the real estate market continues to be depressed.

According to the Salvadoran Chamber of Construction (Cámara Salvadoreña de la Industria de la Construcción), home sales rose by 4 percent in 2011, following a strong publicity campaign to promote property sales and homeownership. Because of the economic recession, the rental market might have been expected to perform well. However, this did not happen. Real estate agents reported that the formal rental market has also declined since 2008. The highest growth year was recorded in 2007, with a 2.4 percent increase, whereas in 2009 it grew by just 0.2 percent (Arqueta, 2011).

The low demand for rentals has also depressed prices. According to the Salvadoran Chamber of Real Estate (Cámara Salvadoreña de Bienes Raíces, or CSBR), home sales and rentals have plummeted by 40 percent since 2009 (Arqueta, 2011). Due to the low demand for rental housing, one real estate agent commented that “if an owner wishes to rent out his property, he can expect to collect a rent that’s between 20 percent and 40 percent lower.”<sup>11</sup>

Insecurity is also a major worry among real estate agents, added to the reduced number of agencies active in the rental market. For example, agencies are reluctant to cover certain areas or have simply abandoned those areas of the market associated with delinquency, such as Soyapango, Ciudad Delgado, Mejicanos, and other densely populated areas in San Salvador. Real estate prices in these areas have fallen by 30 percent (Arqueta, 2011). Consequently, rental contracts increasingly take the form of personal transactions between owners and tenants. In general, many actors in the real estate sector consider the rental market to be high risk and unattractive because it yields a low return on investment (Table 8.5).

The return on rental property ranges from 0.7 percent to 1 percent per month, compared to investment in fixed-term deposit funds, which yield around 2.8 percent. Moreover, of all the economic factors associated with poor investment performance, the Tenant Law also contributes to the sense that rental housing is unattractive for investors or owners.

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<sup>11</sup> This was stated by the Leaders Real Estate representative, and it is consistent with statements by other real estate agents interviewed.

**TABLE 8.4** The Rental Housing Market (in Millions of US\$)

	2005	2006	2007	2008	2009	2010
Rental	683.8	692.8	709.5	721.2	722.3	725.9
Growth (percentage)	—	1.3	2.4	1.6	0.2	0.5

Source: Central Reserve Bank of El Salvador (various years).

**TABLE 8.5** Performance of Rental Housing

	Low-income		Middle-income		High-income	
	From	To	From	To	From	To
Average rent (US\$)	100	250	300	600	1,000	2,300
Price of the property (US\$)	15,000	25,000	30,000	70,000	100,000	350,000
Monthly yield (percentage)	0.7	1.0	1.0	0.9	1.0	0.7

Source: Author's calculations.

## RENTAL HOUSING LEGISLATION

From the perspective of some owner-landlords, one factor that limits rental market expansion is pro-tenant legislation.<sup>12</sup> The Tenant Law was promulgated in 1958 in response to a period of market growth. It superseded a series of transitional laws, such as the Civil Code of 1860, which included general procedures governing rental contracts. The Law has been amended on several occasions, the latest in 1990, in an attempt to correct the imbalance between the high demand for rental property and the limited supply. Moreover, its aim was to defend responsible tenants and protect owners from rent defaults. The Law attempts to protect tenants from indiscriminate price rises and at the same time to guarantee punctual payment of rent. The regulations also recognize the rights of owners and

<sup>12</sup> The Director of the Vice-Ministry of Housing and Urban Development (Viceministerio de Vivienda y Desarrollo Urbano, or VMVDU) stated that: "Investors are not interested in producing rental housing, especially for low-income groups, because it's no longer a viable business. The law allows a maximum of six months of arrears before eviction procedures can begin and afterwards, if the owner wants to evict and they ask for a trial (....) All in all, renting is just not good business."

tenants to agree on the rent amount as an appropriate mechanism for regulating supply and demand in the market.

In terms of rent controls in El Salvador, one reform in 1974, designed to protect tenants with very low incomes, froze all rents below US\$57 so that new tenants would pay the same price as the previous ones. The reform was not applicable to new homes that had not yet entered the rental market. These measures, however, were not fully implemented. With respect to new rentals, presently there is no rent control in the country, and rent rates are still arrived at by common agreement, defined by existing supply and demand.

The mechanism by which rent values are adjusted can also be agreed upon between the two parties. In the formal sector, the usual practice is an annual fixed increase in line with inflation. If the contract does not stipulate adjustments, or the lessor and the lessee fail to reach an agreement, then the court (*tribunal del alquiler*) is empowered to authorize an increase. The lessor is entitled to increase the rent if the investments made in improvements, with the tenant's consent, are equivalent to 20 percent of the value of the property.

In practice, three types of contracts are employed: a private document signed by both parties, a private document authenticated by a lawyer, and registered deeds. The first option is not legally binding and, being based on mutual trust, is most frequently used between friends. It is estimated that 75 percent of documents are authenticated, 24 percent are registered, and 1 percent are private or verbal agreements.

In general, the legislation is deemed to be favorable to the lessee. Tenants are overprotected and eviction is difficult, even when there is a contract. Legally, the main reasons that landlords can evict tenants are failure to pay the rent, unauthorized structural alterations, using the property for other than domestic purposes, and damage to the property. The owner-landlord can also evict the tenants to rebuild on the same site or add an extension to the building.

A number of factors are prejudicial to the interests of owners. Although the duration of the contract is agreed upon by both parties, this arrangement has little effect. According to Article 6 of the Tenant Law, the owner does not have the right to evict or repossess the property, and the tenant can remain beyond the stipulated contract expiry date if there is no just cause for termination and the rent is paid within eight days or deposited at a court. The contract is automatically renewable, and the rent amount stays the same. The only circumstance in which the owner can repossess the

property is if he or she can provide proof that the property is needed for personal use. Proving this, however, is far from straightforward. Moreover, the legal process is cumbersome and bureaucratic. Tenants are fully aware that even when an appeal has been lodged with a judge, the process can be further delayed if they pay a percentage of the amount owed, as this changes the terms of the lawsuit.

Very few cases reach the sentencing phase, and most are resolved out of court.<sup>13</sup> In addition to the loss of rental income, owner-landlords often must shoulder the responsibility for unpaid utility bills left by their former tenants.

The legislation was changed in 2010 to establish more balanced terms for owner-landlords. Previously, the claims were drawn out, as each step was based on written documents and witness statements. Reaching a solution therefore took two to four years. The new procedures, set out in the Civil and Commercial Law (*Ley Civil y Mercantil*) are faster and simpler, because the main part of the trial is oral, with both parties present in the courtroom before a judge.

The procedure for collecting back rent owed now takes 20 days. The owner can lodge a complaint for nonpayment after the eighth day of nonpayment by the tenant. The tenant then has two days to register his objections, followed by a period of four days to present evidence. Once this period has expired, the judge must make a final ruling within three days. If eviction is sought for causes other than failure to pay rent, the tenant has three days to respond, followed by an additional eight days to present evidence. At this point, the judge has five days in which to make a final ruling. Presently, 80 percent of claims are adjudicated within two to three months. The new instrument tackles some of the previous legislation's major shortcomings and deals more expeditiously with conflicts between landlords and tenants. The new legislation, moreover, establishes specific time periods and fines for judges who fail to comply. Thereafter, the tenant has between eight and 15 days to vacate the property.

Although changes to the regulatory framework have created a more favorable environment for owners, the scant incomes earned from renting property provide little incentive to maintain their properties. This is

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<sup>13</sup> According to a legal advisor, 90 percent of evictions are due to failure to pay rent and only 10 percent to inappropriate use of the property; 95 percent of all cases reach an out-of-court settlement.

especially true in the current climate, in which incomes have fallen in most segments of the demand.

## HOUSING POLICY

El Salvador has five public institutions involved in housing policy, financing, and construction. The Vice-Ministry of Housing and Urban Development (Viceministerio de Vivienda y Desarrollo Urbano, or VMVDU) sets policies and executes housing programs for families earning up to twice the minimum wage. The Institute for Liberty and Progress (Instituto Libertad y Progreso, or ILP) specializes in land titling. There are estimated to be around 300,000 illegal plots throughout the country, and these are being regularized at a rate of 10,000 per year. The National Popular Housing Fund (Fondo Nacional de Vivienda Popular, or FONAVIPO) is a second-tier lending institution that provides support to families earning up to twice the minimum wage. The Salvadoran Development Bank (Banco de Desarrollo de El Salvador, or BANDESAL) is a second-tier lending institution that provides loans to other banks, microfinance institutions, and FONAVIPO. The FSV is a direct mortgage lender for home buyers with middle to low incomes, affiliated workers, and public and private sector employees.

The FSV represents 62 percent of the total mortgage portfolio. This agency has provided an average of between 6,000 and 7,000 mortgages per year. Sixty-six percent of the mortgages are for less than US\$15,000 for a basic 27 square meter housing unit. Most loans are provided to families earning up to 2.5 times the minimum wage. At the other end of the income scale, purchasing an 83 square meter unit for US\$60,000 would require an income equivalent to eight times the minimum wage.

Since 2011, to stimulate new home sales, interest rates have been reduced from 9 to 6 percent. Despite these efforts, client preferences have shifted toward buying used homes. In 2010, 6 out of every 10 loan applications were for new homes. Several factors explain this choice: older properties are larger, and the potential buyer can weigh the quality of the community facilities and social relationships against the risk of buying a unit in a new housing project where community social networks have yet to be formed.

Funds provided by FONAVIPO are aimed at low-income households: more than 50 percent of the loans are taken out by families earning less



**TABLE 8.6** Social Housing Fund: Amount of Credit by Family Income (in Millions of US\$)

Multiples of the minimum wage	2007		2008		2009		2010	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number
More than 2.5	37.2	3.942	32.9	3.720	39.2	4.050	31.8	3.102
2.5 to 4	11.0	1.163	16.7	1.196	21.3	1.323	20.1	1.202
More than 4	9.5	0.545	15.7	0.759	38.1	1.283	32.8	1.119
<b>TOTAL</b>	<b>57.7</b>	<b>5.650</b>	<b>65.3</b>	<b>5.675</b>	<b>98.6</b>	<b>6.656</b>	<b>84.7</b>	<b>5.423</b>

Source: Social Housing Fund (2008, 2009, 2010, and 2011).

**TABLE 8.7** FONAVIPO: Loans Approved by Family Income (in Millions of US\$)

Multiples of the minimum wage	2007		2008		2009		2010	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
1	1,373	15.5	970	13	457	8.6	515	11.1
2	3,246	36.7	2,469	33	2,281	43.1	1,829	39.4
3	2,493	28.2	2,253	30	1,634	30.9	1,391	29.9
4	1,725	19.5	1,761	24	921	17.4	911	19.6
<b>TOTAL</b>	<b>8,837</b>	<b>100.0</b>	<b>7,453</b>	<b>100.0</b>	<b>5,293</b>	<b>100.0</b>	<b>4,646</b>	<b>100.0</b>

Source: National Popular Housing Fund (FONAVIPO) (2008, 2009, 2010, and 2011).

than twice the minimum wage. Although FONAVIPO finances a wide range of housing products, most of the demand is for credit to finance home improvements, which represents 80 percent of all loans approved over the last three years. Despite the size of the informal housing market and the qualitative necessities, public investment in property upgrading is one of the lowest in the region. In 2011, it represented just 0.13 percent of GDP, equivalent to 0.65 percent of the national budget.

The FSV and FONAVIPO make a combined annual investment of US\$151.68 million, which mainly comes from international sources. FONAVIPO also administers the direct demand subsidies for families earning up to twice the minimum wage. To date, more than 60,000 subsidies have been disbursed, for an accumulated total investment of US\$109.9 million. There is considerable variation in annual resource allocation, which

**TABLE 8.8** FONAVIPO: Credit by Type of Loan (in Millions of US\$)

Type of loan	2007		2008		2009		2010	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Purchase of plot	318	3.5	209	2.7	276	5.2	96	2.1
Purchase of plot/ construction	43	0.5	22	0.3	5	0.1	8	0.2
Purchase of plot/ basic services	318	3.5	209	2.7	0	0.0	0	0.0
House purchase	1,039	11.3	484	6.3	276	5.2	424	9.1
House construction	1,013	11.1	500	6.5	141	2.6	284	6.1
Home improvements	6,424	70.2	6,238	81.4	4,650	86.9	3,834	82.5
<b>TOTAL</b>	<b>9,155</b>	<b>100.0</b>	<b>7,662</b>	<b>100.0</b>	<b>5,348</b>	<b>100.0</b>	<b>4,646</b>	<b>100.0</b>

Source: National Popular Housing Fund (FONAVIPO) (2008, 2009, 2010, and 2011).

means that public land is increasingly being used as part of the subsidy as a way of continuing to produce low-cost units.

One example is the Housing for All (Viviendas para Todos) Program, launched in 2009 with the aim of revitalizing the homebuilding industry by providing incentives to banks and real estate entrepreneurs. The initial target was to build 25,000 new units at US\$28,000 each, for families with an income of less than four times the minimum wage. Due to private sector and bank reluctance to get involved again in new home building projects, FONAVIPO's role as a financial institution was expanded. It now manages the entire housing production cycle, from allocating public lands to managing the design, tender, and client selection. Moreover, it has introduced below-market interest rates to entice potential homebuyers.

Homes costing US\$20,000 for low-income families in the formal sector are subject to an annual interest rate of 6 percent. For units costing between US\$20,000 and US\$28,500, the interest rate is 7 percent. Families with unpredictable incomes pay higher rates of interest, up to 8 and 9 percent. The land provided by FONAVIPO represents at least 10 percent of the total cost of the housing unit. The demand has been slow to respond, which has led to changes to the original objectives: a reduction in the number of new homes and the introduction of home improvements as another option.

El Salvador also has a diverse group of private financial institutions, such as banks, non-bank financial institutions, and credit cooperatives. Each one addresses a different segment of the market, including families earning between twice and four times the minimum wage with the capacity to repay small loans of up to US\$1,500. The cooperatives mainly focus on families earning three times the minimum wage or more. Integral, El Salvador's largest housing microfinance institution, has more than 56,500 active clients and operates throughout the country through its 25 branches. It is one of the few financial institutions that combine loans with technical assistance during construction to support the self-building process. FUNDASAL is the oldest and most established organization specializing in the field of affordable housing. It offers technical assistance, financing, and community development. Moreover, it acts as a real estate promoter and supports the formation of housing cooperatives that offer an alternative option for low-income households by issuing collective property title deeds.<sup>14</sup> FUNDASAL is a pioneer in pilot research projects and home improvements for tenants living in the *mesones* in San Salvador's historic center.

The microfinance industry has enjoyed several decades of growth and diversification, stable sources of financing, and a solid regulatory framework, which has enabled it to contribute to development of the sector. The range of housing credit products offered by these institutions includes purchasing land, building, building extensions on basic units, buying secondhand homes, and productive housing. The main product is home improvements. Much of the qualitative deficit can be tackled by using microfinance. For example, earth floors can be replaced by cement or tile floors, while a series of small loans can finance property extension, refurbishment, and incremental building. However, only 3.5 percent of the households that need home improvements are able to make them.

The limited amount of public funding available for housing subsidies is one of the main obstacles preventing microfinance enterprises from penetrating even further into the market, especially when it comes to housing for marginalized families. Specifically, fluctuations in the amount of financing available for subsidies hampers the possibilities of combining savings, microcredit, and grants, as financial institutions are reluctant to participate in programs that target the very people for whom subsidies are crucial.

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<sup>14</sup> FUNDASAL has helped 488 families organize housing cooperatives. Tenants living in the *mesones* in the historic center of San Salvador have been organized into cooperatives on land donated by the municipality.

There is still the unexplored potential of combining remittances with microcredit as a way of boosting the process of incremental home self-building. A quarter of all Salvadoran households receive remittances. In some rural areas, up to 40 percent of households receive them, including some of the poorest families. According to the surveys, 65 percent of the poorest households that receive remittances have a monthly income of below US\$450 (Hindenborg, 2007). Moreover, families that receive remittances invest, on average, seven times more than families that do not (McBride and Fransen, 2009).

There is no information available on the institutions that could determine whether their clients are small-scale owner-landlords. However, given the profile of the typical lending institution, it is likely that one of the few sources open to owners in the low-income rental market is either microcredit or personal loans. Microfinance institutions, however, do not specifically seek to cater to low-income owners or tenants.

## PRIVATE MORTGAGE FINANCING

El Salvador has a solid banking sector which, until 2006, had a high degree of market penetration compared to the rest of Central America. Fourteen banks currently offer mortgages, although four of them (ScotiaBank, Agrícola, Citi, and Banco de Centro América) dominate the market and together account for 83 percent of the mortgage portfolio of the commercial banks and 94 percent of housing mortgage financing. However, since 2007, mortgages for new units have declined, falling in 2010 to a third of their previous number and volume. In the same period, the construction sector contracted by 30 percent and, consequently, various building companies have gone bust. On top of the financial restrictions, the increase in building costs and delays in receiving building permits—approval of which might take two years—have worsened the situation in the sector. There has been a fundamental change in the terms of commercial construction, due mainly to the difficulties encountered in producing affordable housing.

The cheapest housing unit built formally by the private sector costs approximately US\$15,000. At that price, families earning below twice the minimum wage are unable to find a housing solution in the formal market. Households earning three or four times the minimum wage might be able to pay off their mortgage, but families with lower incomes have serious difficulty acquiring a self-contained, finished home. Due to limited income,

**TABLE 8.9** Accessibility of Mortgage Financing for the Purchase of a New Unit

Price of a private solution with lowest possible costs in USD.	15,305
Monthly mortgage repayment installments in USD.	131
Minimum monthly income required in USD.	456
Multiples of minimum wage required.	3–4
Percentage of the total heads of household who qualify for a mortgage to purchase a housing unit.	20

Source: FUSAI (2010).

the insufficiency of bank credit, and the scarcity of affordable urban land, the private construction sector is increasingly wary about building for the low-income sector, in spite of government efforts to promote mortgage financing.

## CONCLUSIONS AND RECOMMENDATIONS

In recent decades, the government of El Salvador has actively promoted homeownership, which has led to a significant increase in the number of homeownership families. However, this “homes for all” strategy is becoming increasingly unsustainable, especially for the poorest households. The country faces formidable challenges in the area of housing, which call for innovative political decisions if they are to be tackled. Presently, a national dialogue is underway in the VMVDU involving a wide range of public and private actors in an attempt to draft a new housing policy. This is an ideal opportunity to incorporate rental housing into the political agenda. This option has been ignored in previous housing strategies in El Salvador, despite there being many good reasons for the government to consider it. The following are some suggested interventions that could create more alternative tenure options and achieve a more coherent, sustainable, and equitable housing policy:

1. *Rental housing should be part of the natural disaster mitigation strategy.* Each year, El Salvador runs the risk of losing more homes than it builds due to its exposure to natural disasters. Maintaining the rate of building new units for the victims is costly, benefits a mere fraction of those affected, and aggravates the problem of uncontrolled urban

sprawl. From the disaster planning and mitigation perspective, increasing the supply of rental housing, situated close to the city's amenities, employment, and urban infrastructure could bring benefits in terms of both costs and social profitability, when compared with building heavily subsidized new units on the urban periphery.

2. *Incentives should be provided to restore abandoned buildings and use them for renting.* The number of unoccupied properties that have been abandoned is considerably higher than the country's quantitative housing deficit. Being a homeowner, especially in densely populated neighborhoods, can be risky due to the presence of organized crime. Consequently, the demand for new units continues to fall. Innovative responses are called for if the existing housing stock is to be reoccupied. Recovery and modernization of abandoned neighborhoods has to include rental housing options. With the appropriate incentives package, building firms would be willing to execute restoration projects, given that the market for new units has stagnated. For example, a State guarantee fund could be used, originally created to encourage the banks and the construction companies to build low-cost housing, with the aim of developing a special product that promotes new restoration and management services, including renting and renting with the option to buy.
3. *A legal framework favoring housing cooperatives should be created, and a more holistic approach to providing low-cost housing should be taken.* Tackling the problems of "neighborhoods in crisis" and providing housing for the lowest-income segments of the demand calls for a paradigm shift, from "building housing units" to "building viable communities." This scheme implies an integrated approach that places emphasis on community development, empowerment, and the citizenry. Good-quality rental housing, managed by the community and/or by the nonprofit sector, can help to provide economic alternatives other than homeownership. There are various NGOs with demonstrated experience in community-based management and participatory planning approaches. Some of these are embarking on a new kind of community enterprise, directed specifically at marginalized youth and high-risk communities. These nongovernmental and civil society initiatives should be supported by the government and international organizations to create a framework for rental housing that is based on tenant self-management.

Although El Salvador lacks a tradition of tenant associations, it does have cooperative models. As things stand today, the law does

not allow housing cooperatives to apply for loans or receive subsidies. Some sectors have called for changes to be made to FONAVIPO and the FSV regulations that would enable cooperative housing to expand. A model similar to the one used by the water supply associations, which successfully and sustainably manage water supply and distribution and tariff collection at the national level, could be adapted to suit rental housing management. Tenant associations could handle construction subcontracting, building maintenance, and rent collection.

4. *Housing policy should recognize that a growing segment of the population needs rented accommodation.* Although the number of tenant households has remained stable over recent years, there is increasing evidence that more and more families are considering this option, even if they are able to buy a house, given that the climate of insecurity has negatively affected willingness to invest in housing. Moreover, it is an alternative form of tenure for various groups: single women, students from rural areas who attend universities in the cities, recently formed families, young people, poor people, and the elderly. The Salvadoran authorities are currently studying different models: the Dutch experience of municipal management of rental housing, the Mexican experience of student accommodation provision, and the Uruguayan model. These examples are currently under discussion among private institutions and universities in El Salvador.
5. *Restoration of the historic city centers, with mixed residential and commercial use, including rental tenure, could regenerate the housing stock close to urban amenities and centers of employment.* The historic centers of the principal cities in the AMSS contain a considerable number of vacant or deteriorated dwellings. The urban upgrading programs, carried out by FUNDASAL in the historic center of San Salvador and by the municipality of Santa Tecla, provide lessons about how inner city areas can be restored and renewed. Both schemes focused on mixed residential and commercial use. Including rental housing options in urban renewal programs in the city center would increase the supply of affordable homes close to places of work.
6. *Densification and alternative types of tenure should be promoted to avoid the formation of new informal settlements.* Given the scarcity and the high cost of urban land, alternative measures are needed that can prevent the formation of new informal settlements. The construction of multi-family units “upward” instead of “outward” must become an urban planning priority in the city. The traditional standard single-story

units are no longer viable. Densification has been postponed, as high-rise buildings are not accepted by the low-income population, and also because of its higher costs. Education and awareness-raising can help citizens make the transition toward greater acceptance of high-rise living. Advances in new building techniques can also reduce the costs of building vertically. Providing safe public spaces and caring for the surrounding environment are as important to the quality of urban life as the number of housing units built. Bearing in mind the challenges posed by high population density, the Singapore model—which locates schools, stores, and leisure facilities close together in the neighborhood, often no more than a 10 or 20 minute walk away—constitutes a useful urban model worth considering in El Salvador.

7. *Massive neighborhood upgrading programs, based on a multi-tenure approach, should be given priority.* Restoring and upgrading existing buildings and neighborhoods would significantly help improve living conditions. Neighborhood upgrading programs rarely take into account the level of informal renting that goes on in the low-income settlements. An inherent risk for tenants is that once improvements have been made, owners might try to raise the rent. The pre-upgrading studies of reference aimed at gathering detailed information about renting activities should endeavor to include renting in the neighborhood upgrading plan. At the same time, neighborhood upgrading accompanied by installation of basic services, transportation, and security might also encourage rent increases. Experience shows that once infrastructure has been installed, low-income families are more inclined to invest in their properties or to carry out gradual improvements by adding bedrooms, a bathroom, or a kitchen. Government subsidies have failed to concentrate on the rental sector or to give small-scale owners incentives to invest in rental housing. Bearing in mind that the flow of subsidies is being reduced, a massive program of neighborhood upgrading that recognizes and includes rental accommodation could optimize their efficiency and effectiveness.
8. *Innovative, specially designed rental housing microfinance products should be supported.* El Salvador has solid microfinance institutions, which provide a wide range of housing products and financial services, including savings plans and microinsurance, with flexible terms and conditions that are tailored to the income of each family. Their client market mainly comprises owners of micro, small, and medium-sized enterprises, who are also small-scale owner-landlords. The introduction



of new microcredit products could help to improve existing rental housing and encourage greater investment in it. For example, savings in the form of prepaid rent is common in Sub-Saharan Africa. In India, housing microfinance is widely used to finance rental housing, while some institutions specialize in property upgrading. In El Salvador, a large potential market exists in the self-building sector. Access to microcredit could help increase the number of improvements in existing rental housing, especially in the large housing developments, by encouraging and financing second-story additions for renting purposes.

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# Rental Housing in Jamaica: From the Old to the New

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## INTRODUCTION

The Jamaican government has pledged to provide affordable, safe, and legal housing for all Jamaicans by 2030. However, the country must overcome a series of obstacles before this goal can be achieved. The cost of housing is high, and the housing stock in the formal market (both owner-occupied and rental) does not satisfy the needs of low-income households. At the same time, the country has become increasingly urban; the Statistics Institute of Jamaica (STATIN) estimates that 52.1 percent of the population was living in urban areas by 2001, compared with 41.2 percent in 1970. This has put added pressure on the formal housing market in urban areas (STATIN, 2003).

Both building new housing and improving living conditions present considerable challenges. The most recent official appraisal of housing needs at the national level (1986–2006) indicated that Jamaica required approximately 15,500 new homes and would have to upgrade 9,700 units annually to fulfill the requirements for 2006. More than half of all the new units correspond to the Kingston Metropolitan Area (KMA), whereas most of the required upgrades were located in rural areas (Ministry of Transport, Works and Housing, 1987). Between 2000 and 2010, the average annual rate of new house building was 4,959, and the total number of finished units was 4,368 (Planning Institute of Jamaica, 2000, 2008, 2010). The KMA is the country's largest urbanized area and comprises the entire municipality of Kingston and the urban and suburban areas of the city of St. Andrew.

The limited production of formal housing can be attributed, to a large extent, to a lack of financing for building activities. The government is severely hampered by a shortage of funds, and the private sector is not willing to assume the risks inherent in providing houses for low- and middle-income families. In December 2011, the National Housing Trust (NHT) reported that demand for the loans offered by its provisional financing program was concentrated in financing for the most expensive housing. Not a single developer solicited a loan in fiscal year 2011-12, even at the NHT's lowest interest rate of 3 percent. The main reason is the low profit margin for developers who borrow with a view to building low-cost housing (*Sunday Gleaner*, 2012).

However, the problem is not just producing houses, but also affordability. Most families are unable to afford even the cheapest units produced in the formal sector. Many households have extremely limited resources available to invest in housing. The NHT's demand surveys found that, because of these cost problems, housing policy should focus on providing solutions at the bottom end of the market.

Approximately 23 percent of people in the housing market were ineligible for a NHT loan, whereas 53 percent qualified for loans at an interest rate of between 2 and 4 percent. The NHT has identified the demand for two-bedroom units at prices of around JMD 5.5 million (US\$63,000), but in 2012 the cheapest unit of this type on offer was priced at JMD 7.5 million (US\$86,000).

As a consequence of these limitations, many people have opted to satisfy their housing needs by living in informal settlements. Rapid population growth in the KMA and in many of the country's secondary cities has not been accompanied by an adequate supply of affordable housing that would satisfy the needs of the population. This means that the informal sector has provided the majority of homes in several of these cities (PADCO, 1993). Thousands of people are living without basic infrastructure, such as water, roads, or sewerage. Numerous homes have sprung up on private and public land, often in valleys and on river banks and other vulnerable places. In 2008, the Ministry of Water, Land, Environment, and Climate Change estimated that 20 percent of the population of Jamaica was living in precarious settlements.<sup>1</sup>

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<sup>1</sup> As will be demonstrated below, the household surveys estimate that only 0.6 percent of households were illegal occupiers or squatters in 2009 (Table 9.1). The reason for this discrepancy is that households are reluctant to admit to illegal occupation when questioned in a survey. Furthermore, the figures provided by the Ministry of Transport, Works and Housing use geographical information systems (GIS) technology to accurately identify areas of informal housing.

Despite problems with access to housing, renting has been ignored or discounted as an option for low-income households. Since 1970, the government has actively promoted homeownership by facilitating access to credit and providing infrastructure and services, but there are no policies that promote rental housing. To date, the government's response in this area has been limited to overhauling the Rent Restriction Act as and when the need arises. This response has proven insufficient, as it fails to address the lack of access to housing, high costs, the shortage of formal home building, and the country's financial problems.

For all of these reasons, the government should revise its homeownership-centered housing policy and design strategies that include rental housing as part of an overall housing policy. Doing so would expand housing solutions for poor and low-income households. This paper aims to contribute to this goal by analyzing the rental housing market in Jamaica, with special emphasis on the KMA, and offering policy options for providing rental housing for low-income families.

## THE STRUCTURE OF TENURE

According to the 2001 Population Census, various types of housing tenure are present in Jamaica, including homeownership, rent-free (*usufruct*), rental, illegal occupation (*squatting*), and others. The share of homeownership has expanded rapidly since the 1960s. The owners' share of the market rose from 14 percent in 1960 to 63 percent in 2009, whereas in the KMA the proportion grew from 26 to 46.3 percent (Table 9.1).

This situation is the result of government initiatives that directly and indirectly promote homeownership. Housing finance policies have helped high-income owners to purchase their homes on credit, while NHT policies have allowed many low- and middle-income families to become homeowners. Construction of public rental housing has also been limited, especially since the introduction of the government- and World Bank-sponsored *Sites and Services* programs in 1975, which favored homeownership. The National Shelter Strategy, proposed in 1997, is based on increasing production of new housing by giving a bigger role to the private sector.

Moreover, the lack of investment in existing public rental units has further expanded homeownership. Much of the rental housing built by the government in the 1960s and 1970s was not particularly well constructed, and most of it is now in very poor repair. Rent collection in these projects

**TABLE 9.1** Distribution of Households by Type of Tenure, Jamaica and KMA (percentage)

Tenure	Jamaica				KMA			
	1960	1995	2000	2009	1960	1995	2000	2009
Homeownership	14.0	59.1	58.3	63.0	26.0	43.8	44.9	46.3
Rent-free (usufruct)	—	14.4	16.1	17.5	—	38.5	36.8	29.3
Rental	82.0	25.0	24.5	18.7	70.0	15.4	17.0	23.2
Illegal occupation	2.0	0.7	0.5	0.6	2.5	1.8	0.5	1.2
Other type	—	0.7	0.5	0.1	—	1.0	9.6	0.0

Source: STATIN (1960); Planning Institute of Jamaica/STATIN (1995, 2009).

has also been inadequate. There have been cases of tenants failing to pay and failing to maintain the properties. The inability to recoup operating costs has translated into reduced capital flows for maintenance and for building new projects.

For all these reasons, the Ministry of Transport, Works and Housing decided to convert properties originally developed for renting into cooperatives and condominiums, with the aim of encouraging homeownership. Tenants who buy these units must pay a deposit of 20 percent before signing the purchase contract. From that moment, they have six months to complete the payments before receiving the title deeds to the property. The sale is also subject to a small administrative charge. Hundreds of tenants, some of whom have lived in their homes for over 40 years, were given the option to buy at preferential prices. As a result, rentals in government housing schemes fell from 2.3 percent in 1997 to 0.2 percent in 2009 in the KMA (Planning Institute of Jamaica/STATIN, 1997 and 2009).

In spite of the trend toward increased homeownership, rental housing continues to play a significant role in housing tenure in Jamaica, particularly in the KMA. In 2009, 18.7 percent of the country's households and 23.2 percent of those in the KMA were living in rented accommodation. In the latter case, the incidence of renting fell between 1960 and 1995 but has been on the rise ever since. In 1995, 15.4 percent of all households in the KMA were tenants, and by 2009, this figure had risen by 7.8 percentage points (Table 9.1). This rise in renting is a clear response to the dearth of low-cost housing in the area. The NHT's housing demand surveys of its contributing members found that the effective demand in the KMA was 9.7 percent, whereas it



was 14.7 percent in St. Andrew. The access gap may actually be even higher, since many low-income earners are not contributing members of the NHT.

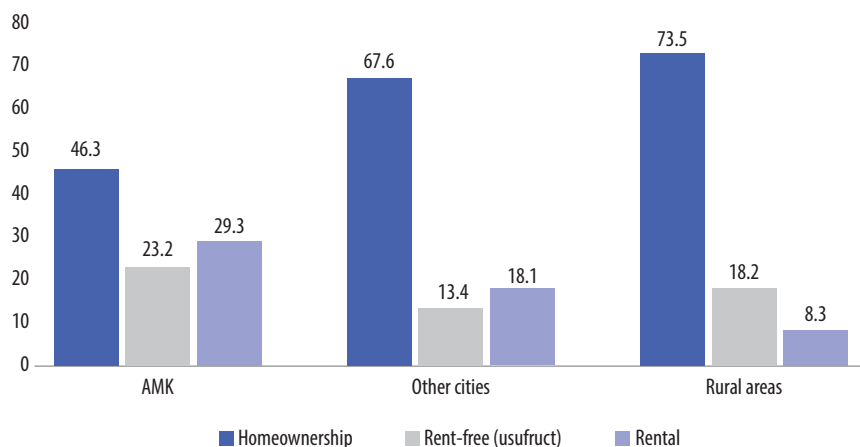
The “rent-free (usufruct)” option is another response to the housing shortage. In 2009, approximately 29.3 percent of households in the KMA enjoyed this form of tenure (Table 9.1). This category includes: (i) rent-free (usufruct) with the owner’s permission and, (ii) rent-free (usufruct) without permission. In the first case, the insufficient or inadequate supply of housing in the market obliges family members to share units. The second type refers to tenants who once had an agreement with the owner and paid rent; the owners, however, no longer collect the rent due on these units because they have died or emigrated or for some other reason.

In the KMA, rent-free (usufruct) tenure has fallen significantly since the 38.5 percent level recorded in 1995 (Table 9.1). Most of this decrease may have been absorbed by the rental market. Meanwhile, homeownership only grew by 1.5 percentage points. It is also possible that some rent-free households acquired their homes by illegal occupation, or squatting.

Rental housing in Jamaica takes many forms. There is a wide variety at the bottom end of the market. In the city center, these might be rooms or bedsits in subdivided homes in the oldest buildings and in tenement-style dwellings, or shanties and shacks built out of recycled materials on patios or in other vacant spaces. Most people who live in the city center do not pay rent for their home or land, as many of the owners have died or left the area.

At the high-income level, households tend to rent to others in a similar economic and social position. Luxury apartments, terraced houses, and single-family homes are the main types of accommodation available to an elite clientele. Most of the owners who operate in this segment tend to charge rent in U.S. dollars and use real estate agencies, and they are largely unaware of the articles in the Rent Restriction Act.

Jamaica currently finds itself in an intermediate stage of demographic transition. This is reflected in the changing age structure of the population, with fewer children 14 and under, an increase in the working-age population (15–64 years of age), and a rise in the percentage of dependent elderly people (over 65 years of age). These changes are due to fluctuations in fertility and mortality rates that have helped to reduce the natural growth rate, which reached 10.4 per 1,000 in 2008. Consequently, the annual population growth rate has remained steady at below 1 percent since 1998. Population projections for 2030 predict further contractions in the natural growth rate (Planning Institute of Jamaica, 2008).

**FIGURE 9.1** Distribution of Owners by Type of Tenure in Jamaica, 2009 (percentage)

Source: Planning Institute of Jamaica/STATIN (2009).

The increase in the working-age population will have implications for the housing sector, as the formation of new households causes a considerable hike in demand. Lifecycle factors (income, age, and household size) will have a significant influence. As income and family size grow, households tend to opt for owning their own home, whereas single-parent families and young married couples tend to become tenants. Alongside the rapid increase in the number of households expected over the coming decades, the housing shortage will become even more acute, especially in the KMA.

Since 1960, there have been changes in urban growth rates and patterns in Jamaica. During the period 1960–2001, the percentage of the population residing in urban areas rose from 33.6 to 52.1 percent. The urban population grew at an annual rate of 1.42 percent between 1991 and 2001, faster than the population in rural areas, which grew at a rate of 0.52 percent during the same period. This represents a rise of two percentage points in the urban population (50 percent) with respect to 1991.

Increased urbanization has put growing pressure on rental markets in urban areas. Figure 9.1 reveals that, in 2009, 29.3 percent of households in the KMA and 18.1 percent of households in other cities lived in rented accommodations, in comparison with 8.3 percent in rural areas.

In general, Jamaica's economic performance has stagnated, with real average growth in per capita GDP of just 1 percent over the last 20 years. The economy was adversely affected by the world recession and recorded growth of just 1.6 percent in 2011, its first annual GDP expansion since 2007. In 2010, the International Monetary Fund (IMF) approved a US\$1.27 billion loan as part of a *Stand-by Arrangement* for Jamaica. By virtue of this agreement, US\$640 million were placed at the government's disposal for economic reforms and for measures to tackle the global recession. Presently, the loan arrangement with the IMF is being renegotiated (Planning Institute of Jamaica, 2010).

The devastating effects of the global economic crisis also struck Jamaica's construction sector, which translated into a fall in investment. The real aggregate value of construction dipped by approximately 2.2 percent in 2010. This meant that the sector's contribution to GDP dropped to 7.8 percent, compared to 8 percent recorded in 2009 and 8.8 percent seen in 2000. The slowdown was also seen in a 6.7 percent reduction of people employed in the sector in 2010. In fact, the construction sector registered the highest loss of workforce in absolute terms (Planning Institute of Jamaica, 2010).

In spite of all efforts, a series of structural problems hamper economic growth in Jamaica. The soaring public debt, which represented a burden of nearly 130 percent of GDP toward the end of 2010, is a fundamental factor. The cost of servicing the debt reduces the government's capacity to spend on the social programs and infrastructure needed to stimulate growth.

Furthermore, although there is a high demand for land on which to build homes, the market does not function efficiently. This is mainly due to the structure of property ownership: the government is the country's largest landowner. Nearly 22 percent of all land is public property, while the remaining 78 percent is designated as private property, and is either vacant or family-owned land. According to Jamaica's National Land Agency (NLA), on December 1, 2011, only 54.7 percent of land was registered in the real estate cadastre despite repeated campaigns to promote property titling.

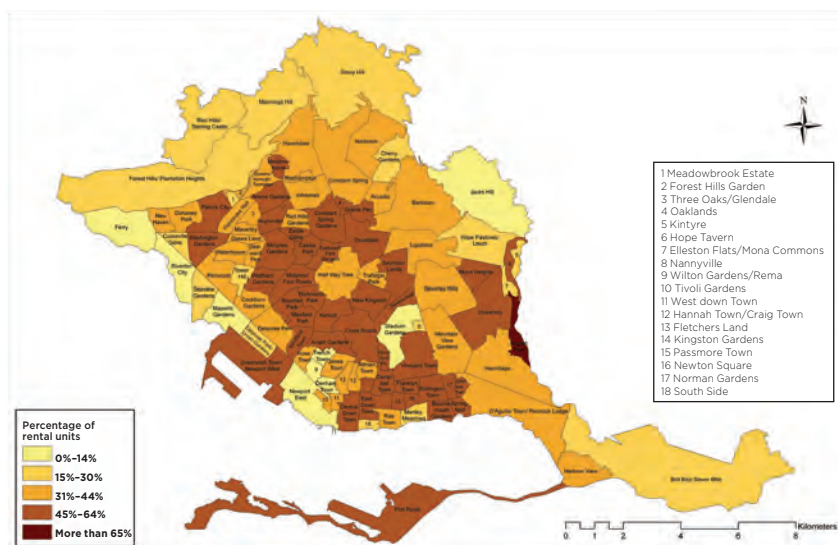
The urban land market is particularly limited. A large part of the publicly owned lands are unused and, due to financial limitations, not adequately supervised. Rapid urbanization has translated into a lack of available land at affordable prices, and many immigrants have little alternative but to invade and occupy vacant land, both public and private.

## THE RENTAL HOUSING MARKET: THE CURRENT SITUATION

According to the 2001 Population Census, there are 59,970 rental units in the KMA and 160,993 on the island as a whole. These figures represent 36 and 24 percent of total housing stock, respectively. Map 9.1 demonstrates that the greatest concentration of rental housing (45 to 64 percent) is in two main areas of the city (Table 9.2). Some of the communities with the highest proportion of tenants are found in the center of Kingston and extend toward the eastern part of the areas close to the historic center. Some of the poorest families live in these areas in overcrowded, poor quality buildings known as tenement yards. The types of tenure in these areas are very informal and range from rent-free to bedsit lets and squatting.

Renting is very common in a ring of areas that surrounds the special commercial district (Eastwood Park Gardens [56 percent], Richmond Park [52 percent], Kencot [52 percent], Cassia Park [51 percent]), which spreads out along the Half-Way-Tree Road and Constant Spring Road. In the 1960s, these were areas of good quality housing, but by the 1970s, they had turned into medium density properties primarily for commercial use.

**MAP 9.1** Percentage of Rental Units in the Kingston Metropolitan Area (KMA)



Source: STATIN (2002) Legend.

**TABLE 9.2** Rental and Rent-Free Housing in Selected Areas of the KMA (percentage)

Urban ring and southeast section of the city			Transition zone		
Special area	Rental	Rent-free (usufruct)	Special area	Rental	Rent-free (usufruct)
Port Royal	51	4	Zaidie Gardens	52	3
Springfield	60	7	Patrick City	49	9
Johnson Town	49	16	Washington Gardens	50	9
Norman Gardens	60	10	Arlene Gardens	49	5
Bournemouth Gardens	48	8	Molynes Gardens	51	7
Rollington Town	54	13	Cassia Park	51	14
Newton Square	55	17	Eastwood Park Gardens	59	13
Passmore Town	50	19	Molynes/FourRoads	48	11
Franklyn Town	64	10	Richmond Park	52	10
Campbell Town	49	16	Hughenden	45	5
Kingston Gardens	57	18	Drumblair	46	7
East Downtown	57	25	New Kingston	52	5
Central Downtown			Seymour Lands	45	8
Waltham Gardens	49	21	Swallowfield	55	15
Boucher Park	50	14			
Greenwich Town	53	10			
Whitfield Town	52	19			
Maxfield Park	59	18			
Arnett Gardens	57	8			
Kencot	51	21			
Cross Roads	52	15			
Woodford Park	54	16			
Vineyard Town	55	15			
Denham Town	50	13			
West Downtown	14	57			
Rose Town	34	48			
Rema	33	46			
Majesty Gardens	3	74			
Stadium Gardens	5	64			
	12	45			

Source: STATIN (2002).

With the encroachment of industrial, commercial, and small scale activities in these communities, many residents chose to leave the area and convert their properties into rental units. In fact, these areas are the main providers of rental housing for middle- to low-income households, since most new housing is oriented toward the homeownership market.

One study, carried out for the NHT by the Department of Sociology, Psychology and Social Work at the University of the West Indies on Denham Town and the center, also known as West Downtown, describes Denham Town in the following way: “the Denham Town community represents a wide-ranging patchwork of housing types. At one extreme it includes the overcrowded shanties which are labeled the “*Board Villas*” and at the other end there are high rise concrete blocks which provide two-room units. ... In addition there are detached, as well as the two-storey, semi-detached row houses which are colloquially referred to as “*buy-houses*”, and in which residents take considerable pride” (Anderson et al., 2003).

The great majority of the residents in Midtown live in rent yards—which recall the tenement settlements reported by Brodber (1981)—and in wooden houses. Anderson et al. describe the settlements as follows: “In a yard, there is typically a main building accompanied by a row of dwelling units which are either linked in a row, or separate structures. These may be one-storey or two-storey wooden structures, with the yards so congested that that the vacant space may be the passageways or a laundry line. In many cases, bathing and toilet facilities are communal. In other yards, small wooden structures are scattered around the area, with a few boasting plaster work or old concrete” (Anderson et al., 2003).

Clarke (2006) indicates that these kinds of neighborhoods, which date back to the 1960s, are found all over the central area, on any site in which there was once some empty space. The landowners came to an agreement with the tenants, who began paying rent for the courtyards where they set up their homes. The tenements share similarities with the squatter communities that established their homes on the outskirts of the city in the same decade, except that the illegal settlements lacked services, whereas the tenement courtyards had access to water and electricity (Norton, 1978).

Denham Town (14 percent), Trench Town (8 percent), and Wilton Gardens/Rema (3 percent) are sectors in the high-density areas of the city center where rental housing should be the norm. However, the study by Anderson et al. (2003) indicates that most residents in Denham Town and Midtown do not pay rent. Only 0.4 percent of the inhabitants of the Denham Town priority area paid rent for their land, and 9 out of 10 households were

paying nothing to live in their homes. Approximately 1.8 percent of residents established themselves illegally, by land invasion. Owner-occupiers of Denham Town represented 7.4 percent of the inhabitants, and included beneficiaries of the slum clearance and re-housing schemes of 1986, which resulted in around 1,088 new units being built for sale.

A similar situation prevails in Midtown, where 90.6 percent of residents pay nothing for land or shelter. Just 3.5 percent indicated that they had a rental contract but that, following the death of the owner, nobody had come to collect the rent. Therefore, 85.7 percent of residents were not paying rent, whereas 14.3 percent were owner-occupiers (Anderson et al., 2003). In other communities, such as Trench Town, a series of housing plans in the 1960s and 1970s produced a considerable number of public rental housing units. However, no rent is being paid in many of them due to the disinvestment and privatization process initiated in the 1990s.

Other areas with a low density of rental housing, which appear to be anomalies on the spatial distribution map, include Riverton City (2 percent), Majestic Gardens (4 percent), and Ferry (4 percent). Rent-free dwellings are common in Majestic Gardens (64 percent), whereas in Riverton City and Ferry there are public housing schemes, which means there is a high percentage of owner-occupiers.

The situation in Denham Town and Midtown indicates that some owners operate in the land rental market and others operate in the rental housing market. However, the survey fails to distinguish between landowners who have let their land, owners who have built on rented land and then rent out the building, and owners who let buildings that they purchased or built on their own land. This is either because this kind of information is unobtainable or because the survey has taken into consideration the fact that rented land plays an integral part in housing provision in the center of Kingston.

Apart from the areas adjacent to the commercial district, there are other transitional areas with a high percentage of rental housing: Seymour Lands (45 percent), New Kingston (52 percent), Drumblair (45 percent), and Swallowfield (55 percent). These are special areas in which a process of redensification is underway. Large tracts of land are being subdivided, and housing complexes and terraced houses are being built on them. In 2009, around 3.8 percent of housing in the KMA consisted of apartments and terraced houses, of which the two richest quintiles occupied the highest percentage, while the fourth quintile occupied 1.4 percent, and the fifth quintile, 2.2 percent. In general, most rental housing for middle-income households is found in these transition areas.

Since the 1990s, the best quality low-density housing with few properties for rent was located in the north and east of the city, such as Red Hills (19 percent), Jacks Hill (11 percent), Cherry Gardens (23 percent), and Forest Hills (23 percent). However, part of the concentration of high quality rentals is found in these same areas in the north and east of the city. Mona Heights (47 percent) and the University (61 percent) are special zones in an area with generally few rentals. Both areas border on the Mona campus of the University of the West Indies, where a large number of university students who are tenants live in these communities. Grants Pen (59 percent) has the highest concentration of squatters in the city, but these are also present in areas such as Oaklands (48 percent), Constant Spring Gardens (49 percent), and Meadowbrook (45 percent).

In some ways, owners resemble their tenants. The high-range market comprises luxury houses, apartments, houses, and chalets that cater to high-income groups. The profitability of investing in rental housing at this end of the market is high, given that gross returns in December 2011 reached almost 10 percent in the case of two- and three-bedroom units (Global Property Guide, 2013). The redensification of the city following the building boom at the beginning of the 2000s produced various projects offering luxury apartments and terraced houses. A three-bedroom house at this end of the market costs approximately JMD 30 million, but the return is slightly lower, with an average ranging from 8.15 percent to 8.49 percent (Global Property Guide, 2013).

Small-scale owners are the most common. These operate between the high and the low end of the rental market, and they generally come from low- and middle-income groups. The majority of owners are at least 50 years old, and they are generally widows who supplement their income by letting when they reach retirement age. In many cases, family structure has changed after the children have grown up and left their parents with an excess of available space.

Approximately 50 percent of owners live in the same building in which they let property. The other 50 percent have left the area, acquired a dwelling in another place, and let their first home instead of selling it. Most owners are renting out part of their main residence or a second home that they also own. The income obtained from letting enables them to pay mortgage installments on their own homes and spend on repairs, maintenance, and improvements. Incomes from rentals have been decreasing for owners at the bottom end of the market, and profitability is calculated at around 4 percent. The economic situation makes it hard to raise the rent, while at the same time repairs are urgently needed.



Tenants tend to be single people between the ages of 20 and 30, and younger than landlords and homeowners. Until recently, tenants and owners rarely signed formal rental contracts. Written contracts are becoming more common, as both parties see the advantages of clearly establishing their rights and responsibilities. The age composition of tenants in the city center varies considerably. Heads of household in Denham Town tend to be between 30 and 40, whereas in the center, a third of all heads of household are under 30, and 44.8 percent are younger than 50 (Anderson et al., 2003).

In 2009, 12.9 percent of consumer spending by Jamaican heads of household went to housing, with more spent in the KMA and less in rural areas. In general, the proportion of income spent on rent, estimated at 14.7 percent in 2005, has been declining. For heads of household in 2009, rent payments in the KMA represented 20.4 percent of total housing-related expenditure, whereas in other cities the disbursement amounted to 15.3 percent, and in rural areas it was 9.2 percent. Nationally, the poorest quintiles spent more of their income on rent than the average (17.2 percent) (Planning Institute of Jamaica/STATIN, 2009).

At the national level, between 1991 and 2001, spending on rent increased by 3.9 percent annually, less than the 7.5 percent increase permitted by the Rent Restriction Act. This indicates that rent rates have fallen considerably compared to the cost of living and incomes. Owner-landlords therefore find it hard to recoup their investment in rental housing. Between 2000 and 2009, rent values plummeted by 8.8 percent in response to the country's dire economic situation (Planning Institute of Jamaica/STATIN, 2009).

## **A GENERAL APPRAISAL OF THE CURRENT SITUATION: OBSTACLES TO RENTAL HOUSING DEVELOPMENT**

Operations by the Ministry of Transport, Works and Housing date back to 1937, when the Central Housing Authority was created. This was the country's first national housing agency, and it focused its attention on slum clearance and re-housing, including rental housing in the form of multi-family units.

One of the government's priority goals is to provide access to affordable, safe, and legal housing for all Jamaicans by 2030. Among the policies currently being implemented with this goal in mind are:

1. A joint venture program oriented toward providing housing for low- and middle-income groups.
2. Interventions designed to make land more accessible to a wide range of currently excluded people.
3. Actions aimed at increasing homeownership, including disinvestment and privatization of public rental units.
4. Subsidies for building or repairing units for the needy as part of the Social Housing Program.
5. Provisional financing for the private sector.

In Jamaica, the NHT, building societies, credit cooperatives, insurance companies, and commercial banks provide mortgage loans for home purchases. They all offer mortgages at both fixed and variable interest rates. In 2010, gross residential mortgage debt as a percentage of GDP reached 2.10 percent, and the total value and volume of mortgages were JMD 24.7 billion and 8.292 billion, respectively. Formal financial institutions and credit cooperatives rarely extend loans to low-income families, and there is no formal microcredit available for this purpose (Planning Institute of Jamaica, 2010).

The NHT, the country's main mortgage finance provider, offers loans to beneficiaries at interest rates of 1, 3, 5, and 7 percent. It also provides provisional low-interest financing to building firms as part of its social interest housing program. In general, interest rates in the sector have been falling since April 2011, with an average rate of 9.5 percent in various financial institutions. Despite this reduction, many people find it difficult to make their mortgage payments, and mortgage arrears have increased. In 2010, 6.5 percent of the mortgage loan portfolio was in *default*, whereas the proportion for building societies was 6.9 percent.

As part of its mandate, the NHT seeks to increase the available housing stock by providing financing to property developers. In September 2009, the NHT reduced interest rates in the provisional financing program in the hope that more developers would take up the offer of financing. The response, however, was so disappointing that the NHT had to announce new incentives in November 2011, which also failed to achieve results due to the low profit margins for the developers.

Rental housing is subject to two taxes: income tax and property tax. Income received as rent by individuals is subject to income tax. Maintenance costs, insurance, interest on mortgage payments (but not the capital), and depreciation are all tax deductible. However, many owners fail to declare

rental income on their tax returns. This explains why tax cuts offer so few incentives to owner/landlords. Thus, the tax framework has had little impact on the rental housing market.

Access continues to be a problem. Policies aimed at encouraging homeownership through the provision of loans and subsidies have proved unsustainable. For example, the high crime rate in the subsidized project Inner City Housing was one of the reasons that led to its closure in 2008. Achieving universal homeownership is highly unlikely. The government should therefore pursue a housing policy that promotes a wide range of alternatives, including rental housing, to ensure that people have affordable alternatives.

The future approach to housing policy seems set to be a continuation of current strategies, as there are no specific policies that include the rental housing option. The government is hoping to increase rental tenure by amending the Rent Restriction Act. However, there are other barriers to the rental market. Thus, merely amending the Act would not automatically achieve a significant increase in the rental housing stock. The Rent Restriction Act, approved on October 9, 1944, regulates relations between owners and tenants and applies to both residential and commercial property. Since then, it has been amended on several occasions, and a further amendment is currently under debate in the country's Parliament. The proposed amendments include:

1. Change the name of the law to reflect the change in housing policy.
2. Eliminate rent controls for public and commercial buildings.
3. Clearly define the properties subject to regulation.
4. Establish minimum requirements for business premises and mechanisms to ensure compliance.
5. Legalize rent deposits.
6. Establish a court that deals with rent related conflicts.
7. Increase the fines and penalties for noncompliance with the law.

These changes in the legislation are expected to provide a better balance between the rights of the tenant and the profitability of investing in formal rental property for owner/landlords. Although no amendment is envisaged to make it illegal to charge rent in U.S. currency, in the future, all rental properties must be registered.

At present, the law states that all rentals in the country are subject to rent control, unless the Ministry has granted an exemption. This

covers all building land, as well as dwellings, and some public and business premises. The Rent Restriction Act requires all rental properties in Jamaica to be registered with the Rent Assessment Boards (RAB) to ensure compliance with the regulations. Despite the fact that registration is inexpensive, very few owners opt to register their properties. Many of them may be unaware of this requirement. The standard rent is an annual percentage of the value of the property, established by the Ministry. Owners are entitled to raise the rent by a maximum of 7.5 percent per year without the Board's authorization. The standard rent is usually below market rates.

Contract cancellations must be notified at least 30 days before the rent is due, and contracts cannot be cancelled without valid justification. In the case of unpaid rent, if it is paid before the notification has expired, then the justification will cease to be valid as of the date of payment. If the owner begins proceedings to repossess the property, subsequent payment of the back rent will not affect either the notification or the proceedings.

The RAB is responsible for dealing with claims relating to unfair rents or illegal rent increases, and considers claims for exemption certificates. In practice, the law mainly applies to low-rent properties. Owners of upmarket properties have other ways of evading the law, such as evicting tenants by claiming to need the property for their personal use. The RAB achieves an agreement rate of over 90 percent and rarely submits cases to the courts. Those that are submitted generally concern the return of rent deposits such as, for example, when tenants are unable to recoup their deposit once the rental contract has expired.

Paying a deposit has become a habitual practice in Jamaica. However, this practice is illegal according to Article 24 of the Rent Restriction Act. If the owner has asked for a deposit, the tenant is entitled to recover the payment. However, a deposit is generally considered necessary so that the owner can cover unpaid costs or repair any damage done to the property. Other complaints include cases of harassment, such as the forcible removal of tenants (Article 27 of the law), changing door locks, turning off the water or electricity supply, and illegal rent hikes.

The main complaints by landlords include tenants' failure to pay the rent on time, damage to the property, or exorbitant unpaid utility bills. Owners in conflict with tenants, especially about unpaid back rent, prefer to deal with the RAB, given that legal proceedings may drag on. For its part, the RAB can convene a meeting between the two parties and help resolve conflict in a matter of days.

## CONCLUSIONS AND RECOMMENDATIONS

The main conclusion of this study is that there is a strong bias toward homeownership in Jamaica. Rental housing, however, continues to be a significant form of tenure. Growing urbanization will merely increase the demand for rental housing. Consequently, policies must be adopted that support this segment of the market.

There is an urgent need to conduct more research on the Jamaican rental market. There is little information available on the diverse nature and internal dynamics of the rental housing supply, which could help identify bottlenecks. Despite the widely held view that owners charge exorbitant rents, evidence suggests that many barely manage to supplement their incomes. Owner-occupied housing is generally thought to be of better quality than rental housing, but this has more to do with adequate property maintenance rather than the type of tenure.

As things stand, there is no clear government policy on rental housing. The government must therefore accelerate its reform of the Rent Restriction Act, not only to resolve existing problems, but also to reorganize and implement new RABs with responsibility for evaluating the rental housing market more efficiently. However, as this paper argues, although legal reform is necessary, it is not sufficient to achieve the desired changes. Other issues that restrict both rental and for sale housing supply should also be tackled, such as problems with land markets, urban planning shortcomings, and building regulation failures.

The financial constraints facing the current government should not prevent it from offering further subsidies to private companies to build rental housing. Existing incentive programs should be adapted to provide developers with government owned land on which to build rental housing. Such a policy could be part of the strategies of the NHT's Interim Financing Program, and would therefore not require new subsidies.

The situation of the owners of informal dwellings should be taken into consideration by creating incentives in neighborhood upgrading programs and providing microcredit aimed at boosting rental housing supply for low-income families. The government should encourage microfinance institutions to offer loans to owners to add extra bedrooms to their properties and let them as a way of generating income.

In addition, the poor condition of rental housing in Kingston's depressed urban communities is a significant problem. A special building repair fund should be established, to which owners would be required to

contribute a portion of the rents collected. The fund could be used to provide subsidized loans to tenants. A renewed and strengthened RAB should be responsible for managing the fund. Owners would then be permitted to build extensions onto their property according to an agreed rent rate, but only if existing tenants are allowed to remain. Informal agreements between lessor and lessee, which are currently widespread, could then be replaced by formal contracts.

Moreover, these strategies should be implemented within the framework of a general neighborhood upgrading program to clear slums from the central areas of the city. This program should include:

1. Land tenure regularization.
2. Urban densification, to provide new buildings for sale and for rent.
3. Assistance for refurbishing existing single-family homes.
4. New, high-density developments in available vacant plots.
5. When buildings are beyond repair, renovation of housing stock by compulsory government purchase for an amount based on a multiple of the monthly rent.

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# Renting and the Land Market in Mexico

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## INTRODUCTION

The current state of housing in Mexico is the result of the historical process of land and housing acquisition by different sectors of society. This process has created two interrelated markets, one formal and the other informal. Although this classification refers primarily to land markets, the kinds of dwellings built are closely related to the process of land occupation. Therefore, the supply and demand of rental housing, its typology, and the social relationships that underpin renting are strongly linked to the land markets in which they take place.

In the formal land market, housing is built on the basis of projects executed in accordance with regulations on urban development. It is located on land acquired through legal property deals and free of liens, which include full payment of all corresponding taxes (Jaramillo, 2008). In such cases, a home might be built to order and be self-financed by its occupiers, as part of a commercial real estate operation, or by the State, in which case the home is acquired using either public or private financing. In the informal market, homes are produced by self-building processes and financed by the end users themselves, who acquire the land through payment agreements based on trust or solidarity, or through land invasions.

Until the 1970s, most of the country's urban housing stock consisted of rented dwellings. In 1960, nearly half of the country's inhabitants were tenants, and three out of every four homes in Mexico City were rented

(Coulomb, 2006). Over the last decade, the stock of rental housing has doubled in absolute terms.

The most significant state regulation of rental housing was introduced in the 1940s, when affordable rent controls were established in response to constant evictions faced by lower-income residents of tenement neighborhoods, or *vecindades*, in the central areas of cities.<sup>1</sup> Between 1942 and 1948, it was decreed that rents that did not exceed a stipulated affordable amount would be frozen, although no time limit was established for when these conditions would cease. This discouraged private investors from building more rental housing.<sup>2</sup>

In the 1950s, various public agencies built rental housing developments for workers in the formal sector. This model gave rise to problems such as high maintenance costs that public agencies were obliged to shoulder and delays or defaults in rent payments. These problems led to the abandonment of this housing production model toward the second half of the 1960s.

Around that time, rural migrants continued to flow into the cities in great numbers, where they satisfied their housing needs by acquiring community-owned land<sup>3</sup> on the urban periphery, via property purchase transactions that were outside of the legal framework, and by building their own homes. In other words, both processes took place in the absence of legally secure land tenure and by flouting compliance with urban development regulations. This situation created two new problems for the State: irregular land tenure and poor housing on the urban periphery.

The State has tackled this question, which mainly affects those with the least resources, by regularizing land tenure and bringing properties in line with urban regulations, via the Land Tenure Regularization Commission (Comisión de Regularización de la Tenencia de la Tierra, or CORETT). Thus, the policy was directed at land rather than housing. In a few cases, and

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<sup>1</sup> These tenement neighborhoods represented the traditional accommodation model for the urban working classes in the early decades of the twentieth century. They were dilapidated and overcrowded, and several households shared the same sanitary and kitchen spaces.

<sup>2</sup> This decree was repealed in 1992, which means that rent controls were in place for approximately 50 years. However, the impact of this regulation decreased in line with the massive growth in the urban housing stock.

<sup>3</sup> This was the land given to agrarian communities which, until 1992, was non-transferable and indivisible. In other words, it could not be sold, inherited, or used as collateral in commercial transactions.

only after the settlements have been regularized, residents are entitled to register for public housing upgrading and extension programs and receive subsidies. However, such actions have failed to improve living conditions for the urban majority. On average, it takes between 15 and 20 years before the tenure regularization process can get underway. This is a hardship for poor households, since they lack water and power supply and sewerage during this period, as well as other urban services such as road surfacing, trash collection, and public transportation.

It was in this context that housing policy, working through the agencies created in the 1970s,<sup>4</sup> aimed at producing finished housing units in housing developments and then transferring ownership to the beneficiaries. However, this model has not managed to replace irregular development, either in quantitative or in qualitative terms. This is because it was designed mainly for wage earners in the formal sector, who represent a minority of the population, by building a standard design home with little scope for adaptation and not necessarily of the best quality, located on the urban periphery.

Mexican housing policy evolved from an interventionist approach in the 1970s and 1980s, which turned government agencies into property developers, to a facilitative/enabling approach, starting in 1992, when a series of reforms signaled the beginning of deregulation in the land and housing sectors. Fundamental changes were made to the Constitution and to agrarian legislation to permit the sale of communally owned land, which meant it could be legally incorporated for urban development. The law regarding the Institute of the Workers' National Housing Fund (Instituto del Fondo Nacional de la Vivienda para los Trabajadores, or INFONAVIT) was reformed, which enabled private sector developers to participate. Under this new facilitative approach, all of the housing agencies limited their role to providing mortgage loans and opened up their programs to private-sector participation (Puebla, 2002).

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<sup>4</sup> These agencies are: the Institute of the Workers' National Housing Fund (Instituto del Fondo Nacional de la Vivienda para los Trabajadores, or INFONAVIT); the Institute of Social Security and Services for State Workers Housing Fund (Fondo de Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado, or FOVISSSTE), and the Housing Operation and Bank Discount Fund (Fondo de Operación y Descuento Bancario para la Vivienda, or Fovi). In 2000, the latter became the Federal Mortgage Company (Sociedad Hipotecaria Federal, or SHF).

This reorientation of housing policy reinforced the trend toward prioritizing programs that aimed to encourage the purchase of new housing in housing developments built for wage earners and the middle-income sectors.<sup>5</sup> Private participation in housing promotion led to a rise in the cost of social interest housing (SIH), which in turn meant that the population that the public agencies helped had to have higher incomes.<sup>6</sup> Over the last 20 years, these agencies have mainly provided loans to people who have the capacity to repay them. Another relevant issue is that access to financing for social housing is mainly granted to those who are earning a wage and who therefore qualify for financing from one of the housing funds, which are the institutions responsible for providing most of the loans. Consequently, public housing programs have increasingly excluded the 40–50 percent of Mexicans who are living in poverty, do not qualify for financing, and are unable to repay, thereby undermining the social function of housing policy.

In this context, the poorest segments continue to access housing outside of the legal frameworks that regulate property and urban planning. It is estimated that in the country's 56 metropolitan areas alone, there are some 7 million as yet unregularized properties (Salazar, 2012a), despite the fact that CORETT has regularized 2.5 million homes over a period spanning 40 years. Furthermore, the upgrading and extension programs applicable to social housing, which are part of the federal housing programs, have traditionally accounted for a very small percentage of the budget and have not represented the highest proportion of homes financed. During the 2000s, 10.5 million housing financing plans were executed, half of which were for new housing; investment in new housing accounted for 77 percent of the total amount invested (Salazar, 2012b).

Furthermore, by focusing on housing demand by the middle and lower-middle classes, property developers saturated the market in many

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<sup>5</sup> Some authors (Connolly, 1988; Coulomb, 1990; Puebla, 2002, 2010; Schteingart, 1989) agree that the predominance of programs based on new finished housing is associated with obtaining profits and achieving economies of scale for the builders and, since 1992, for the private real estate sector. By contrast, improvement, extension, or refurbishment programs, or those that include certain self-building aspects, fail to offer the same advantages.

<sup>6</sup> For example, in 2003 the authorities at INFONAVIT declared that the average incomes of their beneficiaries were six times the minimum wage, whereas 61 percent of their entitled beneficiaries earned an income that was below or equal to three times the minimum wage (quoted in Puebla, 2006).

of the country's cities.<sup>7</sup> Recent studies of rental housing reveal that in some federal entities, such as Quintana Roo and Nuevo León, up to 1.5 new dwellings were financed for every unoccupied home (Salazar, 2012b). Those entities with more than 18 percent of unoccupied dwellings registered a net negative balance (Zacatecas, Durango, and Chihuahua) and, judging by the tenure conditions of the people who had changed their residence in the five years before the 2010 census was taken, it is evident that interstate migrants do not tend to live in their own homes: 32 percent cohabit and 29 percent are tenants. Twenty-two percent of immigrants from other countries are also rental tenants.

Therefore, any housing policy aimed at producing new housing for sale—which is the kind of program that is most profitable for the construction industry and the private real estate development sector—will erroneously equate the need for housing with access to private property.<sup>8</sup> Moreover, it also underestimates the potential of other forms of housing provision, such as rental housing, to which government has paid little or no attention (Abramo, 2010; Coulomb, 2006; Gilbert, 2001).

Despite the above, in recent decades public agencies have continued to provide credit for homebuying in large-scale housing developments built by private promoters on the urban periphery, where building land is cheapest. Informal settlements have sprung up next to these formally negotiated projects, which has significantly expanded the urban periphery. Over the last 30 years, Mexico's urban population has doubled, while the surface area of urban sprawl has increased by a factor of seven. Therefore, although over the last decade more than 600,000 housing units per year have been produced with government support, the agencies responsible

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<sup>7</sup> It seems paradoxical that, faced with this situation, certain real estate consortia have opted to produce housing complexes in tourist destinations that offer “week-end homes” (homes for temporary use), which are sold to middle-income earners who do not need to buy a home in their own area but, by qualifying for one of the housing funds, can take out a loan on attractive terms.

<sup>8</sup> Financing available for housing includes the following programs and subprograms: full housing (both new and used, with the availability of land for rent); first-time buyers (self-build, with availability of land, and basic housing unit); co-financing (new and used); physical improvement (extension and refurbishment); financial improvement (liquidity: down payment, payment of liabilities, and infrastructure: land purchase, housing inputs, building plots with services, and development for residential use). These are the programs and subprograms included in the housing statistics gathered by the National Housing Commission (Comisión Nacional de Vivienda, or Conavi) (Conavi, 2012).

for housing policy recognize that 6 out of 10 dwellings are self-built (CIDOC and SHF, 2010).

To complete the panorama, in which the lack of affordable housing options for people who are unable to save or to access credit coexists with new, publicly supported private sector housing production on a massive scale, the 2010 census reports that there are around 5 million unoccupied homes and 2.7 million temporary homes in the country (INEGI, 2011). The federal entities that recorded the highest absolute growth in unoccupied dwellings in 2005–10 received 18 percent of the total number of mortgage loans between 2007 and 2009 (Sánchez and Salazar, 2011), and these were not the poorest entities.

The paradox described here raises several questions. Is there a deficit of housing units? If so, what kind? To what extent is it sensible to formulate housing policy that is aimed fundamentally at stimulating new housing production? Is the direction taken by housing policy contributing to the deficit problem? Are there other types of tenure that might help facilitate access to housing?

Renting represents a housing access option for a significant portion of the population and enables owner/landlords to increase their earnings. In principle, the existence of public rental housing programs would enable poorer households to have their own home without having to access legally insecure land and go through the trials of self-building, and would at the same time prevent them from having to suffer the consequences of unsanitary conditions prevailing in poor housing and their negative impact on health (Schteingart, 1997). It would also help the Mexican State to progressively reduce its investment in regularization programs that, rather than inhibiting the development of the informal land market, encourage illegal occupation of properties (Abramo, 2012). At the same time, it would help improve municipal finances, which are inevitably restricted by the additional money needed to correct urban layouts and provide basic services for occupied settlements. Finally, another significant potential benefit of rental housing programs is that, by taking advantage of existing stock, they help rein in uncontrolled urban sprawl, which means that more compact cities can be planned.

## THE STRUCTURE OF TENANCY

This section presents the analysis of housing tenure at both the national level and in the two case studies: the Metropolitan Zone of the Valle de Mexico

(Zona Metropolitana del Valle de Mexico, or ZMVM) and the Metropolitan Zone of Guadalajara (Zona Metropolitana de Guadalajara, or ZMG).<sup>9</sup> The information is mainly taken from the population and housing censuses of 2000 and 2010 and from databases constructed using 10 percent census samples.<sup>10</sup> To a lesser degree, information from previous censuses and from other socio-demographic sources was also used.

## National Housing Trends

### *Changes in Population Growth and the Evolution of Housing*

National housing trends have more to do with the policies implemented over the last 60 years than with demographic changes. However, it is undeniable that population growth, household size, and changes in the age structure of the population have affected housing trends and housing needs in Mexico.

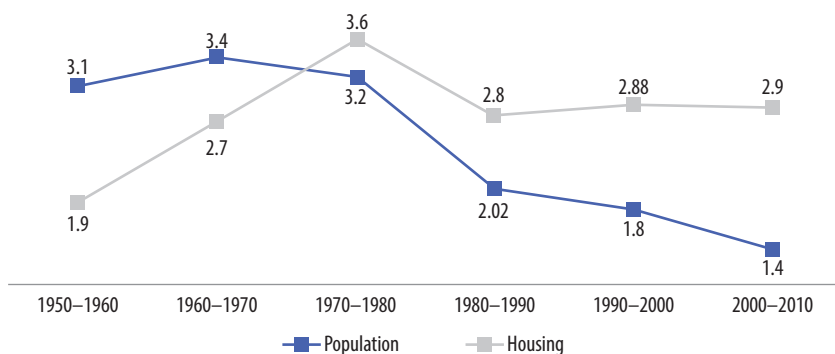
Since the 1970s, the rate of housing expansion has outstripped population growth, which implies that there is strong pressure to implement housing policies that encourage new home building (Figure 10.1).

With the passage of time and changing needs, housing policies should have diversified their objectives. However, this has not occurred, and the results from the 2010 Population and Housing Census (INEGI, 2010) bear this out. The 2010 census recorded 35.6 million private homes, 80.4 percent of which were occupied, 14 percent almost unoccupied, and more than 5 percent used temporarily (Figure 10.2). The existence of nearly 7 million buildings not in daily use calls into question the priorities of housing policy. It obviates the need to build more new homes and raises questions about the type and location of these homes and the people whose needs will be satisfied by them. Of the unoccupied homes, 40 percent are concentrated

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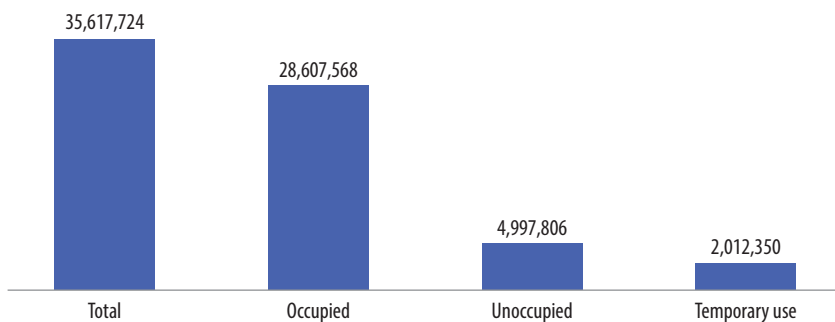
<sup>9</sup> For many centuries, Mexico, Guadalajara, Monterrey, and Puebla have been the most important cities in Mexico, with the former holding a clear preeminence with regard to the other three, which it maintains to this day.

<sup>10</sup> In Mexico, apart from the census, a survey is also carried out of 10 percent of the households in the census, which includes more questions. This more detailed survey was first conducted during the 1990 census and in the two censuses carried out since then—in 1995 and 2005. These intercensal polls examine the country's population in greater depth than the census itself does. They also administer a questionnaire containing more questions to a sample 10 percent of households. For more information, see the National Statistics and Geographic Institute (Instituto Nacional de Estadística y Geografía, or INEGI) website: [www.inegi.org.mx](http://www.inegi.org.mx).

**FIGURE 10.1** Population and Housing Growth Rate in Mexico, 1950–2010 (percentage)

Source: Authors' elaboration based on the INEGI database (1950, 1960, 1970, 1980, 1990, 2000, and 2010).

Note: For the annual growth rate, the geometric growth formula was used, and the intercensal periods were corrected according to the dates when the data were collected.

**FIGURE 10.2** Total Occupied, Unoccupied, and Temporary Housing Units in Mexico, 2010

Source: INEGI database (2010).

in towns with fewer than 15,000 inhabitants.<sup>11</sup> A quarter of the housing stock is found in places with more than 500,000 inhabitants.

<sup>11</sup> In other words, in non-urban areas; these might be abandoned dwellings that result from the migratory phenomena of people moving to the big cities or to the United States, or built by immigrants with their remittances (perhaps in the hope of one day returning to live in them), but to which they never return more than sporadically.



### *Evolution and Spatial Distribution of Rental or Non-owned Housing*

Rental housing has recently begun to acquire more importance in Mexico. In absolute terms, the number of non-owned homes has increased decade after decade, tripling in the last 60 years. It almost doubled between 1980 and 2010 alone. However, in relative terms, at least until 2000, rental housing as a share of total housing stock decreased (Table 10.1). Rented dwellings increased from 2,818,055 to 4,033,667 between 2000 and 2010, growing at an average annual rate of 3.6 percent in contrast to the 2.9 percent growth in total housing stock. In contrast, the rate of increase in homeownership has decelerated since the 1990s: whereas between 1980 and 1990 the average annual increase was 4.5 percent, in the following 10 years it fell to 2.9 percent, and between 2000 and 2010 it fell still further to 2.6 percent. In terms of percentage increases, homeownership grew by just 30 percent, while rented accommodation grew by 43 percent.

With regard to its geographic distribution, from the 1980s onward the highest concentration of rental housing has been registered in the country's urban areas. Nearly 70 percent of rental housing stock is concentrated in places with fewer than 100,000 inhabitants, whereas towns with between 15,000 and 99,999 inhabitants only record around 20 percent of rental housing stock.

### *Characteristics of Housing and Heads of Household Recorded in the Census, by Type of Tenure*

The country's housing stock is mainly comprised of detached houses and, in very low percentages, apartments in apartment blocks. In 2010, around 70 percent of rentals were detached houses and 16 percent were apartments. It is notable that the market share of tenement houses has fallen by 12 percentage points over the last decade. The most commonly used rental properties are tenement houses and rooftop homes (65 and 49 percent, respectively), followed by flats in apartment buildings (37 percent) and houses (12 percent). With regard to quality, the conditions of rental housing were better for all indicators, both in 2000 and in 2010 (Table 10.2). Only in the case of overcrowding<sup>12</sup> is the panorama very different. Although the average number of occupants has been declining, and overcrowding has recorded a drop of almost 5 percentage points, 40 percent of rental households still suffer from this problem.

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<sup>12</sup> These are dwellings whose average number of occupants per bedroom is more than 2.5.

**TABLE 10.1** Population and Housing by Type of Tenure, 1950–2010

Year	Population in census		Total Number of Homes		Own Home		Non-owned Home		Rental housing	
	In absolute numbers		In absolute numbers		In absolute numbers	Percent of total	In absolute numbers	Percent of total	In absolute numbers	Percent of total
1950	25,791,017		5,259,208		3,365,893	64.0	1,893,315	36.0	—	—
1960	34,923,129		6,409,096		3,467,321	54.1	2,941,775	45.9	—	—
1970	48,225,238		8,286,369		5,469,004	66.0	2,817,365	34.0	—	—
1980	66,846,833		12,074,609		8,213,909	68.0	3,860,700	32.0	2,527,418	20.9
1990	81,249,645		16,197,802		12,699,077	78.4	3,498,725	21.6	2,349,459	14.5
2000	97,483,412		21,513,235		16,952,429	78.8	4,560,806	21.2	2,818,055	13.1
2010	112,336,538		28,607,568		21,999,220	76.9	6,608,348	23.1	4,033,667	14.1
Growth Rates (Percentage)										
Period	Total number of Dwellings			Owned home			Non-owned home			Rented
1950–60	1.9			0.3			5.4			—
1960–70	2.7			4.6			–0.7			—
1970–80	3.6			4.1			3.1			—
1980–90	2.8			4.4			–0.8			–0.7
1990–00	2.9			2.9			2.7			1.9
2000–10	2.9			2.6			3.8			3.6

Source: Authors' elaboration based on the population and housing censuses (INEGI, various years).

Note: The censuses taken between 1950 and 1970 only included owned homes, so the difference was used to calculate the total of non-owned homes. Since 1980, the census also includes the categories of owned, rented, ceded, or other type of home, which means that rental housing data are available from that decade onward. For all years the category “non-owned home” in the table includes rental housing.

**TABLE 10.2** Characteristics of Dwellings by Type of Tenure, 2000-10 (percentage)

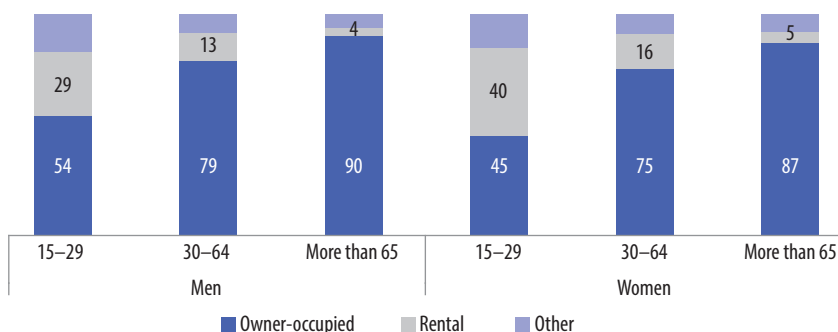
Characteristics	Total dwellings		Owner-occupied		Rental housing	
	2000	2010	2000	2010	2000	2010
Partition walls, brick, block, stone, pebble dash, cement or concrete	79.0	86.3	78.2	85.5	90.3	93.9
Concrete slab roof or beams with vaults	63.8	71.6	63.6	70.7	75.7	82.4
Not earth floor	86.6	94.0	85.6	94.1	97.4	98.5
Separate kitchen	91.6	87.9	93.1	89.7	91.1	85.8
Gas used for cooking	81.9	83.8	80.2	82.4	95.9	94.0
Electricity used for cooking	0.4	0.7	0.2	0.3	1.5	2.0
Electricity supply	95.2	97.5	95.1	97.6	99.1	99.2
Electricity meter	—	87.8	—	88.5	—	91.5
Internal piped water	59.4	70.8	59.0	69.8	73.1	82.9
Daily water quota	79.8	73.0	78.8	72.1	85.1	79.1
Flush toilet	61.1	68.6	60.8	67.7	71.3	78.3
Waste water connected to mains/sewerage	63.5	71.3	61.1	68.5	86.9	89.9
Trash collection	69.1	79.0	66.5	76.8	89.5	90.8
No overcrowding	62.1	66.6	64.1	67.8	60.9	63.3

Source: Authors' calculations based on INEGI (2000 and 2010).

Note: The calculations were derived from a 10 percent census sample.

The superior quality of rental housing compared to owner-occupied homes is attributable in part to the fact that owner/landlords use rental housing as a way of earning income, which means that they invest more resources in maintenance. Furthermore, as will be seen in the case studies, this type of home is often located in central and consolidated areas of the city and enjoys better access to services and infrastructure.

The population census revealed a higher proportion of female than male heads of household among rental tenants (15.4 percent and 13.5 percent, respectively). Likewise, both women and men under the age of 30 opted for this type of tenure, although there was a noticeable gender-based

**FIGURE 10.3** Type of Tenancy by Gender and Age of Head of Household, 2010 (percentage)

Source: Authors' elaboration based on the INEGI database (2010). (Census sample.)

discrepancy in this regard: 40 percent of female heads of household are rental tenants, in contrast to just 29 percent of men of the same age.<sup>13</sup>

With regard to the marital status of heads of rental households, the relative distribution is the same regardless of gender. Most tenants are single, separated, or divorced. Widows and widowers represent a minor part of the demand for this type of tenure, although this situation could change as the Mexican population ages (Table 10.3).<sup>14</sup> Moreover, single people are more likely to need to rent a home, which means that there is a significant percentage of single-person households in this tenure category.

The proportion of heads of household who rent is higher when income is above three times the minimum wage. This trend is accentuated among women, who generally do not earn sufficient income to rent a home and choose cohabitation, often in the parental home: 32.6 percent of women earn less than three times the minimum monthly wage and 24 percent earn between three and five times the minimum wage. Female heads of household face more precarious conditions, since 41 percent of them earn between one and three times the minimum wage, or between MXN 1.678 and MXN 5.033 (in 2010 pesos).<sup>15</sup>

<sup>13</sup> In Mexico, approximately a quarter of all heads of household are women.

<sup>14</sup> Most female heads of household in Mexico are unmarried (77.2 percent), whereas married women represent 22.8 percent. For their part, the reverse is true for male heads of household: men who are married or in a relationship make up 88.1 percent of the total, while bachelors or divorcés represent 11.9 percent.

<sup>15</sup> Between approximately US\$129 and US\$387 per month.

**TABLE 10.3** Male and Female Heads of Tenant Households, by Marital Status and Type of Dwelling, 2010 (percentage)

Marital status	Male	Female
Married or in couple	13	16
Separated or divorced	20	19
Widow	6	7
Single	26	26
Type of household	Man	Woman
Nuclear	14	18
Extended	9	11
Single-person	22	15

Source: Authors' calculations based on INEGI (2010). (Census sample.)

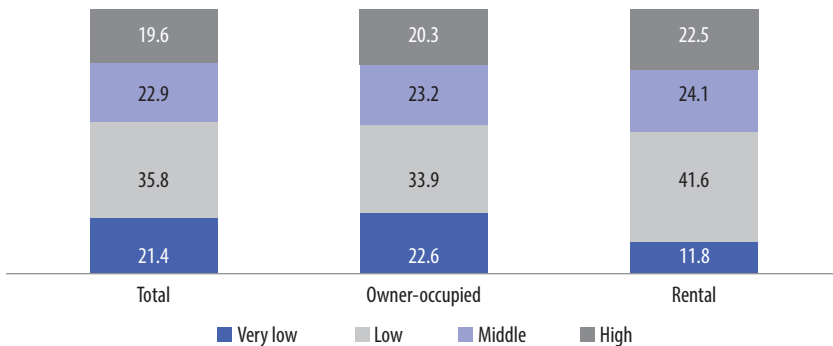
**TABLE 10.4** Distribution of Male and Female Heads of Household, in Multiples of the Minimum Monthly Wage, by Gender and Type of Tenure, 2010 (percentage)

Minimum wages	Rental housing			Homeownership		
	Total	Male	Female	Total	Male	Female
Unwaged	0.8	0.8	0.8	6.5	7.2	3.7
Less than 1 up to 3	31.8	28.9	40.5	33.4	31.9	38.9
More than 3 up to 5	24.0	24.6	22.4	19.9	19.9	19.8
More than 5 up to 10	24.6	25.8	21.0	21.7	21.9	20.6
More than 10	18.8	19.9	15.4	18.6	19.0	17.0
Total	100	100	100	100	100	100

Source: Authors' calculations based on INEGI (2010). (Census sample.)

Note: The multiples of the minimum wage are calculated only as earnings from employment, expressed in 2010 pesos according to the National Minimum Wage Commission (Comisión Nacional de Salarios Mínimos).

The situation of owners is no better: 33.4 percent earn less than three times the minimum wage and 6.5 percent receive no income at all for their work. Male owners are in worse economic conditions than male heads of households who rent. In the case of female heads of household, a similar situation prevails for tenants and owners, but they are both disadvantaged compared to male heads of household in terms of income derived from employment.

**FIGURE 10.4** Housing Tenure by Socioeconomic Stratum of the Head of Household (percentage)

Source: Authors' elaboration based on the INEGI database (2010). (Census sample.)

### *Housing for the Low and Very Low Socioeconomic Strata<sup>16</sup>*

Heads of household belonging to the low and very low socioeconomic strata lead approximately 6 out of 10 households. This means that the vast majority of homes (some 16.4 million) are inhabited by people living in precarious socioeconomic conditions. Of these dwellings, 13.2 percent (almost 2.2 million units) are for rent, although this option is least seen in the lowest stratum. By contrast, the highest proportion of owners is in this socioeconomic level, although homeownership is, in many cases, the result of illegal or irregular land occupation (Figure 10.4).

With regard to the type or class of dwelling, the low and very low socioeconomic strata tend to occupy almost 65 percent of rooftop homes and three quarters of the homes rented in tenement houses, and a much lower percentage of detached houses or apartments. Tenement houses and rooftop homes have the worst living conditions, whereas apartments in apartment buildings tend to be more modern, better located, and to enjoy more comprehensive public services. Therefore, apartments in apartment buildings are virtually inaccessible to the poorest strata of the population, who account for only 27 percent of the occupiers of these properties.

There are serious shortcomings with regard to both building materials and services, although rented homes are usually in slightly better condition.

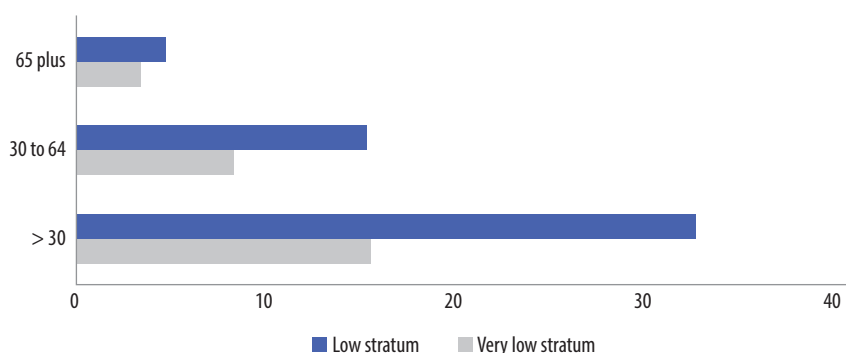
<sup>16</sup> The socioeconomic stratification used here was elaborated by Carlos Javier Echarri Cánovas (2008) within the framework of the Reproductive Health Program (Programa de Salud Reproductiva) of El Colegio de México.

**TABLE 10.5** Characteristics of Owner-Occupied and Rental Housing among the Poorest Strata, 2010 (percentage)

Characteristics	Owner-occupied		Rental housing	
	Very low stratum	Low stratum	Very low stratum	Low stratum
Stud walls, brick, block, stone, pebbledash, cement or concrete	64.4	87.1	85.7	93.3
Concrete slab roof or beams with arches	39.6	68.8	64.6	78.0
Not earthen floor	77.8	97.8	90.3	99.3
Separate kitchen	79.4	87.3	73.5	80.0
Gas used for cooking	50.6	84.7	83.4	94.3
Electricity supply	92.4	98.5	97.3	99.2
Electricity meter	76.8	87.7	83.6	89.3
Internal piped water	35.1	65.5	62.1	76.9
Daily water quota	61.3	68.4	71.9	75.2
Flush toilet	30.4	60.0	53.2	69.6
Separate toilet for exclusive household use	85.4	87.8	81.0	84.2
Waste water connected to mains sewerage	35.1	65.7	76.8	88.5
Trash collection (by truck or barrow)	48.5	78.3	85.9	92.3
Average number of rooms per dwelling	2.9	3.5	2.6	2.8
Average number of residents per dwelling	4.0	4.6	3.5	4.0
No overcrowding	58.8	49.2	51.7	36.6

Source: Authors' calculations based on INEGI (2010). (Census sample.)

The main problem is related to water—both its availability inside the building and the tenants' daily quota (Table 10.5). Another inconvenience is the lack of adequate space for expansion and family life: more than 50 percent of these households suffer from overcrowding; the average number of rooms is less than three; and a quarter of the homes do not have separate kitchens. A higher proportion of female heads of household rent the dwelling they live in, and this type of tenure is more frequently found in the low rather than the very low stratum (18 and 10 percent, respectively).

**FIGURE 10.5** Percentage of Poor and Very Poor Heads of Household Renting Their Homes, by Age Groups, 2010

Source: Authors' elaboration based on the INEGI database (2010). (Census sample.)

Furthermore, the youngest male heads of household are those most likely to live in rented accommodation. The percentage is double that of older heads of household (between age 30 and 64) and seven times greater than the over 65 age group (Figure 10.5).

The socioeconomic characteristics of these heads of household reveal extreme precariousness in terms of education, employment, and social security. In these areas, rental tenants once again score better on the indicators (Table 10.6). Within the group of male and female rental tenants, the very low stratum records an illiteracy rate of 12.8 percent, the average number of years of education reaches only the primary level, and 80 percent do not have access to health care. With respect to employment, 66.6 percent are employed, but the unemployment rate is 9.4 percent (twice the national average). The majority earns a wage and work in the tertiary sector of the economy, in unstable or unproductive jobs. Of this group, only 9.3 percent receive support from a government program.

To summarize, in general, households at the beginning of their family cycle are more likely to opt for rental housing. As the age of the head of household increases, so too does the proportion of homeownership. It is also noteworthy that the strongest demand for this kind of tenure is seen in the middle-income sectors, in which the head of household earns more than three times the minimum wage. For the majority of the population in the low and very low socioeconomic strata, renting is inaccessible due to both the lack of economic resources and the high cultural value ascribed to



**TABLE 10.6** Socioeconomic Characteristics of Male and Female Heads of Household from Low and Very Low Socioeconomic Strata by Type of Housing Tenure 2010 (percentage)

Socioeconomic characteristics	Owner-occupied		Rental housing	
	Very low stratum	Low stratum	Very low stratum	Low stratum
Illiteracy	26.3	8.3	12.8	3.3
Average years of education	4.0	6.5	6.1	7.8
With access to healthcare services	16.9	38.2	20.0	36.7
Indigenous language speakers	21.3	8.3	8.7	5.9
Employed	59.6	80.3	66.6	89.4
Unemployed	5.2	2.3	9.4	1.9
Salaried	47.2	58.9	59.8	72.3
Self-employed	40.7	38.5	35.1	26.7
<b>Sector of activity</b>				
Primary	58.3	18.2	18.1	3.4
Secondary	20.6	31.8	30.7	31.1
Tertiary	21.2	50.0	51.2	65.4
In receipt of money from government programs	32.2	16.0	9.3	4.9

Source: Authors' calculations based on INEGI (2010). (Census sample).

homeownership, which people can often access by illegal land occupation and self-building.

### *Rental Housing in the Metropolitan Areas of the Valle de Mexico and Guadalajara*

According to the 2010 census, the Valle de Mexico Metropolitan Area (Zona Metropolitana del Valle de Mexico, or ZMVM), which is home to the nation's capital, has 20.1 million inhabitants distributed between the Federal District (Distrito Federal, or DF) (8.9 million) and the conurbation municipalities of the State de Mexico (11.3 million). For the same year, 5.2 million dwellings were recorded: 2.4 million in the Federal District and 2.8 million in the conurbation municipalities. The Guadalajara Metropolitan Area (Zona Metropolitana de Guadalajara, or ZMG) is the second most important area in Mexico in terms of population, with 4.4 million inhabitants and 1.1 million dwellings.

Both metropolitan areas have the highest average urban densities of population per hectare in the country (166 and 133 inhabitants per hectare, respectively). However, the ZMVM has almost 4.5 times more inhabitants than the ZMG. The ZMVM covers 76 political-administrative units from three federal entities (16 delegations of the Federal District, 59 conurbation municipalities of the State de Mexico, and one belonging to the State of Hidalgo), whereas the ZMG includes only eight municipalities, all subdivisions of the same federal entity, the State of Jalisco.

For both metropolitan areas, the total supply of housing in absolute terms and of rental housing in particular has increased considerably since 1990. Nonetheless, in relative terms, there have been only insignificant changes in the percentages of rental housing during this period. In the case of the ZMVM, there was a slight decrease in the supply of rental housing between 1990 and 2010 (Table 10.7).

### *Quality of Homes by Type of Tenure and Metropolitan Area*

In the case of the ZMVM, regardless of the type of tenure, the quality of housing shows a clear deterioration over the period analyzed. In 2000, rental housing achieved lower quality indicators than owner-occupied homes. However, in 2010 this situation was reversed, and rental housing indices today are slightly higher or, at least equal to, owner-occupied homes. This does not mean, however, that the former has improved, but rather that the latter has suffered a greater decline in quality (Table 10.8).

The dimension that deteriorated the most was use of space:<sup>17</sup> the good quality score decreased by almost a half in the period 2000–10, with a proportional increase in the acceptable quality category, and an increase of between 5 and 6 percentage points in the poor quality category. Something similar occurred with regard to infrastructure and services, given that the reduction in the good category was accompanied by growth in the acceptable quality category for both types of tenure. Finally, the materials quality index behaved similarly, albeit to a lesser degree.

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<sup>17</sup> The use of space index includes such variables as having exclusive use of the kitchen for cooking, exclusive use of a bathroom, and no overcrowding. The services and infrastructure index refers to whether there is an electricity supply, mains drainage, piped water inside the home, and an available daily water supply. The materials and fittings index considers the type of materials used in roofs, floors, and walls, whether there is a gas connection and whether the toilet is connected to the mains drainage. The index of home quality index presented here was devised by Gabriela Ponce Sernicharo. For a review of the methodology, see Ponce (2005).

**TABLE 10.7** Metropolitan Areas of the Valle de Mexico and Guadalajara: Evolution of Housing Tenure between 1990-2010

City	Tenure	1990		2000		2010	
		Units	Percentage	Units	Percentage	Units	Percentage
Valle de Mexico Metropolitan Area	Homeownership	2,247,127	69.9	3,102,826	73.7	3,620,467	69.7
	Rental	693,401	21.6	728,778	17.3	1,000,642	19.3
	Other type	274,817	8.5	380,099	9.0	569,945	11.0
	Total	3,215,345	100	4,211,703	100	5,191,054	100
Guadalajara Metropolitan Area	Homeownership	322,851	68.1	431,305	67.7	701,668	64.1
	Rental	113,860	24.0	152,883	24.0	279,455	24.5
	Other type	37,622	7.9	52,915	8.3	113,769	10.4
	Total	474,333	100	637,103	100	1,094,892	100

Source: INEGI (1992, 2001 and 2011).

**TABLE 10.8** ZMVM and ZMG: Indices of Use of Space, Quality of Services, and Building Materials and Fittings, by Type of Housing Tenure, 2000–10 (percentage)

		2000			2010				
		Owner-occupied	Renting	Other type	Total	Owner-occupied	Renting	Other type	Total
Metropolitan Area of the Valle de Mexico									
Use of space index	Very poor	1.5	5.5	6.6	2.7	2.7	5.6	7.7	4.2
	Poor	9.4	17.4	21.4	12.0	15.8	23.5	25.2	19.1
	Acceptable	32.4	36.4	38.1	33.7	45.6	49.1	42.0	45.8
	Good	56.7	40.7	33.9	51.5	36.0	21.8	25.1	31.0
	Total	100	100	100	100	100	100	100	100
Service quality index	Very poor	0.1	0.0	0.3	0.1	0.1	0.1	0.1	0.1
	Poor	4.5	1.8	8.5	4.4	5.4	1.6	8.3	5.0
	Acceptable	37.5	41.6	47.8	39.3	53.0	51.3	57.4	53.4
	Good	58.0	56.6	43.5	56.2	41.4	47.0	34.2	41.4
	Total	100	100	100	100	100	100	100	100
Building materials quality index	Very poor	1.0	0.6	3.6	1.2	1.4	0.5	2.6	1.4
	Poor	11.6	13.4	22.8	13.1	16.2	14.7	23.1	17.1
	Acceptable	19.2	23.4	25.6	20.6	28.8	31.1	32.2	29.9
	Good	68.2	62.6	48.0	65.1	53.5	53.7	42.1	51.7
	Total	100	100	100	100	100	100	100	100

**Metropolitan Area of Guadalajara**

(continued on next page)

**TABLE 10.8** ZMVM and ZMG: Indices of Use of Space, Quality of Services, and Building Materials and Fittings, by Type of Housing Tenure, 2000–10 (percentage) (*continued*)

	2000				2010			
	Owner-occupied	Renting	Other type	Total	Owner-occupied	Renting	Other type	Total
<i>Use of space index</i>	Very poor	0.4	0.9	2.2	0.7	1.0	2.1	1.0
	Poor	6.1	7.2	11.9	6.9	10.6	12.2	9.6
	Acceptable	31.4	36.1	39.6	33.3	50.6	44.3	46.3
	Good	62.1	55.9	46.3	59.1	37.8	41.4	43.1
	Total	100	100	100	100	100	100	100
<i>Service quality index</i>	Very poor	4.1	0.5	7.3	4.0	0.0	0.2	0.1
	Poor	27.9	6.0	33.4	26.0	3.1	14.9	4.3
	Acceptable	32.4	39.1	33.5	33.3	14.1	23.8	19.4
	Good	35.5	54.5	25.7	36.7	84.5	61.2	76.2
	Total	100	100	100	100	100	100	100
<i>Building materials quality index</i>	Very poor	0.5	0.5	2.3	0.7	0.4	1.1	0.6
	Poor	6.1	6.4	15.6	7.1	6.7	17.1	8.9
	Acceptable	19.2	18.4	25.6	19.6	20.6	24.4	21.8
	Good	74.2	74.8	56.5	72.6	72.3	57.4	68.7
	Total	100	100	100	100	100	100	100

Source: INEGI (2000 and 2010). (Sample of 10 percent of the completed questionnaires).

Finally, the differences between rental housing and owner-occupied homes are not so marked in the two metropolitan areas studies, although rental housing shows slightly higher quality levels.

*Tenure, Type of Household Census Type, and Type of Dwelling Inhabited, by Metropolitan Area*<sup>18</sup>

The formation of new households is determined by demographic trends and the socioeconomic, cultural, and historical context in which they occur. Of the total number of rental households in both metropolitan areas, slightly more than 89 percent are inhabited by extended and nuclear families: in the ZMVM 7.4 percent of those who rented in 2010 were single-person households, compared to 5.9 percent in the ZMG (Table 10.9).

The ZMVM and the ZMG record similar figures with regard to the percentages of nuclear families living in their own homes (67.5 and 64.8 percent, respectively). However, for rental housing, the percentage of nuclear families varies from one city to the other: 20.2 percent for the ZMVM and 26.9 percent for the ZMG.

In the case of extended households, in the ZMVM 78.1 percent live in an owner-occupied home, while 13.1 percent rent. In contrast, in the ZMG not only is the percentage of extended households living in their own homes lower (69.1 percent), but the percentage of renters is also higher (19.7 percent).

With regard to extended households, in the ZMVM there are more households headed by a single person who is a homeowner than in the ZMG (29.1 versus 25.7 percent). The ZMVM has become an area that has seen an extremely high population exodus, with many people leaving at an age at which they usually form new households, although it still attracts the greatest number of migrants. Not only has this reduced the number of rented

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<sup>18</sup> In Mexico, the 2010 Population and Housing Census (Censo de Población y Vivienda de 2010) describes the different types of groupings that are formed and live together in a dwelling as a household for census purposes. It divides them into family or non-family categories depending on whether the household members are related to each other. The family households are: (i) nuclear (which includes both households made up of a couple and their children and single-parent families), (ii) extended family (a nuclear household with another family member, apart from the couple and the children, such as a grandparent, uncle, grandchild, and so on), and (iii) compound family (a nuclear household and a non-relative). Non-family households are: (i) single-person (made up of just one person) and (ii) non-family, cohabiting (made up of two or more people unrelated to each other).

**TABLE 10.9** ZMVM and ZMG: Household Census Type, by Housing Tenure, 2010

Household census type	Tenure according to type of household (%)			Types of household according to tenure (%)		
	Owner-occupied	Renting	Other type	Total	Owner-occupied	Renting
<b>ZMVM</b>						
Nuclear family	59.6	70.0	66.4	63.1	67.5	20.2
Extended family	31.8	19.4	18.4	26.8	78.1	13.1
Compound family	0.6	0.8	0.3	0.6	77.4	18.3
Unspecified family member	1.8	1.8	1.7	1.8	70.4	18.5
Single-person, not family	6.0	7.4	13.0	7.5	57.1	25.7
Not related to co-residents	0.1	0.5	0.1	0.2	39.8	54.3
Unspecified	0.1	0.2	0.1	0.1	60.2	26.7
Total	100	100	100	100	69.1	19.1
<b>ZMG</b>						
Nuclear family	61.1	70.6	54.0	62.7	64.8	26.9
Extended family	31.0	19.3	30.0	27.6	69.1	19.7
Compound family	0.6	1.2	0.3	0.7	70.1	26.3
Unspecified family member	1.3	2.0	1.6	1.6	58.4	28.5
Single-person, not family	5.8	5.9	13.8	7.0	53.6	29.1
Not related to co-residents	0.1	0.8	0.2	0.3	31.2	65.7
Unspecified	0.1	0.1	0.1	0.1	44.7	47.0
Total	100	100	100	100	64.5	25.7

Source: INEGI (2010). (Completed questionnaires).

dwelling, but it has also skewed the average age of the population upward. This means that the number of households capable of accumulating the capital needed to become homeowners is greater when compared to the ZMG.

Around 62 percent of the country's departments are concentrated in the ZMVM. Most of these are located in the Cuauhtémoc, Benito Juárez, and Miguel Hidalgo delegations in the Federal District, where 31.5 percent of all of the country's homes are located (Table 10.10).

In the ZMG, 9.6 percent of homes are apartments in apartment buildings, and a significant number of these are found in the municipality of Guadalajara. Despite its lower percentage of apartments in relation to the ZMVM, almost half of them are rented (48 percent rented compared to 46.8 percent owner-occupied). By contrast, owners occupy detached houses in more than two-thirds of cases, while tenants occupy only 22.5 percent of them. Renters occupy more than half of all tenement buildings and rooftop homes.

### *Tenure by Income of the Head of Household*

An analysis of tenure and resident incomes in the two metropolitan areas reveals that there are relatively few rental households that have no source of income. Irrespective of income, in the ZMVM almost a fifth of all heads of household rent the dwelling they live in, while in the ZMG more than a quarter are tenant households. Nonetheless, there has been a slight increase in this kind of tenure in both areas in the income range that includes between 3 and 10 times the minimum wage (Table 10.11).

In other words, the middle classes (lower-middle and middle-middle) more frequently opt to rent their homes. The lower classes might own their own homes, but in relatively peripheral, unhealthy, hilly areas, among other drawbacks, in which arriving relatives are also taken in until they can find somewhere else to live. The medium-upper and upper classes tend not to rent their homes, as they have the resources to buy one or more homes wherever they wish.

### *The Rental Housing Market: the Current Situation in the Metropolitan Area of the Valle de Mexico*

To observe the variety of properties offered for rent, their price range and location within the ZMVM, and to identify the intended beneficiaries, we examined the advertisements published in the newspaper *El Universal* in May 2012. Telephone calls were made in response to 70 ads for rooms for rent to find out the characteristics of the housing offered. Semi-structured interviews were carried out with real estate promoters, professionals from



**TABLE 10.10** ZMVM and ZMG: Types of Private Dwellings, by Type of Tenure, 2010

Type of private dwelling	Tenure according to type of household (%)			Types of household according to tenure (%)		
	Owner-occupied	Renting	Other type	Total	Owner-occupied	Renting
<b>ZMVM</b>						
Detached house	80.1	54.3	85	75.8	73.2	13.7
Apartment in apartment building	16.9	31.7	8.8	18.8	62.3	32.3
Home in tenement building	1.6	12.4	4.9	4.1	27.8	58.2
Rooftop home	0.1	0.6	0.4	0.2	22.7	52.2
Unspecified	1.3	1	0.9	1.2	75.2	15.8
Total	100	100	100	100	69.2	19.1
<b>ZMG</b>						
Detached house	92	77.2	93.8	88.3	67.1	22.5
Apartment in apartment building	7	18	5.2	9.6	46.8	48
Home in tenement building	0.2	3.8	0.5	1.2	10.4	85.4
Rooftop home	0	0.1	0.2	0.1	4.5	57.1
Unspecified	0.8	0.8	0.3	0.8	71.2	25.3
Total	100	100	100	100	64.5	25.7

Source: INEGI (2010). (Completed questionnaires).

**TABLE 10.11** ZMVM and ZMG: Multiples of the Minimum Wage of Heads of Household, by Type of Tenure, 2010

Multiples of the minimum wage	Owner-occupied			Renting			Total			Type of household by tenure (percent)			Total
	Tenure by type of household (percent)						Type of household by tenure (percent)						
ZMVM													
Unwaged	1.5			0.8			1.3			76.4	12.9	10.7	100
Less than 1	5.6			4.6			5.7			65.4	17.7	16.9	100
1 to less than 2	20.0			21.2			21.2			62.1	21.7	16.2	100
2 to less than 3	21.5			23.8			23.0			61.5	22.5	16.0	100
3 to less than 4	12.8			12.9			12.8			65.8	22.0	12.2	100
4 to less than 5	8.0			8.2			7.8			67.3	22.7	10.0	100
5 to less than 10	12.5			11.8			11.5			71.0	22.2	6.8	100
10 and more	18.0			16.7			16.7			71.0	21.7	7.3	100
Total	100			100			100			65.8	21.7	12.5	100

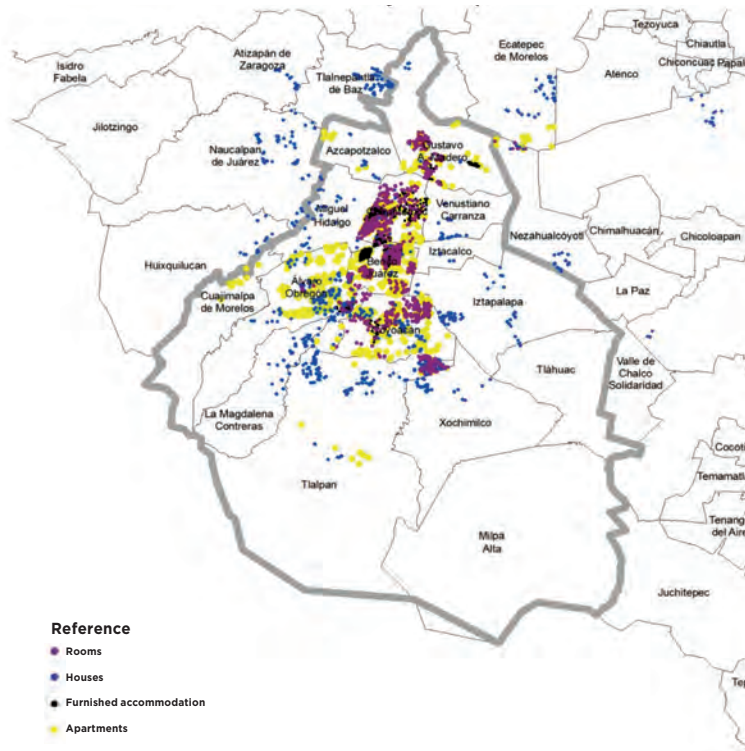
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**TABLE 10.11** ZMVM and ZMG: Multiples of the Minimum Wage of Heads of Household, by Type of Tenure, 2010 (cont.)

Multiples of the minimum wage	Owner-occupied			Renting	Other type	Total	Owner-occupied			Renting	Other type	Total
	Tenure by type of household (percent)						Type of household by tenure (percent)					
ZMG												
Unwaged	1.3			0.5	1.5	1.1	73.0		13.1		14.0	100
Less than 1	3.3			2.7	3.8	3.2	64.9		23.1		12.1	100
1 to less than 2	11.5			12.8	13.1	12.0	59.5		29.5		11.1	100
2 to less than 3	20.2			23.7	25.8	21.8	57.7		30.2		12.1	100
3 to less than 4	15.1			18.0	20.9	16.5	56.8		30.2		12.9	100
4 to less than 5	11.1			11.4	18.1	11.9	57.8		26.6		15.5	100
5 to less than 10	15.9			15.2	8.1	14.9	66.3		28.2		5.5	100
10 and more	21.5			15.7	8.7	18.6	71.8		23.4		4.8	100
Total	100			100	100	100	62.1		27.7		10.2	100

Source: INEGI (2010). (Completed questionnaires).

**MAP 10.1** Supply of Rental Housing by Type of Dwelling, Federal District and Surrounding Municipalities



Source: El Universal (2012).

the property sector, two lawyers, an accountant, and owners and tenants from different social strata. Furthermore, since the supply of rental housing in the poor neighborhoods (*colonias populares*) is not published in the newspapers or the electronic media, a field study was carried out in three informal neighborhoods: Obrero Popular, Lomas de San Lorenzo Tezoncom and San Felipe de Jesús.

### *Location of the Supply of Rental Housing*

Two aspects worth noting are the heterogeneity of the accommodations offered for rent in the newspapers and their central location. Of a total of 1,741 classified ads, 63.2 percent were for apartments, 18.8 percent for rooms, 13.2 percent for houses, and 4.9 percent for furnished accommodation (either apartments or houses). Of the total housing offered for rent, 93.6 percent

was located in the Federal District and 50 percent was concentrated in two central delegations (Benito Juárez and Cuauhtémoc) and in Coyoacán, a delegation in the first urban ring (Map 10.1). The supply of rental housing in the peripheral municipalities of the ZMVM is very limited, despite the fact that the 2010 census revealed that there are 420,535 unoccupied homes in them, or 66.5 percent of the total number of dwellings in the area.

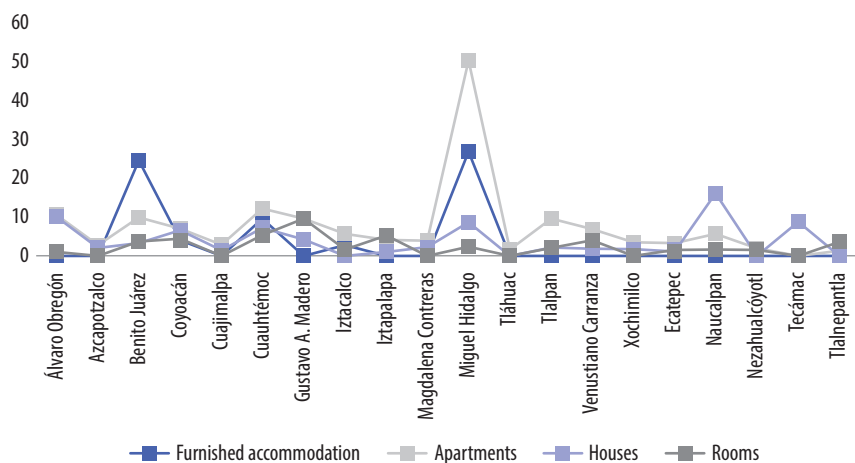
This paradox between the existence of unoccupied housing on the periphery and the limited supply of rental housing in the same area has various explanations. First, people living in the peripheral municipalities have scant resources. Consequently, the rental housing offered is not advertised in the newspapers, but rather directly by notes displayed on doors and windows in the settlements. This often leads to underestimation of the actual supply. Second, housing for the middle stratum that has been financed through housing policies is also available on the periphery, and is part of the unoccupied housing registered in the 2010 census. In fact, around 25 percent of this housing has been abandoned because of its location or poor building standards, its distance from the main centers of employment, long commutes, and high transportation costs (SHF, 2010). This situation is also generating an increase in non-performing loans, possibly because households are obliged to move into rental housing in a better location.

Studies have found that 97 percent of all workers both live and work in the Federal District, whereas nearly a third (29 percent) reside in the conurbation municipalities but work in the Federal District. The situation of the latter is explained to a large extent by the high price of land in the city, which makes it impossible for low-income sectors to purchase their own homes. Workers are displaced toward the Federal District because that is where most of the better-paying jobs in the ZMVM are located (Salazar and Ibarra, 2006).

With regard to rent prices, apartments and furnished accommodation record the highest price variation, especially in the central delegations and in Miguel Hidalgo and Benito Juárez (Figure 10.6).<sup>19</sup> The data thereby

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<sup>19</sup> The figure reveals the percentage difference between the maximum and the minimum price in each place. For example, in the Miguel Hidalgo delegation, the variation in prices for apartments was from 1 to 50 (MXN 1,000 to MXN 50,000 pesos), and in the Benito Juárez delegation, from 1 to 25. In the other central delegations, such as Cuauhtémoc, and in some of the first urban ring, such as Álvaro Obregón and Gustavo A. Madero, the range of variation in the price of rent reached from 1 to 10. The remaining political-administrative units have less supply and are more homogeneous when it comes to prices.

**FIGURE 10.6** Price Variations according to Type of Rental Housing in the ZMVM Delegations and Municipalities

Source: Authors' elaboration.

confirm that these central city delegations are highly heterogeneous with respect to the type, size, and quality of housing on offer, and that there are various options available at different prices that can satisfy the needs of different strata of the population. The wide price variation might also be related to the redensification policy implemented between 2000 and 2006, known as Bando Dos (Tamayo, 2007), which had the effect of mixing old buildings with new apartment block developments. This policy led to a significant increase in the cost of housing,<sup>20</sup> even in the pericentral neighborhoods that have become consolidated after starting life as informal settlements.

The field study carried out in the settlements confirmed this observation. For example, in the Obrero Popular settlement, located in the Federal District's Azcapotzalco delegation, apartment buildings are being built for sale for an average price of MXN 15,000 per square meter constructed. Considering that in August 2012 the average price paid for rent was around 0.7 percent of the value of the property, a tenant would have to pay

<sup>20</sup> This redensification policy in Mexico City consisted mainly of allowing housing developments to be built only in the Federal District delegations considered to belong to the city center (Cuauhtémoc, Benito Juárez, Miguel Hidalgo, and Venustiano Carranza), whereas building was prohibited in the rest of the delegations.

MXN 8,400 per month to rent an apartment measuring 80 square meters in that settlement. At the same time, in the same settlement there are old four-story buildings where rooftop homes are rented for MXN 1,000 per month and rooms (that both the owner/landlords and the tenants interviewed described as “apartments”) in fully consolidated neighborhoods with prices ranging from MXN 2,000 to MXN 3,500 per month, both measuring around 50 square meters.

The Obrero Popular settlement currently offers a wide range of rental housing for low-income households, as well as apartments for sale in new buildings built by large enterprises for middle-income households. Since this settlement was started in the 1930s and has undergone a long process of consolidation, it might now be undergoing a process of gentrification, since the population that originally settled in the area lacks the resources to buy one of the new apartments which, due to their pericentral location, are highly sought after by those who can obtain a mortgage. Changing the typology from “an apartment in a neighborhood” to “an apartment in a building” without a rental housing policy that enables the current tenants to remain in the area of the settlement will result in the descendants of the original settlers being slowly crowded out of the area. This effect is already noticeable in the reduction of the number of rooftop homes available for rent.

Similar rent values were also found among the cheapest apartments, the rooms offered via *El Universal's* website [aviso.oportuno.com.mx](http://aviso.oportuno.com.mx), and those mentioned in the interviews. The lowest prices for rooms for rent are found in the ranges of the informal settlements studied. In the San Lorenzo Tezonco and San Felipe de Jesús settlements, the prices paid by the tenants interviewed ranged from MXN 800 to MXN 1,500 (between 42 and 80 percent of the current minimum monthly wage in the Federal District).<sup>21</sup> In the Obrero Popular settlement, tenement rooms were available at prices that ranged between MXN 1,000 and MXN 2,200 (between 50 percent and up to one minimum monthly wage), whereas apartment rents reached MXN 4,800 per month (2.5 times the minimum wage).

Although the data presented here come from an exploratory study, what they express might seem to suggest that rent prices in the peripheral settlements are extremely high considering the conditions of employment accessibility, the cost of transportation, and the services on offer.

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<sup>21</sup> The general minimum wage in the Federal District, established since January 2012, is MXN 62.33 per day, which is equivalent to MXN 1,901.07 per month ([www.sat.gob.mx](http://www.sat.gob.mx)).

However, the rooms advertised in the newspapers are offered to a single person, whereas in the peripheral and informal settlements various household members live in them. The rooms in the Obrero Popular and San Lorenzo Tezonco settlements do not differ much in size and quality, but they do in relation to San Felipe de Jesús, where such rooms are much less consolidated.

### *Landlords of Formal Housing: from Local Investors to Subletters*

The qualitative study reveals that in Mexico there are no “investment capitalists” producing housing on a large scale for rent, although there are a significant number of private individuals or “domestic investors” (Jaramillo, 2002), who for various reasons decide to invest in rental housing. Coinciding with the findings of other researchers (Abramo, 2008; Gilbert, 1990 and 2001; Gilbert and Varley, 1991; UN-Habitat, 2003), it was found that there is both a high supply and a high demand for rental housing by various sectors of the population with various levels of income.

According to the real estate agents interviewed, “rental housing is very popular” both for owners and tenants from the high and medium-high strata of the population. Those consulted affirm that rental housing is a secure and stable business, and that domestic investors are on the whole private actors who rent to people from their own stratum of the population. Moreover, they declare that formal legal property requirements do not stop rental housing from prospering, given that this submarket is less demanding than the for-sale market: in Mexico more than 95 percent of housing rentals are undertaken with private contracts that are neither registered nor declared to the tax authorities.

The domestic investors interviewed confirmed that buying a second home for rental purposes was a good investment, as “real estate doesn’t depreciate, it always goes up in value,” and that the income obtained from renting out a property is much higher than the interest earned on savings at the bank. In June 2012, the yield from a fixed-term investment account at the BBVA Bancomer bank was 3.04 percent per annum, while the yield on an investment in Treasury bonds (Certificados de la Tesorería, or CETES) was 4.27 percent.<sup>22</sup> By contrast, the average yield from a rented apartment was 7.63 percent annually.

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<sup>22</sup> Furthermore, the inflation calculated in June 2012 was 0.34 percent monthly and 3.85 percent annually. For more information, see: [http://www.bancomer.com.mx/casadebolsa/casab\\_anualterra\\_indfin.HTML](http://www.bancomer.com.mx/casadebolsa/casab_anualterra_indfin.HTML).



There are three identifiable groups of owner/landlords: widows who inherit economic resources, adult couples with large houses, and young domestic investors. A large number of the widows have not previously been gainfully employed and do not know how to invest the excess liquidity, so that they see renting out a property as a way of obtaining a stable and secure old-age pension. Adult couples that now live alone in big houses use the resources that they once invested in their children's education to buy a smaller home to live in while renting out the family home. This group of local investors is made up of people usually around 60 years old, who have a pension and/or savings and are no longer supporting their children.

Young, local investors are the smallest group. These are private individuals who have money, whether from an inheritance or their success in business, who diversify their sources of income by investing in real estate. These tend to be professionals over 40, with links to the real estate sector, who know that the price of a used home is up to 30 percent lower than the price of a new one. Therefore, they buy older, larger dwellings, renovate them, and subdivide them into apartments as a way of earning more than they would from the original property without subdividing it. This form of property subdivision is seen in neighborhoods that are highly sought after due to their proximity to centers of employment, as well as in areas close to universities.

Another group is subletters who offer rooms for rent. Less than a third of the subletters interviewed owned the property, and two-thirds were tenants who sublet rooms in houses or rooms with a shared bathroom in boarding houses or extended buildings in which the boarding-house regime for young people is the predominant model. Most of those offering rooms for rent are individuals between the ages of 43 and 65 who live alone and let rooms in their homes as a way of making up for lost employment or a low pension. The tenants are students or workers who choose to live close to their main centers of activity, since they have to share the rent to afford the high cost of accessibility.

### *Potential Tenants: People Seeking Rental Housing*

Tenants living in housing produced by the formal market are highly heterogeneous. They are generally young couples starting out who are seeking apartments near their workplace, individuals seeking to leave the parental home and form a single-person or non-parental household (sharing with other students or workmates) near the place they work or study: middle-aged people (between 40 and 55) who are in the process of getting

divorced and, to a lesser degree, elderly couples or highly skilled foreign workers brought to Mexico by large corporations. This would indicate that the supply of rental housing is segmented according to the type of tenant, and that the demand for rental apartments is associated with the transition to an independent adult life, to a lesser extent intermediate phases of family crises (divorce), and/or the final stages of the cycle of household life or the international migration of professionals and high-level executives.

### *Owner/Landlords and Tenants of Homes in Settlements*

In settlements, the status of landlord does not coincide with the concept of “domestic investors” (Jaramillo, 2008), but rather is constructed on the “logic of necessity” (Abramo, 2008; 2012) and as a survival strategy. Owner/landlords are in the main widowers or separated men over the age of 60 who do not buy a home to rent it, but instead subdivide it to rent the property that their married or independent children once occupied. To a lesser degree, they are also landowners who build rental housing in the form of tenements.

In this type of settlement, the economic profit motive was not noticeable to the same extent as in the case of formal property owners. Although an owner might gain an additional economic benefit by letting a home in the property in which he lives, the findings were the same as those in other research carried out in the Latin American region (Abramo, 2008, 2012; Gilbert, 2010; Parias, 2008): when housing is built on land without legal security, property rights are established with implicit rules of reciprocity. Therefore, while renting enables social networks to be structured, informal housing also has the potential to generate another use value: employment. In one of the settlements studied, a significant rental submarket developed for students, teachers, and administrative staff from the Autonomous University of Mexico City (Universidad Autónoma de la Ciudad de Mexico). In some cases, letting rooms is accompanied by a proliferation of informal “dinners” that only operate during the student term.

In informal settlements, tenant status is mainly linked to the need to have somewhere to live; thus, supply of available housing consists mainly of rooms or apartments in shared properties.<sup>23</sup> In this tenant category are young couples starting life together who, after cohabiting with the parents

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<sup>23</sup> The tenants themselves define the category of room or apartment. They refer to rooms when they are in less consolidated settlements, and apartments when they live in already regularized, consolidated settlements.

of one or the other, seek rental housing that is independent but still close to the parental home; extended family households with a female head, which include the presence of grandparents and children as well as unemployed uncles and aunts and, to a lesser extent, households without heads made up mainly of students in settlements close to their educational institutions.

### Legal Status of Mexico's Rental Housing Submarkets

Rental submarkets are governed by two sets of rules: those that regulate the relationships between the owner/landlord and the tenant, and those that define the owner/landlord's obligations to the tax authority. Owners and tenants have different rights and obligations depending on whether housing is formal or informal, and on the socioeconomic strata of the population. Fulfilling the arrangements that regulate contract duration, increasing the amount of rent paid, or paying for improvements on the property all depend on whether or not there is a written contract, the socioeconomic level of the owner/landlord and the tenant, and the kind of relationship they have.

A day-to-day relationship between owner/landlord and tenant is more likely to be the case in informal settlements, where housing can acquire a non-monetary value for both actors. As the landlord and the tenant share the property, coexistence calls for a good relationship and implies an exchange of favors and reciprocities that become stronger as the relationship develops over time. One disadvantage for tenants in these settlements is that owners often refuse to take responsibility for the costs involved in maintaining rented accommodation, and the expression "whoever uses it has to fix it" is commonly heard.

With regard to the tax regime, almost all owner/landlords, irrespective of their socioeconomic status, fail to declare the amount they receive as rent for their property, fail to pay contributions, and do not provide tax receipts to their tenants. Owner/landlords warn tenants that they will increase the rent in proportion to the taxes if they have to provide a legal receipt. Consequently, tenants do not demand receipts because, in any case, rent payments are not tax-deductible. Therefore, the practice of not paying taxes on income derived from rent is generalized and has become institutionalized irrespective of the form of housing production. To summarize, it is the common practice, or "habitus" (Bourdieu, 2003), of non-compliance with the law, rather than whether the market is formal or informal, that determines the behavior of actors in the rental housing submarket.

## Obstacles to the Development of Rental Housing

In Mexico, the three basic alternatives that people find when it comes to solving their housing problems are: self-production and self-financing, which touch both extremes of the income pyramid (both high and low);<sup>24</sup> buying a home via a mortgage loan from private or public agencies, which are accessible to the high-, middle-, and middle-low-income strata; and renting, an option for all sectors of the population depending on their circumstances (Coulomb, 2006). Insofar as the country's housing supply has concentrated on the first two alternatives since the 1970s, the importance of renting has declined, although it grew in the latest intercensal period.

Therefore, for the middle- and low-income strata, the fact that a high proportion of the population are owner/occupiers is attributable to two principal factors: the "make everyone a homeowner" housing policy implemented by State institutions and the proliferation of irregular settlements.

The history of government actions in land and housing matters, which since the 1970s has systematically excluded the renting alternative from its programs, is one of the obstacles to the development of rental housing in Mexico. Housing policy has favored the production of new finished housing, transferred as property to formal sector workers with medium to low incomes. The existence of an abundant supply of owner/occupier housing and credit facilities for purchasing it, provided by both public and private financial entities, enormously limits the rental housing market.

In the context of the "make everyone a homeowner" housing policy (Coulomb, 2006), rental housing programs have been scarce: in the 40 years that have elapsed since the institutional housing system was consolidated in 1972, only two agencies, the FOVI and the military housing fund—the Mexican Armed Forces Social Security Institute (Fondo de Vivienda Militar-Instituto de Seguridad Social para las Fuerzas Armadas Mexicanas, or FOVIMI-ISSFAM) have offered this model as part of their launch programs. Between 1983 and 1989, the FOVI opened a line of credit

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<sup>24</sup> The self-building housing model in the case of high-income sectors consists of housing built to order in legal land divisions for the use of the owners themselves and constitutes an entirely legal dwelling from the outset. In the case of the low-income sectors, self-building takes place initially on irregularly held land, and the house is built progressively and is therefore precarious until it is regularized over the course of time. The latter form of production is the most common among Mexico's urban poor.

for new social interest rental housing. However, this program was unsuccessful, since in that period it represented just 9.5 percent of the total number of actions financed by the FOVI and 2.9 percent of the total of the combined agencies that comprise the institutional housing system.<sup>25</sup> Since 1989, the demand for bridge loans from the FOVI for this model decreased notably, and at the beginning of the 1990s the agency finally stopped providing loans for rental housing.

Since the mid-1990s, the only housing agency that continued to provide financing for rental housing was the FOVIMI-ISSFAM. This agency included these programs in its policies because its potential beneficiaries are military personnel, who are liable to be transferred to any military installation in the country. However, this type of financing represents only a very small proportion of the agency's actions. Between 2001 and 2011, the FOVIMI-ISSFAM provided 1,045 loans for rental housing, or 0.01 percent of the total financing by all public housing agencies during this period. Under the administration of President Vicente Fox (2001-06), only 181 loans for rental housing were made, and these were concentrated in the years 2002 and 2006. During the Calderón administration (2007-11), financing provided for rental housing increased (864 loans), but its share of total financing continued to be insignificant (Conavi, 2012).

Between 2001 and 2006, the two programs that provided the most financing were for finished homes (60.9 percent, almost entirely corresponding to the new housing sub-program) and physical housing improvements (32.21 percent). The main changes that occurred in the following administration's term of office (2007-11) were the significant increase of the share of the physical improvement program, which reached 45.9 percent of total financing, and the reduction in the share of the finished housing program, which accounted for 51.1 percent. Within the finished housing program, the importance of actions aimed at encouraging new home purchases decreased in relative terms, while loans granted to purchase used homes were expanded. However, in terms of total investment by public agencies, the new home financing program continued to account for more than 90 percent of the total.

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<sup>25</sup> This calculation was made based on the figure provided by Coulomb (2006), who reports that in those seven years the FOVI financed the construction of 46,407 rental homes, which was then compared with the national housing statistics (Puebla, 2002: 96).

These changes may be related to the fact that the current housing promotion model is showing signs of exhaustion, which is revealed by the saturation of the housing market on the periphery and multiple complaints from new housing residents regarding the lack of services, poor building quality, and the distance of housing developments from centers of employment. Added to this is the limited capacity of municipal governments to satisfy the demands of new residents and, more recently, an increase in the housing institutions' non-performing loan portfolios. All of this accentuates the need to propose new housing policy alternatives that give greater prominence to rental housing.

A second constraint with respect to the development of rental housing is the existence of the informal land market, which supplies the most housing to those with the least resources. The fact that this sector of the population is economically unable to access a dwelling in the formal market has meant that illegal land occupation and self-building have become the most viable housing option. This alternative implies taking possession of land in the expectation of becoming the legal owner through one of the regularization programs that the State began to implement in the 1970s. Once the settlements are consolidated within the urban structure, a rental housing submarket develops among this segment of the population, despite the fact that these dwellings are often substandard.

The idiosyncratic view that property ownership is a kind of patrimony, which is widespread in capitalist societies in general and in Mexico in particular, is another obstacle to the development of rental housing. It is common to hear households express the opinion that any money spent on paying rent over the years "is for someone else's benefit," or even that it is akin to "throwing money down the drain" and that this same money could have been spent on paying down a mortgage and thereby accumulating family wealth. This view ignores the fact that a down payment is needed to access a mortgage loan, which their lack of savings capacity prevents them from being able to afford.

For all of the reasons mentioned above, the option of living in rental housing is seen as merely a temporary or circumstantial solution, limited to certain groups in the population: new households hoping to become stabilized, increase their earnings, and one day become homeowners; people divorcing or having family conflicts or young people seeking independence; those who need to relocate to a place nearer to their school or workplace; those who are downsizing their household; those who require specific

conditions in the home, such as the elderly; and those who need temporary housing.

Income insecurity and employment instability are two of the main factors that discourage owner/landlords, above all those letting homes in the most highly formal sector. Employment instability generates mistrust of potential tenants, who are asked to provide guarantees or co-signers with property, proof of earnings, and a deposit equivalent to two or three months' rent. These requirements are prohibitive for much of the population. By contrast, in informal settlements, trust is the most important requirement; the owner must know potential tenants, either because they already live in the settlement or because they have been recommended by a common acquaintance. Nonetheless, the risk of rent default persists. Lengthy and expensive eviction processes can also inhibit the supply of rental housing.

Another factor that significantly limits the rental submarket concerns real estate developers, as it takes much longer to recoup the investment required to build rental housing than for-sale housing. The high maintenance and repair costs incurred in rented accommodations have to be covered by the owner rather than the tenant. Furthermore, administrative and legal matters have to be taken care of and, in the case of large-scale undertakings, handled by a professional firm. Tax is payable on the total income earned, and insurance policies are needed to cover property damage or default on rent. The high costs associated with maintenance, administration, and legal management are incurred in rental housing development even when the State is the owner of the properties.

For all of the abovementioned reasons, there has been no large-scale rental housing production in Mexico for at least the last 50 years, and the existing supply has been concentrated among small investors and families or individuals with domestic capital who are seeking to supplement their income. Housing policy should therefore target these actors to stimulate supply.

With regard to the possibilities of rental housing as a housing alternative, demographic factors favor demand. These include the predominance of young people forming new households, the increase in the number of single-person-headed households and of elderly adults and families looking to downsize their homes. Moreover, inter-urban migration and the economies of scale present in the large metropolitan areas are significant elements that increase the possibilities of the rental housing option. A demand-side housing policy should be directed to these groups.

## CONCLUSIONS AND RECOMMENDATIONS

If rental housing is to gradually become a complementary and alternative policy to existing programs, then current housing policy must be reoriented. For example, support for this form of tenure might be the right strategy in the area of urban redensification, as it benefits both tenants and owner/landlords. However, for this mutually beneficial situation to arise, the conditions must be in place that guarantee security of tenure for both parties.

Based on the current level of rental housing supply in the ZMVM, there is a wide variety of housing types and prices in the central areas. The stock of used, unoccupied housing in the central areas is not insignificant. Although in many cases these buildings might be deteriorated, abandoned, and in a legally irregular situation due to the large number of contested properties, they could become a rental housing policy target. Housing stock with these characteristics could be made a priority objective of a rental tenure program that also includes a property regularization strategy that provides financial support for building renovations.

The first step would be to identify the owners. When properties are intestate, nobody claims them, and they fall into rack and ruin, then they should be expropriated in the public interest. If the rightful owner can be identified but is unwilling or unable to invest in improving the property, the State could offer to restore the building on the condition that the dwellings are rented out to low-income tenants at an affordable price, for a set period, and with rent controls in place. This would provide an invaluable service to the owner. In the event that the owner declines the support offered, he might be required to sell the property at the market price, and the buyer of the property might thereafter be more willing to establish a cost-benefit relationship with the State.

As a last resort, the State could purchase or expropriate these properties, providing fair compensation to the owners. The reutilization of used and unoccupied properties could be a tool for encouraging shared responsibility for the tasks of urban planning, as well as for promoting heterogeneity in central city areas, thereby reducing spatial segregation and making the rights of the city's least-favored groups a reality. In many countries, creating a market for government-owned properties has proven to be effective in providing housing solutions for the low-income stratum by establishing income and rent ceilings and satisfying policy objectives that target specific groups. These experiences have also enabled these groups to be integrated into the urban structure, avoiding income segregation.



The kinds of programs proposed should focus first on buildings that are well located to take advantage of existing infrastructure and facilities. It is also important to implement popular housing extension and improvement programs, where they exist, as a way of reducing the precariousness of this kind of housing. It is important not to lose sight of the goal, which is to avoid the formation of ghettos for low-income tenants by situating them together on the urban periphery. Rather, the potential that exists in various parts of the city should be exploited to redistribute the population throughout existing built-up areas, either by renovating and reusing unoccupied buildings or by redensifying occupied properties such as those in the popular settlements, thereby providing housing for various families.

Another factor that supports the idea of rental housing as an option that could help reduce the housing deficit is that presently, most heads of rental households are women and young people under the age of 30—the very people identified in numerous studies as being the most vulnerable among heads of household in general.

Although this study demonstrates that the highest demand for rental housing comes from the middle-income stratum, the lower-income stratum also opt for this type of tenure. By helping to improve their living conditions, any rent subsidy programs that targets this group will be a disincentive to buying undeveloped land over the long term. This would in turn enable the transition from the informal land occupation model to one that favors rental tenure. Regularization of informal settlements also implies high costs for the State and for local governments.

Since most of the housing rented by low-income and vulnerable sectors of the population is substandard, there should be a specific category of subsidies for this sector. Establishing a fund for this purpose would thereby support owner/landlords who lack the resources to improve their properties (Coulomb, 2006), and creating a stock of rental housing would enable the State to guarantee good-quality, affordable homes for tenants while ensuring that owners earn an income in return for letting their properties.

Nonetheless, since all rental housing is offered by domestic investors without any State support, the situation suggests that this model exists because it exploits the potential of domestic capital. This has the effect of reproducing or increasing human capital for those who let their homes because they require a guaranteed return, as well as for those who need a decent place to live. Many of those who buy rental housing are elderly adults who need a secure income, either because of the erosion of their purchasing power or because they are no longer able to work.

Non-beneficiaries and/or people who lack the savings capacity necessary to purchase their own homes require government support via housing tenure alternatives other than private homeownership, and this might involve rental housing. In terms of demographic trends, this study has shown that potential tenants include recent migrants, young people making the transition to adult life, female heads of household, and divorced people. Situations that occur at various stages of people's lives are accompanied by autonomous processes that they might not be able to manage without a political economy that provides support during times of crisis or unemployment. This is not viable, however, unless there is a housing policy that balances the contractual relationship between owner/landlords and tenants, above all in times of high inflation, in such a way that both parties feel that they are protected by some form of rental insurance.

Finally, this study has shown that the highest proportion of rental housing demand and supply is concentrated in the most urbanized areas, with more dynamism in the job market. This existing and potential market, therefore, must be supported by public policies that involve the private sector but that prioritize supporting domestic capital. The case of the ZMVM has demonstrated that housing policy that favors building new housing on the periphery is not a valid alternative when it comes to rental housing. Therefore, utilizing existing housing stock must be given priority, because it offers easier access to the job market.

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# The Potential of Rental Housing Policy in Peru

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## INTRODUCTION

Peru's rental housing market has been growing for many years. It already represents 19 percent of total *urban housing stock*,<sup>1</sup> despite the fact that public policies favor homeownership. Housing programs tend to ignore rental housing, and legislation has previously been limited to removing constraints from owner-landlords to encourage private investment. Home rentals, however, continue to rise because there is a demand, and also because there are owner-landlords who can make a profit from them, or at least make an income from them to help with living expenses.

According to the 2007 census, there were 28,220,764 inhabitants in Peru, of which 76 percent were urban. In relation to the 1993 census, there was an annual average absolute increase of 398,666 inhabitants, or a growth rate of 1.6 percent. The urban population rose from 15,458,599 to 20,180,288, growing at a rate of 2.1 percent.

The housing deficit in 2007 amounted to 1,860,692 dwellings, of which 79 percent corresponded to a qualitative deficit, an illustration of the growth of the illegal city and the precariousness of rural life. In the major cities these are informal settlements that gradually became consolidated via home self-building processes and self-development, which rely on social

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<sup>1</sup> Renting gives tenants the right to use property for a certain amount of time, according to specific contracts and rules in each society. This arrangement does not confer the right to freely dispose of the property (Cortés, 1995).

networks and collective action. The quantitative deficit, measured as the difference between the number of dwellings and of households, reached 21 percent. Balancing the deficit in 2007 would have required 389,745 new homes to be built.

Despite the economic situation and the dynamism in the construction sector, the housing deficit had structural deficiencies. Its growth is attributable to various factors, including population growth, a lack of housing units, insufficient investment in basic services, lack of certification and land scarcity, and high land prices, among others. Furthermore, despite the urgent need to address the qualitative deficit, the Peruvian State allocates most of its funds, including subsidies and loans, to the quantitative deficit. This is because the authorities also seek to boost the incomes of big businesses operating in the construction sector, building multi-family developments and single-family dwellings.

Thus, the factors that explain the housing problem are social inequality, the incapacity of the economy, and weak public management. In Peru, the government has assumed responsibility for housing in a centralized fashion, relegating municipalities to a secondary role.

Peru has fallen behind the rest of Latin America with regard to housing and habitat. It has spent just 0.1 percent on housing as a proportion of GDP, a figure much lower than the 0.8 percent recorded in Panama, 0.7 percent in Chile, or 0.4 percent in Guatemala. According to the sample reported by the United Nations (UN-Habitat, 2011), Peru is only ahead of Honduras when it comes to investment in housing. In 2008, only 83 percent of the urban population had a piped-in water supply, far below the countries where piped-in water provision was above 90 percent, including Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, and Uruguay. Only Cuba, El Salvador, and the Dominican Republic lag behind Peru in this area (UN-Habitat, 2011).

The figures presented in this study indicate that urban rental housing, which in 1981 had reached 22.7 percent of the total number of units, had fallen to 14.9 percent in 1993. In 2007, however, there was a recovery, given that rental housing stock was recorded at 18.9 percent, a figure equivalent to around 905,000 units, which represents the highest rate of growth in the 1993–2007 intercensal period. This resurgence, in countries such as Peru that have promoted homeownership, can be explained as part of the economic strategies of persons and families who opted for suitable locations in the city in exchange for paying rent. This situation, however, is usually temporary, as many families who wish to own their own homes decide to rent houses,



apartments, or rooms while they save for a down payment. This form of tenure is also associated with the life cycle, as most renters are young people who wish to become independent of their parents, young couples, or young people who move to avoid long commutes in enormous cities. This demand, which is a response to real life conditions, gives rise to many rentals, and it should be taken into account when designing public policies.

## ACCESS TO LAND AND HOUSING AND THE STRUCTURE OF TENURE

### Access to Land and Housing

In Peru, land access processes, which can be legal or illegal, market or non-market, help define the form, the function, and the meaning of cities. These include: private developments, public-private programs, illegal land markets, property invasions, and rentals. In housing consolidation processes, cities grow both horizontally and vertically, by construction carried out by large or small businesses, and by the self-building carried out by the low-income sectors. The specific importance of the different ways of accessing land in each city depends on the structure of tenure in the area of expansion, whether property is public, private, or communal, as well as on its inhabitants' income level.

The relationship between illegal and legal processes of access to land and their location within the city is important. Legal markets, either for sale or for rent, exist in the formal and planned areas of the city, and they are the responsibility of private promoters, or building firms, with or without public subsidies. The properties on offer satisfy minimum urban planning requirements, and the transactions are carried out within the law and are registered. In contrast, although illegal real estate markets fail to offer these compensations, they can offer a price more in line with the budgets of potential buyers. This lower value is explicable, in part, because it avoids the formal costs associated with urban housing and title transfers.

When it comes to buying or renting a home, the lower-income segment of the demand generally prefers the illegal market. This demand occurs in areas of the city that were originally illegal and informal and where the value of land is lower. In turn, middle- and upper-class demand favors legal transactions and is located in central areas of the city, where land prices are highest.

This difference in social class and in institutional practices, explained in ecological terms, gives rise to social perceptions that pigeonhole certain areas of the city. This in turn influences price-setting processes for urban rent. The illegal city creates an impression of images, social and cultural features, and praise and stigma that impacts land and housing markets. Urban and social segregation contribute to this, which is typical of divided and fragmented cities, and is expressed by the central areas being occupied by the middle and upper classes, and the peripheral areas by the lower-income sectors.

### The Structure of Tenure

The structure of tenure is the result of the processes of access to land and housing that, depending on land ownership in public, private, and social expansion, are configured in terms of market or non-market, obeying or flouting legislation, and by public policies. The censuses reveal five specific types of tenure: (i) owner-occupied, paid-off homes, including dwellings built on invaded land; (ii) owner-occupied homes, paid for in installments, by loans or mortgages; (iii) possession by invasion, or without formal deed; (iv) rented or ceded, by an employer or other household, and (v) included in the “other” or “not indicated” category.<sup>2</sup>

At the national level, there is an overwhelming prevalence of homeownership that is paid-off, due to invasion and paid in installments, which accounted for 72.5 percent of the total in 1981 and 76.4 percent in 2007. Urban homeownership has risen from 63.9 percent in 1981 to 73 percent in 1993, although it remained relatively static at 73.4 percent in 2007. Rental tenure, in turn, records an increase for the same year (Table 11.1). In the urban sphere, it rose from 14.9 percent to 18.9 percent. The intercensal increase of urban rental housing was 101 percent, whereas paid-off housing rose by 58.2 percent and housing paid for in installments rose by 59.4 percent.

There are other significant forms of tenure apart from homeownership and renting. Dwellings in the “cession for usufruct” and “other type” categories, which include the *antichresis* model—a popular form of tenure in Peru and Bolivia in which a dwelling is handed over in exchange for a loan of money—represented 12.3 percent in 1993, although this proportion fell to 8.4 percent by 2007. The historical sequence reveals that the increase

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<sup>2</sup> The “other type” category includes the *antichresis* model, in which the property is offered as a guarantee against a money loan, and other, unspecified models.

**TABLE 11.1** Housing Tenure at the National Level, 1993–2007

	1993		2007		Intercensal Increase		Annual Increase	Rate of average annual growth
	Absolute total	Percentage	Absolute total	Percentage	Absolute total	Percentage		
Owner-occupied, paid-off	2,996,079	67.7	4,241,044	66.3	1,244,965	41.6	88,926	2.5
Owner-occupied, paid in installments	188,759	4.3	293,051	4.6	104,292	55.3	7,449	3.1
Owner-occupied, due to invasion	194,452	4.4	349,415	5.5	154,963	79.7	11,069	4.2
Rented	486,037	11.0	979,657	15.3	493,620	101.6	35,259	5.0
Ceded	447,534	10.0	236,644	3.7	-210,890	-47.1	-15,064	-4.4
Other type <sup>a</sup>	114,656	2.6	300,320	4.7	185,664	161.9	13,262	7.0
Total	4,427,517	100	6,400,131	100	1,972,614	100	140,901	2.6

Source: INEI (2008).

<sup>a</sup> This includes any other form of housing occupation: for example, antichresis (see Footnote 2).

in renting took place at the expense of a fall in ceded or usufruct housing, which dropped from 292,000 in 1993 to 144,000 in 2007.

With regard to the average annual growth rate, rental housing reached 5 percent, followed by housing paid in installments, at 4 percent, and other forms of tenure, with a growth rate of 3.3 percent. Rental housing increased in both absolute and relative terms, given the yearly increase of 32,597 units.

Paid-off housing predominated in all large cities except two, located in the country's mountainous region: Cusco, with 49 percent, and Huancayo, with 51.6 percent (Table 11.2).<sup>3</sup> The other cities that scored below the 62 percent urban average are Juliaca, Cajamarca, and Huánuco, also

<sup>3</sup> For the purposes of this paper, the information provided by the Fondo Mivivienda studies, which is census-based, is considered, with city-level data (Fondo Mivivienda, various years).

**TABLE 11.2** Housing Tenure in Peru's 10 Major Cities, 2007 (percentage)

Cities	Homeownership, paid for	Homeownership, purchased in installments	Homeownership, due to invasion	Rented	Ceded	Other type / Not indicated
Lima	59.0	7.0	5.0	22.0	7.0	—
Arequipa	64.2	8.8	2.8	14.9	3.1	6.2
Trujillo	64.6	5.3	5.2	15.7	4.4	4.8
Chiclayo	65.1	4.8	2.6	21.3	2.5	3.7
Piura	60.9	7.0	15.5	8.9	3.3	4.4
Iquitos	71.8	5.2	2.6	8.8	2.3	6.6
Cusco	49.0	4.0	0.1	31.6	6.3	12.8
Chimbote	65.8	5.5	13.1	8.1	2.9	4.2
Huancayo	51.6	5.9	0.2	25.9	2.9	15.0
Juliaca	54.1	2.8	1.5	17.5	5.7	18.4
Cajamarca	57.8	2.5	0.1	19.3	2.0	18.3
Huánuco	53.4	3.7	2.6	20.6	2.9	16.8

Source: INEI (2007).

located in the mountains. In contrast, the above-average predominance of the owner-occupied home tends to be seen in coastal cities, such as Trujillo, Chiclayo, and Chimbote.

Rental housing is significant in Cusco (31.6 percent), Huancayo (25.9 percent), Lima (22 percent), Chiclayo (21.3 percent), Huánuco (20.6 percent), and Cajamarca (19.3 percent), which are above the average of 18.9 percent established by the census for urban Peru. The cities far below the average are Chimbote (8.1 percent), Iquitos (8.8 percent), and Piura (8.9 percent). For Chimbote and Piura, the proportion of homeownership due to land invasion is significant, and it seems to act as a brake on the resurgence of rental housing tenure. In Iquitos, it can be explained by the preponderance of paid-off housing. In the cities in mountainous areas, there is a far lower incidence of homeownership achieved by invasion, made up for by a higher rate of rental tenure. This might be explained by the fact that in the mountain cities, in contrast to coastal cities and Arequipa, there is little unproductive publicly owned land available; rather, there is an expansion

area belonging to small-scale agricultural owner-landlords who benefited from the agrarian reform of 1969, which is sold off rather than invaded.

The greater importance of owner-occupied, paid-off homes calls for both an historical and a structural explanation. Its existence does not derive from the formal land and housing markets, but rather from non-market access that was subsequently legalized by the State. This has influenced the emergence of the paid-off home in coastal cities such as Chimbote, Chiclayo, and Trujillo, as well as in Iquitos in the Amazon region, given the predominance of invasions and the formation of urban marginal neighborhoods. For the most part, the tolerance of access to non-market land was permitted because of the existence of unproductive public land. Lima, which has been widely studied (Calderón, 2005; Collier, 1978; Driant, 1991; Matos Mar, 1977; Meneses, 1996; Riofrío, 1978), reveals that, in 1981, the population living in informal settlements exceeded 1 million inhabitants, 2 million in 1993, and 3 million in 2002.

The scale of invasions and public relocations meant that in cities of the coast the so-called “pirate markets” failed to prosper. An estimate of the contribution made by invasions and public relocations might be calculated by considering that, between 1996 and 2006, the State issued 1.6 million new title deeds and that, in 2007, the *urban housing stock* of paid-off homes was 2,970,082. It could be argued that just over half of this stock originated in informal land possession, and this could even be a conservative estimate.

## THE RENTAL HOUSING MARKET

Access to land and housing processes, property markets, and the resulting structure of tenure are crucial to understanding the dynamic of the urban rental housing market in Peru. During the intercensal period 1993–2007, the market revived, rising from 11 percent to 15.3 percent at the national level, or 493,620 units in absolute terms, and recording the highest rate of growth among all types of dwellings, at 5.0 percent. The highest increase in rental housing has been seen among urban homes.

### Methodology

The rental market is present in all areas of the city, and it affects all social groups. Therefore, any examination of the statistical information from the

census requires a methodology that combines a case study approach with consideration of the types of spaces or socio-spatial contexts that present in the cities and that illustrate their diversity. For the purposes of this study, Lima and Trujillo were examined, the first- and third-largest cities in the country.

In 2007, Metropolitan Lima, which includes the provinces of Lima and Callao, had 8,482,619 inhabitants. With an inter-census growth rate of 2.1 percent in 1993–2007, the metropolitan area is made up of 49 districts—43 in Lima and 6 in Callao—and its population represents 31 percent of the national population. From 1993 to 2007, Lima grew by an average of 153,000 inhabitants per year. It is estimated that by 2021 the population will have reached 10,800,000 inhabitants, which signifies an average annual growth of 164,300 inhabitants. The geographic distribution of the population has not been even. Although Lima has expanded by 145,000 inhabitants per year, the population of the central area, which is inhabited by the upper and middle classes, has not grown. In contrast, the peripheral area, composed of districts where initial access to land was illegal, records growth in the North of more than 633,000 inhabitants, more than 485,000 in the South, and more than 729,000 in the East during the period 1993–2007. By virtue of a process of social differentiation and mobility, an emerging middle class is increasing its presence on the periphery.

In the center of Metropolitan Lima there has been an increase in high-rise living, which got underway in the first decade of the twenty-first century thanks to a public subsidy policy, and because of the emergence of commercial and financial sub-centers in districts such as Miraflores and San Isidro, as well as the expansion of a productive and commercial zone in La Victoria, in the Gamarra area. Due to the effects of the public program My Home (Fondo Mivivienda, or FMV), the traditional middle-class districts of Jesús María, Pueblo Libre, and San Miguel are growing vertically (Calderón, 2009). The neighborhoods of North, South, and East Lima are consolidating and densifying the intermediate ring of neighborhoods formed in the 1960s and 1970s. At the same time, on the periphery, on the hills, and in the valleys, known as risk areas, new precarious and illegal settlements continue to mushroom.

According to the 2007 figures, the city of Trujillo has 682,834 inhabitants and five districts, known as Trujillo, El Porvenir, Víctor Larco Herrera, La Esperanza, and Florencia de Mora in its urban area; it covers 111.6 square kilometers and has an average density of 6,000 inhabitants per square

kilometer.<sup>4</sup> The Trujillo district has the highest number of inhabitants in the city, with 294,899 inhabitants, followed by La Esperanza, with 151,845, and El Porvenir, with 140,507. In the districts of Trujillo and Víctor Larco Herrera there is evidence of a formal city model, but in the former case this is combined with the presence of slums. El Porvenir and La Esperanza (which emerged in 1965) are illegal occupations that have subsequently become consolidated. As in the rest of the country, the original settlements have been subject to regularization since the Settlements Law (Ley de Barriadas) of 1961. The district of Florencia de Mora is a spillover from the district of El Porvenir (Amemiya, 2000).

To describe the diversity found in the rental market, the different types of space or the socio-spatial contexts in the cities are considered, based on a principle of classification that has a suitable analytical and heuristic potential.<sup>5</sup> This is a social construct based on the concept of ideal types (Weber, 1984) that frame a universe of meanings favoring certain kinds of social practices.<sup>6</sup> Table 11.3 shows the elements that characterize the different types of spaces.

### Rental Market Location

The rental market is found in all areas of Peru's cities, including those of both formal and informal origin. It exists in the most exclusive Type 1 districts—formal developments in a central area—in precarious settlements on the periphery with half-built houses, and in shacks and dwellings in the consolidated intermediate urban ring that was originally made up of informal neighborhoods (Table 11.3). With regard to the social class composition, as in Lima and Trujillo, the middle and upper classes are predominant in the central formal area, while the lower-middle class and the lower-income strata predominate in the consolidated neighborhood rings or in the traditional city. Rental tenure tends to be concentrated in the central areas of cities, where service provision is especially good.

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<sup>4</sup> If the entire area is considered, then the districts of Laredo, Huanchaco, Moche, and Salaverry must also be included.

<sup>5</sup> The idea of the types has been adapted from Duhau and Giglia (2008), authors who avoid establishing a linear or mechanical link between space and social relationships.

<sup>6</sup> As these are ideal types, it is difficult to translate these models into empirical analyses of reality, given that these types do not, and cannot, fit entirely with the realities of each district.

**TABLE 11.3** Definition of the Types of Spaces According to their Constituent Elements

Type of space or socio-spatial context	Constituent elements
1. Formal and legal city located in the central area. Formal dwellings, well located, with good infrastructure.	1. Legal expansion that differs from other kinds that contravene the law (formal city and informal city).
2. Traditional city, which shares the advantages of location with the legal, formal city but that also includes the presence of slums and overcrowding. For example: the popular or workers' neighborhoods during the first half of the twentieth century.	2. Building appearance, formal and informal subdivision (built by formal businesses, to order, and self-building).
3. Illegal, informal, but consolidated city (integrated, regularized, with services, with urban centers). The consolidated intermediate urban ring in the cities.	3. Relative location, where distinction is made between the central area, the consolidated intermediate urban ring and the periphery.
4. Illegal precarious city, still not integrated with rest of the city, located on the periphery. It is found in the gaps of the Type 3 districts.	4. Access to infrastructure, where the formal city establishes the basic services prior to human occupation, whereas the informal city is occupied first and seeks service provision afterward (Barros, 1998; Rodriguez, 1969).

Source: Authors' elaboration.

In Lima, in the lower-middle class and poor districts grouped under Type 2, or traditional city, there is more rental housing (Table 11.4 and Map 11.1). This is true of La Victoria, with 44 percent, and Breña, with 43 percent, whose tenants are lower-middle class, small business owners, and informal workers. Almost half of the *housing stock* is available for rent, according to the 2007 census. These districts combine a central location, metropolitan roads, public transportation, and a lower commercial value. According to studies carried out by the International Finance Bank, in 2011, the average price per square meter in the district of Breña in 2011 was US\$933.<sup>7</sup>

Type 1 districts, formal and central city, located in upper- and middle-class areas, have 29 percent rented homes in Miraflores; 25 percent

<sup>7</sup> The real estate values were presented by the Consultora Tinsa in a workshop for drafting the Urban Development Plan (Plan de Desarrollo Urbano 2012-22) for the district of San Isidro, April 17, 2012.



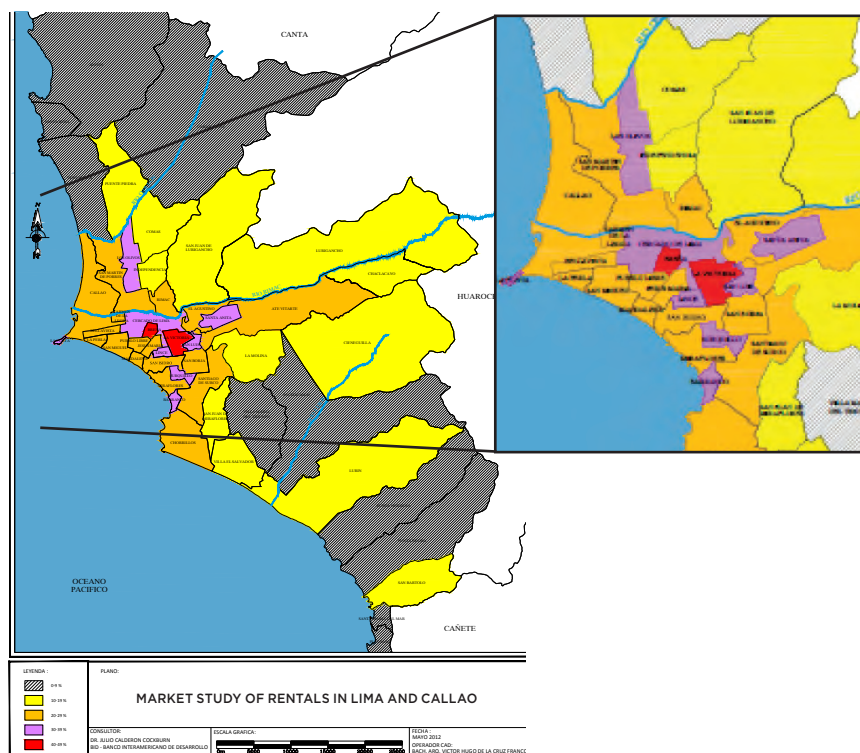
**TABLE 11.4** Tenure by Type of Space or Socio-Spatial Context in Lima, 2007 (percentage)

Model/District	Rented	Purchased in installments	Homeownership due to invasion	Paid-off
<b>Type 1</b>				
San Isidro	25	10	0	61
San Borja	20	12	0	64
Miraflores	29	13	0	53
Lince	36	8	0	51
<b>Type 2</b>				
La Victoria	44	4	0	46
Breña	43	7	0	43
<b>Type 3</b>				
Villa El Salvador	10	6	4	74
Comas	16	3	6	67
San Juan de Miraflores	13	4	6	71
Villa María del Triunfo	9	3	13	66
San Martín de Porres	25	5	1	59
Puente Piedra	10	9	11	63
Carabayllo	9	10	10	63

Source: INEI (2007).

in San Isidro, and 20 percent in San Borja. As in Type 2, they are defined by central location, metropolitan roads, and public transportation, but the rented dwellings are of a higher quality and real estate values are higher. According to the International Finance Bank, the average price per square meter in 2011 was US\$1,747 in the district of San Isidro, US\$1,674 in Miraflores, and US\$1,351 in San Borja. Lince is also included in this category. It is a middle-class, well-located district, with 36 percent rental housing and a real estate value of US\$1,490 per square meter.

Type 3 space, which is made up of districts that were once informal, is situated in the intermediate urban neighborhood ring, formed in the 1960s and 1970s. Travel distances and commutes are longer, people are poorer, and there is no decent public transportation. Rental housing is comprised

**MAP 11.1** Renting by District in Lima (percentage)

of rooms or bedsits.<sup>8</sup> Information concerning Lima shows that the districts that started out as informal neighborhoods close to the city center were occupied at the beginning of the massive wave of urbanization during the 1950s, and they have more rental accommodation, as shown by San Martín de Porres, 25 percent, and Comas, 16 percent. The real estate value in Comas is US\$549.8 per square meter. In the newer districts, located in the area furthest away from the intermediate ring, rental housing stock represents 10 percent of the total in Villa El Salvador and in Puente Piedra, and 9 percent in Villa María del Triunfo or Carabayllo. In 2011, the real estate value per square meter was US\$597.3 in Villa El Salvador, US\$549 in Carabayllo, and US\$464 in Puente Piedra.

<sup>8</sup> The census does not report rooms or bedsits as a kind of rental housing, but rather includes them under the category of “self-contained dwelling.”

**TABLE 11.5** Tenure According to Type of Space or Socio-Spatial Context in Trujillo, 2007 (percentage)

Model/ District	Rental	Homeownership due to invasion	Homeownership, purchased in installments	Homeownership, paid-off
<b>Type 1</b>				
Larco Herrera	17	1	11	63
<b>Type 2</b>				
Trujillo	25	0	6	61
<b>Type 3</b>				
Florencia de Mora	7	2	0	83
El Porvenir	5	15	2	65
La Esperanza	8	9	6	68

Source: INEI (2007).

There are also rentals in Type 4 space, the non-consolidated periphery, but in districts with Type 4 space there is a lack of statistical disaggregation that would enable it to be distinguished from the consolidated settlements in the intermediate ring. There is some case study evidence with regard to the precarious settlements (Calderón, 2007; 2008), based on the studies of the district of San Juan de Lurigancho. In general, these are unemployed tenants seeking work and elderly people who receive help from their relatives, among others.

In the city of Trujillo, trends for rentals tend to be similar to those found in Lima, although on a smaller scale (Table 11.5). The Type 2 space, found in the district of Trujillo, is 25 percent of the rental housing *stock*. The district is centrally located, and combines modern development with the historical central area, alongside the presence of so-called *quintas*, or apartment buildings, and tenements.<sup>9</sup>

The Type space 1 is comprised of the Larco Herrera district, founded in 1943. It is located southeast of the center of Trujillo and has two clearly

<sup>9</sup> A tenement house is a dwelling for various families with a single, shared entrance that is in substandard condition. The *quintas* also share a single entrance, but living conditions are acceptable.

differentiated sectors: one for the middle- and higher-income segments grouped around the golf course, where there has recently been a noticeable increase in vertical development encouraged by the public Mivivienda program, and another occupied by low-income sectors. Rentals account for around 17 percent of housing stock. There are no available real estate values for the area.

The Type 3 consolidated intermediate urban ring space is located among the peripheral neighborhoods of the 1960s and, as in the case of Lima, the rental housing stock is much lower. For example, Florencia de Mora has 7 percent, El Porvenir has 5 percent, and La Esperanza has 8 percent. Renting takes place in private houses, and there is a strong presence of rooms and bedsits.

### Types of Rentals

At the national level, the rental market in both urban and rural areas predominates in self-contained houses, at 68.56 percent, followed by apartments in apartment buildings, at 15.6 percent. In Lima, renting is strongest in self-contained dwellings at 55.57 percent, followed by apartments in apartment buildings, 30.72 percent. The situation is similar in the city of Trujillo. There, mostly self-contained homes are rented, 73.38 percent, followed by apartments in apartment buildings, at 16.19 percent.

In both cities, there are few rented tenement buildings. At the beginning of the twentieth century, there was significant development of such housing, or slums, which were called by various names, such as *callejones*, *corralones*, and *viviendas subdivididas*. They have their equivalent in the Brazilian *corticos*, the Chilean *conventillos*, or the Mexican *casas en vecindad*, which were once occupied by workers or artisans. The fact that a century later there are fewer tenement buildings for rent is the result of two processes: the physical disappearance of these units due to their material deterioration and their replacement by parking lots, rather than by urban renewal or regeneration processes which are almost totally absent in Peru, and because of the deteriorated buildings still standing but no longer rented, as the tenants have become squatters or owner-landlords, after having themselves purchased the buildings (Chirinos, 1996). Table 11.6 shows renting at the national level according to the kind of dwelling and in the cities studied.

In Lima, analysis by type of space or socio-spatial context shows that in the Type 1 formal and central area and middle-upper class area, apartment rentals predominate at between 68 percent and 72 percent (Table 11.7).

**TABLE 11.6** Renting by Type of Dwelling at the National Level and in Lima and Trujillo, 2007 (percentage)

Type of dwelling/Level	National	Lima	Trujillo
Self-contained house	68.56	55.57	73.38
Apartment building	15.60	30.72	16.19
<i>Quinta</i>	7.49	8.26	5.99
Tenement	6.16	3.72	3.72
Shack or cabin	0.89	0	0
Improvised dwelling	0.53	0.5	0.15
Building not designed for human habitation	0.40	0.49	0.53
Other type	0.36	0.70	0.02

Source: INEI (2007).

**TABLE 11.7** Types of Rental Housing in Lima, 2007 (percentage)

Model/District	Self-contained house	Apartment in apartment building	Dwelling in a quinta	Tenement
<b>Type 1</b>				
San Isidro	25	72	2	1
San Borja	30	69	1	0
Miraflores	22	68	8	2
Lince	29	50	16	5
<b>Type 2</b>				
La Victoria	33	42	17	6
Breña	33	31	26	9
<b>Type 3</b>				
San Martín de Porras	61	31	4	3
Villa El Salvador	86	9	2	2
Comas	75	19	2	2
San Juan de Miraflores	74	21	2	1
Villa María Triunfo	79	11	5	4
Puente Piedra	84	4	4	4
Carabayllo	84	11	2	1

Source: INEI (2007).

Concomitantly, the presence of apartments in buildings decreases further down the social scale. Therefore, for example, the district of Lince, with its middle-middle-class inhabitants, has 50 percent of its housing stock in apartments. Starting in the 1960s, a process of densification and high-rise development got underway, and gained a new lease on life in the first decade of the twenty-first century thanks to the government's Fondo Mivivienda initiative (Calderón, 2009).

In Type 2, traditional city space, the predominance of apartment rentals has been challenged by self-contained dwellings and by *quintas* and *tenements*. The percentage of *quintas* and *tenements* reached 6 percent in La Victoria and 9 percent in Breña, although this kind of home is declining: in the 1993 census, for example, La Victoria recorded 10 percent, but by 2007, this figure dropped to 4 percent of the housing stock.

In Type 3, consolidated intermediate urban area space, the self-contained home predominates, with a range of between 73 percent to 84 percent of rental housing stock, because the process of urban consolidation has been limited by the size of the original building plots, which went from 120 square meters to 200 square meters during the 1960s and 1970s, and by the population's limited capacity to invest. Consequently, there was horizontal growth. The existing rental market was also defined by remodeling of existing self-contained homes, generally by the addition of rooms. It was also favored by the emergence of so-called centralities, or flows, nodes in the city, which made these areas attractive once more. There is one district in Lima, called San Martín de Porres, which might be considered in transition from Type 3 to Type 2, due to its age, given that it was established in the early 1950s, and its location, close to the central area. In the central area, apartment rentals account for 31 percent of the total.

In Trujillo, in the district of Trujillo, which conforms to Type 2, there is a majority, or 68 percent, of rented self-contained homes, whereas apartments in buildings account for 26 percent (Table 11.8), and tenement rentals account for 2 percent. The most modern district in Larco Herrera, which is Type 1, registers a higher percentage of apartment rentals in buildings, at 26 percent. There are less in *quintas* and *tenements*. This reinforces the trends in Lima. Type 3, clearly observable in the districts of El Porvenir, La Esperanza, and Florencia de Mora, as in Lima, has a majority of rented self-contained homes, as opposed to apartments in buildings and other rental models.

**TABLE 11.8** Types of Rental Housing in Trujillo, 2007 (percentage)

Model/District	Self-contained house	Apartment in apartment building	Dwelling in quinta	Tenement
<b>Type 1</b>				
Larco Herrera	65	21	8	5
<b>Type 2</b>				
Trujillo	68	26	4	2
<b>Type 3</b>				
Florencia de Mora	93	1	2	4
El Porvenir	94	2	2	2
La Esperanza	88	2	8	2

Source: INEI (2007).

### Housing Quality

Rental housing, compared to paid-off housing, offers better conditions and quality. This can be seen in Peru's 10 main provinces. When considering internal domestic water supply as an indicator, Piura, Iquitos, Cusco, and Tacna stand out (Table 11.9), and the exceptions are Trujillo and Huancayo. With respect to sanitation, rental units provide better conditions in Arequipa, Trujillo, Piura, Iquitos, Chimbote, and Tacna. Rental housing provides higher standards for dwellings having either brick or concrete block walls in all cities, but especially so in Trujillo, Chiclayo, Piura, Iquitos, Chimbote, and Huancayo.

Examination of the districts yields a more precise analysis. In Lima, in the formal and central districts, and the traditional ones (Types 1 and 2), paid-off housing is of higher quality than rental housing (Table 11.10). Thus, the formal areas have higher percentages of consolidated housing, and lower quality levels are more likely to be found in rented dwellings. In Type 3 consolidated neighborhoods, rental housing is of higher quality than in paid-off owner-occupied homes. This is because of a two-fold process: the existence of dwellings that are still precarious due to their informal origin and because of the fact that rentals tend to take place in the most consolidated housing. In Trujillo, this is true for building materials in the sense that rented homes are more likely to be built from brick than are owner-occupied homes, but this is not true of domestic water supply, in which

**TABLE 11.9** Housing Quality in the Main Cities and Provinces of Peru, 2007

Province	Domestic water supply		Domestic sewerage connection		Brick or block walls		Total No. of dwellings	Percentage of total
	Rental	Owner-occupied	Rental	Owner-occupied	Rental	Owner-occupied		
Lima	79	79	79	80	87	86	1,718,091	60.0
Arequipa	79	78	77	73	85	84	207,097	7.2
Trujillo	82	83	81	76	75	59	177,643	6.2
Chiclayo	74	74	71	71	69	55	164,816	5.7
Piura	80	73	80	73	80	60	144,452	5.0
Iquitos	72	41	77	42	82	42	96,113	3.3
Cusco	70	66	64	66	31	29	88,337	3.0
Chimbote	82	80	85	79	83	72	89,198	3.1
Huancayo	73	76	73	76	57	49	105,067	3.6
Tacna	85	78	85	78	90	86	71,553	2.5

Source: INEI (2007).

case owner-occupied homes are better serviced in Trujillo, El Porvenir, and Florencia de Mora.

Lima is illustrative as to number of bedrooms, which is an indicator of the quality of rental housing, especially when it comes to bedsit rentals, where tenants sleep, cook, spend free time, and so on. Although single-room rentals are found in all districts (Table 11.11), in Type 1 space, including central and formal, and middle-upper class, this kind of dwelling is less common: it ranges from between 9 percent and 12 percent, except in Lince, where it accounts for 21 percent. Rental housing with five or more rooms makes up for between a quarter and a third of all housing stock, except, again, in Lince. In Type 2, traditional city space and Type 3, consolidated intermediate urban ring neighborhood space, rented single-room dwellings exceed 40 percent of housing stock, except in Breña and Carabayllo. The traditional Type 2 city space has a significant stock of rental housing, and there are also an important number of single rooms. The Type 3 consolidated neighborhood space, which has little rental housing stock, also



**TABLE 11.10** Rental Housing by Housing Quality in Lima, 2007  
(percentage)

Model/District	Rented home with domestic water supply	Owner-occupied (paid-off) with domestic water supply	Rented home with brick or block walls	Owner-occupied (paid-off) with brick or block walls
<b>Type 1</b>				
San Isidro	86	88	98	99
San Borja	90	92	98	99
Miraflores	84	88	91	94
Lince	81	88	81	87
<b>Type 2</b>				
La Victoria	71	86	85	90
Breña	73	89	67	79
<b>Type 3</b>				
San Martín de Porres	82	83	96	94
Villa El Salvador	79	78	86	79
Comas	86	87	96	91
San Juan de Miraflores	89	90	93	88
Villa María Triunfo	80	75	89	79
Puente Piedra	45	39	73	68
Carabayllo	66	56	82	74

Source: INEI (2007).

has a predominance of single-room dwellings, or bedsits. This indicates that these are self-contained homes that owner-landlords have adapted to provide rooms for rent.

In the consolidated neighborhoods, however, 35 percent of rental housing stock has three or more rooms, which is an indication of the process of expansion that often takes place in informal housing. This is generally horizontal during the first stages of consolidation, when vacant spaces in the plot are filled in, but in the advanced stages the structures begin to extend vertically. This also implies a probable connection between

**TABLE 11.11** Rental Housing by Number of Rooms in Lima, 2007  
(percentage)

Model/District	1 room	2 rooms	3 rooms	4 rooms	5 or more rooms
<b>Type 1</b>					
San Isidro	9	15	19	20	37
San Borja	12	14	21	25	28
Miraflores	10	20	24	21	25
Lince	21	27	25	16	11
<b>Type 2</b>					
La Victoria	41	28	17	8	6
Breña	29	30	22	12	7
<b>Type 3</b>					
San Martín de Porres	41	25	18	9	7
Villa El Salvador	40	30	16	7	7
Comas	44	29	17	8	2
San Juan de Miraflores	40	25	19	10	6
Villa María Triunfo	46	27	14	7	6
Puente Piedra	42	30	16	7	5
Carabayllo	36	28	18	10	8

Source: INEI (2007).

densification and consolidation in these neighborhoods and the availability of rental housing.

Trujillo shows, albeit on a different scale, similar trends to those observed in Lima (Table 11.12). In the Type 1 district, formal central, there are few single room dwellings for rent, and more than a quarter of all stock has five or more rooms. In the Type 2, traditional city space, and in the Type 3, consolidated intermediate urban ring space, more than 25 percent of housing stock is single room, while dwellings with one or two rooms make up 50 percent of the stock.

### Accessibility of Rental Housing

The rental market is comprised of individuals, and it is extremely fragmented. There are no large-scale owner-landlords, either public or private.

**TABLE 11.12** Rental Housing According to Number of Rooms in Trujillo, 2007 (percentage)

Model/District	1 room	2 rooms	3 rooms	4 rooms	5 or more rooms
<b>Type 1</b>					
Larco Herrera	14	16	22	21	27
<b>Type 2</b>					
Trujillo	28	21	20	16	15
<b>Type 3</b>					
Florencia de Mora	31	28	20	12	9
El Porvenir	28	32	22	11	7
La Esperanza	24	31	24	12	8

Source: INEI (2007).

Toward the middle of the 1960s, the public sector sold its stock of social housing. As far as large private businesses are concerned, there are no real estate firms that manage and administer rental property, except for a few leasing agencies that specialize in luxury apartments.<sup>10</sup>

Given that public policy and the private market provide for homeownership financing, the rental market is secondary. This arises in several ways, via the “buy to rent” strategy adopted by middle-class owner-landlords, or by the extension or subdivision of property to lease it, a strategy that might include single room leases, among others.

### *Rental Housing Supply*

Access to rental housing, on the supply side, depends on whether owner-landlords can raise the initial capital that would enable them to buy a house or apartment or, to extend or subdivide the original building.

<sup>10</sup> One of the few experiences was linked to the El Porvenir development, created around 1948. It was much criticized at the time by urban planners for being a kind of “slum in the making” (“tugurio por origen”). In 1972, the military government initiated neighborhood upgrading in this area by expropriating real estate belonging to the Banco Popular.

For the middle and upper classes, the profitability of the process is based on the formula of “buying to rent.” Owner-landlords, who already possess some capital, use their savings or mortgage loans to purchase a home and then make it available for rent. This economic strategy premises its profitability on the fact that, if Lima is taken as an example, property values rise by a minimum of 10 percent annually, which represents a much more attractive rate than the one offered by banks for deposits (Dongo-Soria, 2012). The fact that rent prices are rising in Peru also contributes to profitability. Around 2004, for example, apartments for US\$350 per month could still be found in a middle-class district such as Barranco, but by 2012 it was hard to find anything for under US\$700. According to the real estate firm E-Holding, districts such as Barranco or San Isidro recorded the highest rent prices in Lima in 2012, with an average of US\$10.62 and US\$10.08 per square meter per month, respectively (Dongo-Soria, 2012).

In the middle-, middle-low-, and low-income strata, owner-landlords invest their own capital to extend and convert their original properties, without recourse to a mortgage loan. Renting is helped, as in the previous case, by the upward trend in rent prices. Two kinds of owner-landlords can therefore be identified:

1. Those who lease homes and develop an accumulation strategy, as in the case of certain owner-landlords whose main activity is leasing property for residential and commercial use. This category also includes owner-landlords who build extra rooms for rent. In Lince, a middle-class district, one owner had built a third story with 20 rooms, all sharing a bathroom, which were on offer at US\$75 per month each.
2. Those who have other jobs or incomes, but who lease property to earn extra income. These are usually elderly adults and retired people, generally living in the same building. This practice is seen among middle-, middle-low-, and low-income groups.

Rent payments, recorded as the average price and the average price per square meter, form a curve in which the types of social-spatial contexts used in this study can be seen. Lima, the only city for which information is available, is used by way of example (Table 11.13).

The strategies that owner-landlords choose to maximize profitability and recoup their investment are hard to describe, basically because they

**TABLE 11.13** Average Price of Rents in Lima, 2011 (in US dollars)

Model/District	Average price of houses	Average m <sup>2</sup>	Average price of apartments	Average m <sup>2</sup>
<b>Type 1</b>				
Miraflores	1,750	3.12	1,428	8.9
San Isidro	2,600	8.0	1,325	8.4
San Borja	2,800	5.6	940	6.8
Lince	—	—	402	4.4
<b>Type 2</b>				
Breña	—	—	475	5.2
La Victoria	—	—	470	5.2
<b>Type 3</b>				
Comas	—	—	120	1.0
San Martín de Porres	—	—	265	2.2
San Juan de Miraflores	—	—	315	2.6

Source: Capeco (2011).

themselves are reluctant to disclose such information. The cases described in the qualitative interviews,<sup>11</sup> however, do give some idea.<sup>12</sup>

1. An owner purchases an apartment in Miraflores, Lima (Type 1), measuring 90 square meters, for US\$80,000 and she leases it for US\$603 per month, or US\$6.7 per square meter. This means that, without taking depreciation into account, she will have recouped the original investment in around 132 months, or 11 years. The annual rent represents around 9 percent of the original value of the property.

<sup>11</sup> A series of 18 in-depth, semi-structured interviews with diverse actors were held between April and May 2012. Among the people interviewed were: a representative from a non-governmental organization (NGO) that provides support for tenants; experts in housing, finance, microfinance, and the real estate business; tenants and owner-landlords from different areas representative of the three types of districts; representatives of the Municipality of Lima and from the Provincial Municipality of Trujillo, as well as representatives from real estate agencies.

<sup>12</sup> Estimates of the time required to recoup the initial investment exclude property appreciation. Given the current trends in property prices, appreciation should considerably reduce the amortization period, even after taking depreciation into account.

2. A Type 2 owner, located in a middle-class area in the Cercado de Lima, purchases two houses, each one 110 square meters, at an average price of US\$75,000, and she leases each for US\$490.5 per month, or US\$4.4 per square meter. Applying the same criterion as above, this means that she will recoup the initial investment in 11.8 years. The annual rent represents about 8.4 percent of the property's original value.
3. A Type 2 owner, located in an area of workers and small traders in the district of La Victoria, invests an average of US\$25,000 in refurbishing two dwellings. Now, he leases four rooms in each dwelling at US\$56.6 on average per month, or US\$4.71 per square meter. Considering that he leases eight rooms, this owner is receiving a monthly rent of US\$452.80. By applying the same profitability criterion, he will have recouped the initial investment in just 4.6 years. The annual rent represents around 21.6 percent of the value of the original investment.

The case studies enable interesting conclusions to be drawn regarding the profitability of leasing property in Lima. Recouping the original investment is faster for Type 2 room rentals than it is for apartments or self-contained homes in Type 1 and 2 spaces. Similarly, the rate of recouping the original investment for room rentals is twice as fast than for the other cases.

This analysis explains why room and bedsit rentals are beginning to proliferate in Peru's cities. The sums required for the initial outlay are low, and the monthly rents turn out to be profitable. However, if the cost per square meter is examined, then room rentals pay slightly more in middle-class Type 2 space, although somewhat less than in Type 1. The problem is that these are informal rentals that fail to provide adequate living conditions: they are, in fact, modern-day slums.

### *Rental Housing Demand*

The accessibility of rental housing from the demand side can be measured based on the percentage of total household income spent on rent. The Fondo Mivivienda studies, carried out between 2006 and 2008, present this information and distinguish between four socioeconomic levels (SEL): A, B, C and D. Level E, extreme poverty, is not included in the original study because it does not constitute effective demand for housing (Table 11.14).

Level A of effective demand has the highest income in Trujillo, US\$1,280, followed by Piura, US\$777, Chiclayo, US\$756, and Arequipa, US\$607.6. The amount spent on rent represents around 20 percent of income for

**TABLE 11.14** Big Cities, Family Income and Percentage Spent on Rent, Lima and Trujillo

City	Percentage of average income spent on rent	Family income	Spending on rent
<b>Lima</b>			
B	15.0	761.6	115
C	14.4	560.3	81
D	13.9	428.3	59.6
<b>Trujillo</b>			
A	22.5	1.280	288
B	20.3	807	164
C	16.0	437	70
D	14.2	287	41

Source: FMV (2006); FMV (2009a, b, c, d, e, f, g, h, i); FMV (2010a, b, c, d).

households in this level that live in rented accommodations. In Level B, the highest spending on rent as a proportion of total income is recorded in Piura, at 21.4 percent, followed by Chiclayo, 20.4 percent, and Trujillo, 20.3 percent. In Huancayo, Arequipa, Iquitos, and Lima, the percentage of income spent on rent ranges from 15 percent to 19 percent. In Level C, the highest spending on rent is in Piura, where it accounts for 31.4 percent of income, US\$121, and in Chiclayo, 17.8 percent. This spending ranges between 14 percent and 16 percent in Lima, Trujillo, Arequipa, and Iquitos. In the poorest level, Level D, the spending on rent is highest, in Cusco, 20.6 percent, in Piura, 18.7 percent, in Iquitos, 16.3 percent, and in Lima 13.9 percent. The percentage is lower in Juliaca, 5.9 percent, and in Puno, 6.87 percent. The remaining cities are found in a range of between 10 percent and 14 percent. Level D spends the lowest proportion of income on rent.

To summarize, the amount spent on rent as a proportion of total earnings is 18.8 percent in Level A; 14.6 percent in Level B; 14.3 percent in Level C; and 12.8 percent in Level D. In comparison with international ratios, the price of rent is relatively low, and there seems to be no problem with the ability to pay, which generally occurs when expenditure on housing exceeds 30 percent of household income.<sup>13</sup> Furthermore, when

<sup>13</sup> The FMV studies do not enable an estimate to be made of the number of families or households that spend more than 30 percent of their income on rent.

monetary household income decreases, so too does the percentage spent on rent.<sup>14</sup>

The information on Lima is the most up to date. A study carried out by the Peruvian Chamber of Construction (Cámara Peruana de la Construcción, or CAPECO) indicates that there is a relationship between the socioeconomic stratum to which the household belongs and the amount the household pays for rent. According to the CAPECO survey, households in the highest stratum make monthly payments of between US\$301 and US\$500; the medium-high strata pay between US\$201 and US\$300; and the middle class pays between US\$101 and US\$200 (CAPECO, 2011). CAPECO's methodology does not include the informal demand for rental housing seen in Lima's poorer areas.

### Relationships between Owner-landlords and Tenants and Profiles

In the Type 1 space, although upper-middle-class and middle-class people tend to own their own homes (CAPECO, 2011), being a tenant is not determined by social class, but rather by circumstances linked to the life cycle and to employment. Tenants might be young couples, young adults who wish to become independent from their parents, professionals who have to live for a relatively short time in certain cities, and so on. According to the firm E-Holding, this is a natural market for young people. It is also used by foreigners and executives from multinational companies that come to work in Peru for a few months or years (Dongo-Soria, 2012).

Formality provides an institutional framework for the rental market. There are written contracts in accordance with the Civil Code that usually last one year under which the tenant assumes payment of a monthly rent, the municipal contributions, and the utilities, including water, electricity, telephone, and security. The tenant tends to be an employee or a middle-class professional, and paying the rent means, depending on the city, spending between 15 and 20 percent of the monthly family income. The owner-landlord pays property taxes and each month deposits the sum of 10 percent

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<sup>14</sup> At the international level, tenure is the opposite: the poor households spend more on housing as a proportion of their earnings. This situation, hypothetically, might be explained by the fact that poor households rent in the worst-located areas and in substandard housing, and, above all, by the presence of a non-market situation, that is, land invasions tolerated by the public sector, in the real estate market and the land market in general.



of the rent received at the tax office—the National Superintendent of Customs and Tax Administration (Superintendencia Nacional de Aduanas y Administración Tributaria, or SUNAT). Generally, the tenant pays the rent into a bank account in the owner's name. Direct payment occurs when the owner has several rented properties and leasing is his or her principal activity.

Relations between owner-landlords and tenants in Type 1 spaces are not conflictive and are limited to compliance with contractual terms. Case studies reveal that both parties often belong to similar social strata. If the owner lives on the first floor, closer and more supportive relationships might develop. Purchasing power will determine the location chosen. The most common type of dwelling in these cases is the apartment in an apartment block.

In Type 2 traditional city spaces, the relationship between owner-landlords and tenants is more complex. Tenants belong to middle-low social strata and can be formal workers, workers, or self-employed with a medium income level. In general, they are not as young, given that these are households made up of adults who, for various reasons, have been unable to acquire their own homes. They remain in traditional areas given that, as they are unable to access the rental market in the Type 1 space, they do not wish to move to the consolidated intermediate urban ring, for reasons linked to status and the loss of an advantageous location.

With regard to the Type 2 space, the widespread belief is that these are popular or working-class areas, with a depressing urban landscape—although not in all areas—which has an effect on rent prices. This is the case in the historic central areas of La Victoria in Lima, or the district of Trujillo in Trujillo. Their complexity is increased by the presence of slums and the overcrowded and rundown buildings that have been rented in the past.

Relations between owner-landlords and tenants in the slums of Lima have always been rather tense (Chirinos, 1996). In the 1960s and 1970s, nobody took the trouble to maintain the buildings, despite the legal obligations of owner-landlords, many of them institutional, to do so.<sup>15</sup> Abandoning their formally passive attitudes (Sánchez León et al., 1978), tenants gradually began to take the initiative and do their own repairs, which was the prelude to formal acquisition of the properties by their occupants (Chirinos, 1996).

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<sup>15</sup> Chirinos (1996) mentions the Decree Law 18,270 (Decreto Ley 18.270) (May 1970) which established that owners must have a certificate of occupancy and Decree Law 21,938 (Decreto Ley 21.938) (1978), which required that minimum safety conditions be established.

In districts of Type 3 space, consolidated intermediate urban ring, a regular stock of rental housing has yet to be developed. Self-contained house rentals openly predominate, which have been refurbished for the purpose of leasing rooms and bedsits.

A description of the profiles and relationships found in Type 3 space comes from the case studies.<sup>16</sup> In 2007, in the old neighborhoods of Villa El Salvador (1971) and Huáscar in San Juan de Lurigancho (1976), 49 percent and 71 percent, respectively, of the homes on the market were rented and the rest were bought and sold (Calderón, 2008). The owner-landlords of the rental properties were the original inhabitants of those settlements, as were the people who had accessed these neighborhoods through the secondary market. Most tenants were potential buyers because they wished to purchase their own homes.

The most common form of renting in informal settlements involved room and bedsit leases. The other models, which were almost evenly distributed, were self-contained homes, 6.3 percent, shared dwellings, 6.3 percent, and apartments, 5.3 percent. Rent prices for larger properties were higher than for rooms, although leasing rooms enabled a higher return to be made, similar to the rentals in Type 2 space.

Half, or 51 percent, of the rental contracts were written, and the other 49 percent were verbal. Written contracts predominated when it came to renting self-contained houses, apartments, and shared houses, although not for rooms and bedsits, which were leased using verbal contracts. There seemed to be no major conflicts between owner-landlords and tenants.

A similar situation can be found in the intermediate urban ring of Trujillo in districts such as El Porvenir and La Esperanza. In the latter, in 2012, rooms were refurbished for leasing in two-story houses. The historical trend suggests that renting will increase in the Type 3 spaces of Peru's cities. In the period between the 1993 and 2007 censuses, rental tenure in districts such as Villa El Salvador and Villa María del Triunfo has increased by 8 percent and 6 percent, respectively. The most common rentals involve very small rooms, which are little more than hovels, and rent transactions are almost always informal.

In the Type 4 space located in the precarious periphery or, in other words, the young informal settlements, rentals account for 10 percent of housing stock in regularized areas and 12 percent in non-regularized areas

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<sup>16</sup> The census provides general information about the tenants of each district and their occupation, but does not distinguish between those who live in the Type 3 space.

**TABLE 11.15** Summary of the Relationship between Owner-Landlords and Tenants in Lima

Type	Location	Social class	Type of dwelling	Price of rent (USD/m <sup>2</sup> )	Contractual relationship
1	Central	Middle-upper class	Apartment	7.7 a 8.8	Formal
2	Traditional	Middle/working class	Apartment	5.2	Formal
		Low	Room/hovel	2.2	Informal
3	Intermediate consolidated		Room	1.5	Informal
4	Peripheral/precarious	Low	Room	1.14	Informal

*Source:* Authors' elaboration.

(Calderón, 2011). The owner-landlords are poor families who lease to earn an economic benefit to help them survive. The tenants, whose monthly incomes are estimated at around US\$182, are either mainly self-employed, 65 percent, or employees who lack social security coverage, 17.5 percent (Calderón, 2007). In contrast to tenants living in Type 3 space, there are no formally employed workers. These are the social sectors with the lowest income in the cities, although it is not so low that they are obliged to invade land to access shelter. The average spending on rent is estimated at US\$30.7 for single rooms, which are generally larger than in the intermediate urban ring: 35 square meters on average, which yields an average rent of US\$1.1 per square meter.

To summarize, the demand for rental housing is present at all socio-economic strata. It is the tenants' income that determines the socio-spatial type of dwelling they will occupy, the supply of which, in turn, is defined by land values in the city. Conflictive relationships between owner-landlords and tenants are uncommon, except for some slum rentals in the historic inner-city areas.

## CONSTRAINTS AND LIMITATIONS

Developing a policy proposal that aims to stimulate the rental housing market faces a series of constraints due to housing policies already in place, as well as from current legislation and the structure of financing.

## Housing Policy

Over the last 50 years, housing policies in Peru have promoted homeownership, which is the basis for current legislation. Housing policy has worked better for the middle classes than it has for the lower-income sectors (Calderón, 2012). Support for the middle class brought about a veritable transformation and high-rise growth in the districts of the central areas of Peru's cities. Between August 2006 and July 2011, 21,061 loans were provided for PEN 1,841 million, a figure roughly equivalent to US\$613 million. In contrast, the Techo Propio (Own Roof) program, designed for the poor, has faced a series of difficulties. For example, the New Housing Purchase (Adquisición de Vivienda Nueva, or AVN) model, which sought to provide 10,000 vouchers per year between 2003 and 2011, only provided a total of 23,730 vouchers. The Construction on Own Site (Construcción en Sitio Propio, or CSP) and Housing Improvement (Mejoramiento de Vivienda, or MV) models were better developed, until they were suspended by the García administration (2006–11), which argued that the subsidies provided were too high (Calderón, 2012).<sup>17</sup>

The National Housing Plan (Nacional de Vivienda “Vivienda Para Todos” 2006–15) (MVCS, 2006) placed the emphasis on homeownership, although its strategies also considered rental housing, alongside new home purchases (AVN), own-site building construction (CSP), and home improvements (MV). However, no specific program was developed. Around November 2011, the director of the Fondo Mivivienda announced a leasing program, which gave tenants the option of buying at the end of their rental contract. The number of potential beneficiary families was estimated at 500,000.<sup>18</sup> There have been no new initiatives since then.

Housing policy faces serious constraints due to the limited availability of urban building land. This land scarcity is related to the prices and high profits generated, given that subsidized housing policy itself has

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<sup>17</sup> Around 2007, when the housing subsidies failed to take off, the Housing Formalization Bond (Bono de Formalización Inmobiliaria, or BFI) was approved by law, but was never implemented, given that it was put to one side as soon as the programs began to function. The BFI promotes independent high-rise property development, or the right to build vertically, in the consolidated former settlements and, in time, might be helpful for promoting a rental policy on behalf of small owner-landlords.

<sup>18</sup> See: [http://gestion.pe/noticia/1335475/:http://gestion.pe/noticias-de-multas-lab-orales-14734?href=nota\\_tag](http://gestion.pe/noticia/1335475/:http://gestion.pe/noticias-de-multas-lab-orales-14734?href=nota_tag)

demanding land in the expansion areas of the city and thereby helped push up prices.

Housing policy operates on the basis of a land policy established in the 1990s, which is characterized by an unrestricted defense of private property and of *laissez faire* for private agents. The Constitution of the Republic (1993), the General Law on Expropriation/Legislative Decree 313 (Ley General de Expropiaciones/Decreto Legislativo 313), and the amendment to the Civil Code all sought to promote private investment by indicating that expropriation would only take place in the event of social necessity—rather than according to social interest—and that compensation would be paid at market prices. The Land Law of 1995/Law 26,505 (Ley de Tierras de 1995/Ley 26.505), in practice, left municipalities powerless to protect intangible agricultural land, permitted the unfettered sale of such land, and represented an extension of urban development—limits that ignored municipal planning criteria.

Generally, the unrestricted defense of private property predominates. In 1993, there was a setback to the mechanisms of urban capital gains capture, when Legislative Decree 776 (Decreto Legislativo 776) abolished the Improvement Tax (Contribución de Mejoras), replacing it with the Special Public Works Tax (Contribución Especial de Obras Públicas), which was a more limited instrument that reduced the scope to include only municipal works and established as a requirement the prior consent of those affected. Moreover, the existing policy gives free rein to landowners: there are no taxes on vacant land nor policies, such as the so-called land adjustments in Spain, that require owner-landlords to develop their land by making changes, even if the land has been classified as vacant by the municipality. In other words, the policy encourages land speculation.

Any possible rental housing policy, therefore, faces the fact that family housing vouchers (bonos familiares habitacionales, or BFH), which have underpinned housing policy, promote homeownership. There is no place for rental housing in current housing policy. It is an aspect that has been left almost entirely to the markets. It might be useful if policies were more open to other forms of tenure. This does not necessarily mean renouncing homeownership, which is the dream of many households, but rather finding a way of including rental housing in this perspective.

### Rental Housing Legislation

Current legislation on rental housing is defined by Legislative Decree 709 (1991) (Decreto Legislativo 709) and the Civil Code of 1984. The current

legislation protects owner-landlords who lease their properties, and its impact, observed over the years, has been to stimulate the rental housing market supply by private individuals.

Legislative Decree 709 (1991) promotes private investment in properties for subsequent leasing. For this purpose, it determined that all rentals should be solely and exclusively regulated by the legislation set out in the Civil Code of 1984. However, the aforementioned decree establishes an exception: contracts for properties with an owner's assessment that exceeded PEN 2,880 in 1992, would enjoy a four-year renewal period. Every year since then, tenants and owners in slums in the central areas have managed to extend this exemption, thereby enjoying public protection.

Since 1984, the existing Civil Code instituted payment for rent, in arrears or in advance, according to the amount stipulated in the contract. The Code specifies that owner-landlords are entitled to define, without limits, the lease terms, the rent rate, and the terms of the contract. However, neither the owner nor the tenant can break the contract, or extend it, against the wishes of the other party. In contrast to previous legislation, the Civil Code establishes that evictions for diverse causes can proceed even if the tenant subsequently pays the back rent due, once the judicial decision has been reached.

The tenants' obligations consist of looking after the property and using it for the purposes agreed, paying the full rent on time, paying the public utility bills, not changing or altering the property, not subletting, either partially or totally, and returning the property in the same state in which it was received. The Civil Code defines the responsibilities in case of damage as well as the types of definite, up to 10 years, or indefinite contract.

The Civil Code envisages that tenants can be legitimately evicted in four cases: (i) for failure to pay the rent, after two months and 15 days; (ii) for expiry of contract; (iii) for squatting without contract; and (iv) for building restoration works in the event that the property is declared to be an historic monument. If the tenant fails to surrender the property once the contract has expired, then the Civil Procedure Code (Código Procesal Civil) authorizes the judge to order an eviction. According to Castro Pozo (2010), the cases heard in the court system are summary proceedings, according to Article 679; and can proceed to early implementation of the final sentence, when the plaintiff establishes without doubt the right to the desired repossession and that the property must be vacated.

In general, legal decisions tend to find in favor of owner-landlords, and the grounds for eviction, such as failure to pay rent or because the

contract has expired, are easy to demonstrate by producing the contract or the rent receipts. Trials begin in a magistrates' court or in courts of first instance. In the event that the tenants do not have a lawyer, which is the most common scenario, the proceedings can last for around six months, and up to two years if they do have legal counsel. In the proceedings for squatting or repossession, the matter is more complex and may even reach the Supreme Court. Owner-landlords must demonstrate that no contract was signed with the occupiers of the property or present the demand for repossession issued by the local authority, or municipality. In these cases, if the tenants have a lawyer, the proceedings might last for four years, and for around two years if they do not. Eviction proceedings are ordered by a judge, who gives the tenant notice to quit the property. In the event of non-compliance, the owner can appeal to the judge, who issues an eviction and forcible entry order with the help of the National Police after seven days have elapsed. The legislation does not envisage compensation being paid to those evicted.

The tax system, administered by SUNAT, considers leasing or subleasing to be first-category income. The person responsible for paying the tax is the lessor or sublessor, who must be registered in the Single Taxpayer Registry (Registro Único del Contribuyente, or RUC). First-category income distinguishes between real income and presumed income. Real income arises when there is a verbal or written contract under which the owner permits the use of the property to a third party in exchange for monthly rent. It is deemed to be presumed income when the property is ceded free of charge to a third party. The amount to be paid as a monthly tax is 5 percent of the value of the rent. Rents are subject to the accrual method: the owner has to pay every month, even when the tenant has not paid the agreed-upon monthly rent.<sup>19</sup>

The study found that the owner-landlord who leases a middle- or upper-class home is more likely to obey the legal and tax rules, paying each month to SUNAT, using the SUNAT tax declaration form. The tenant assumes responsibility for paying municipal taxes to the district municipalities. This is included on the contract as the tenant's responsibility.

In the socio-spatial types of the intermediate urban ring, or the ex-informal city, the reality is different. The legislation is only partially

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<sup>19</sup> If the owner fails to pay the SUNAT, then this constitutes a tax debt. Payment will be required in the event that the owner is forced to begin eviction proceedings against a tenant.

observed in that half of the contracts are written, while half are verbal, and owner-landlords fail to pay either the property tax or the tax on income received as rent. The legislation makes no mention of a minimum space for rentals, which means that leasing bedsits is legal. Tenants fail to pay local taxes to the municipalities. The stock of rented rooms and bedsits makes up 50 percent of the total rental housing supply, and, generally speaking, the agreement is merely verbal, as it is for shared accommodations, which represent 15 percent of the housing stock (Calderón, 2007). The fact that informality predominates is a result of the cost-benefit analysis carried out by the actors involved: it is more expensive to act in the formal market than in the informal market.

In the case of slums, where renting is being replaced by squatting, the large institutional owner-landlords, such as the Lima Public Benefit Corporation (Sociedad de Beneficencia Pública de Lima), refuse to pay the tax, arguing that they do not receive rent from the tenants. The squatters, or ex-tenants, follow suit by not paying rent or municipal taxes, and by sub-leasing without the owner's permission. In these circumstances, which are extremely complicated in legal terms, rather than contractual informality, the concept of renting disappears altogether.

The legal framework's main limitation is that it does not encourage rental housing. Although Legislative Decree 709 (1991) attempted to do so, in reality it has mainly regulated the relationship between owner-landlords and tenants. In the context of urban legislation and current housing policy, there has been no incentive to promote rental housing, and the decree is disconnected from the legal framework, which generally promotes private property. Schemes to encourage this form of tenure have therefore not been developed, whereas they have been when it comes to homeownership.

### The Structure of Financing for Housing and the Mortgage Market

Housing policies have developed financing measures that have affected the mortgage market.<sup>20</sup> Mortgage loans are currently on the increase, which was initially due to the boost given by governmental housing subsidies. Starting in 2002, the Fondo Mivivienda (FMV) encouraged private

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<sup>20</sup> A mortgage loan for housing is provided to natural persons for the purchase, construction, restoration, refurbishment, extension, improvement, and subdivision of private property, whenever such loans are backed by duly registered mortgages.



**TABLE 11.16** Legal Framework for Rental Housing in Peru

Year	Law	Objective
2010	29.415	Promotes the physical and legal refurbishment of the slums as part of neighborhood upgrading. Seeks to allow tenant or squatter associations to become owners due to abandonment or expiry of property, or through direct agreement with the owner. The law encourages the occupier to use the right of possession.
1991 (Nov.)	D.L. 709	"Create the necessary conditions for developing private investment in rental properties." Established that contracts will be subject to the Civil Code, except in the case of slum properties.
1991	D.L. 696	Among others, establishes the right of residence for tenants faced with neighborhood or urban upgrading actions.
1984	Civil Code	Establishes the rights and obligations of both landlord and tenant, and the grounds for resolution.

*Source:* Authors' elaboration.

banks to participate in the enterprises, and even to create new investment products for the fund.

This situation changed the structure of the mortgage market, which had fallen sharply around 1992, when the State withdrew its financial participation, and the private sector turned once more toward its traditional clientele, the middle and upper classes.<sup>21</sup> In the early 1990s, mortgage loans provided by the private banking sector were selective, with onerous conditions including interest rates of around 20 percent per annum, seven-year maximum repayment periods, and minimum income requirements of US\$2,500 monthly. In 1997, the annual interest rate dropped to levels of around 12 percent (PCI, 2008).

Influenced by the public sector via the FMV, the mortgage market grew by a yearly average of 20 percent between 2002 and 2008 (Interbank, 2008). Various factors contributed to this development: the growth of the economy and purchasing power, access to long-term financing, including

<sup>21</sup> The experiences of public sector financing for housing, such as the Central Mortgage Bank (Banco Central Hipotecario) (1930), the housing mutual funds (1960–1980), the Housing Bank (Banco de la Vivienda, or BV), and the National Housing Fund (Fondo Nacional de Vivienda, or FONAVI), were cancelled at the beginning of the 1990s by the policies of economic reform and cutbacks introduced by the Fujimori administration (1990–2000).

that provided by government programs, and the large housing deficit. Between 2002 and 2008, the number of clients rose from 34,000 to 103,000. In 2008, the FMV was responsible for 17 percent of the loan portfolio, while in 2006, the year of its largest increase, its share of the portfolio reached 28 percent.

By October 2011, on average, the banks made 2,800 capital placements for house purchases, and the average loan was for US\$74,000. Between September 2010 and August 2011, credit grew to a little over US\$1,300 million. The public contribution via the FMV was 30 percent (Alva, 2011). The banks, according to the mortgage loan, whether from the FMV or from their own funds, applied effective annual interest rates that varied between 9.39 and 12.68 percent with FMV resources, with a 15-year repayment period for a PEN 90,000 loan, and between 10.50 and 14 percent with their own funds for a PEN 120,000 loan.

Mortgage credit has an indirect effect on the rental housing market, especially for the middle- and higher-income sectors. Under the “buy-to-rent” formula, some middle-income sectors are able to invest in an apartment to lease it. However, there is no interest in financing rental housing among either the private or the public banking sector, because policy is geared toward homeownership, and this approach avoids having to pay subsequent property management costs.

Public credit is channeled through the FMV for middle-class properties and the lower-income groups. The properties acquired with FMV loans, which are legally mortgaged, belong to the bank until full repayment of the installments has been made. They cannot be legally rented, even if the properties benefited from the Techo Propio program. Therefore, the “buy-to-rent” strategy faces the restrictions imposed by public credit.<sup>22</sup>

## CONCLUSIONS AND RECOMENDATIONS

The rental market in Peru has evolved from the situation in 1993, where the number of rental properties available fell because many owner-landlords

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<sup>22</sup> The Financial Development Corporation (Corporación Financiera de Desarrollo, or COFIDE) website, a second tier state bank mentions, apart from the Fondo Mivivienda, programs such as COFICASA and the micro-credit housing. These programs are not operational, although the COFIDE would be capable of evaluating programs aimed at rental housing provision.

opted to cede rather than lease their properties, to the current recovery, which began in 2007. The determining factors in this evolution have been economic growth, the demand for rental units located in the new central city areas, deregulation, which has given more power to owner-landlords, and profit maximization strategies, especially those comprising single room lets.

When the 1993 census is compared with the 2007 census, the market has risen from 11 percent of all housing stock at the national level, to 15.3 percent, or 493,620 units in absolute terms, with the highest rate of growth in all forms of housing tenure, or 5 percent. At the urban level, this proportion has risen from 14.9 percent to 18.9 percent, or 456,363 more homes, also recording the highest rate of housing growth, at 5 percent. Every year has produced an additional 32,597 units for rent.

Growth in Peru's rental market has helped to reduce the housing deficit and has increased the number of homes connected to utilities. How much this market has contributed in terms of decent homes is, however, a matter for debate. In the middle- and high-income sectors, there is a relative balance between the supply of and the demand for units for rent. In the middle-low and low-income sectors, with which this paper is most concerned, the predominant model has involved leasing rooms and bedsits measuring between 12 and 18 square meters that, due to the size of families, have given rise to overcrowding and health issues because various tenants share bathrooms. Furthermore, transactions tend to be informal, and both owner-landlords and tenants avoid their tax obligations, to the detriment of local governments.

The critical constraints on developing and expanding a rental market that produces decent dwellings are social and economic inequality and the low incomes that tenants earn, which allow them to rent only substandard dwellings. The problem is not so much the percentage of income spent on rent, which in socioeconomic sector C accounts for just 14.3 percent of total income and in sector D only 12.8 percent, but that the total incomes earned in these sectors are so low. For the large majority, these incomes are only sufficient to qualify for access, in theory, to a homeownership housing solution provided by public programs that give subsidies to poor people. We say "in theory" because for people who live and work in the informal economy, it is hard to satisfy the employment and income requirements demanded by the bank. Demand from Levels C and D cannot access the private, formal supply of owner-occupied homes or rental housing.

Housing policy consisting of loans and subsidies constitutes another restraint insofar as it is oriented toward homeownership, and it does not

consider the possibility of producing rental housing. Furthermore, policies and legislation are unsuccessful because of lax regulatory measures and failure to tackle the problem of substandard rental housing.

Developing the rental market in Peru offers potential opportunities given that, despite the trend toward homeownership, there is a noticeable increase in rental housing demand. This situation could be a result of the country's demographic structure, in which the age pyramid is bottom-heavy with youth: the highest percentage in 2007, according to five-year age ranges, was found between the ages of 10 and 14, or 5.3 percent, followed by the 15 to 19 range, or 5 percent, 20 to 24, or 4.5 percent, and 25 to 29, or 4 percent. In this context, people looking to start a household would be willing to accept a rent-to-buy scheme if their income disqualified them from becoming beneficiaries of a social housing program.

The Peruvian State should intervene in the rental market, thereby helping to promote the supply of decent rental housing. The prevailing circumstances of the 1990s, when subsidies were discontinued, have changed. Today there is a general consensus that the housing question cannot be solved without a substantial contribution, both legal and financial, from the government. The impact of public policy on homeownership for the middle classes is clear, as are the efforts, albeit unsuccessful, targeted toward the lower-income sectors. Public policy has helped to boost the housing market, increase mortgage loans, and reduce interest rates.

Rental housing policy has to be considered as intrinsic to housing policy in general. It is therefore important that the National Housing Plan "Housing for All" (2006-15) (Plan Nacional de Vivienda "Vivienda Para Todos") does make a tenuous mention of rental housing, although in fact specific programs have yet to appear.

The aim of any rental housing policy for lower-income sectors should be to expand the supply of decent housing and to restrict and eventually eliminate renting of substandard accommodations. A public promotion body is therefore needed that can be distinguished from those that promote homeownership, and which develops a suitable communications strategy. The policy should make a distinction between two kinds of operations: building new rental housing, and refurbishing existing properties.

One alternative for building new housing is the official proposal for rent-to-buy or real estate leasing currently being studied. The idea accepts that the majority of people wish to own their own homes. In fact, some of those interviewed, especially young professionals, suggested this alternative.

From this perspective, rental housing is taken to be a transition toward homeownership and, to be successful, it has to enjoy the advantages of relative location, and have property sizes that adjust to the life cycle and budgets of potential tenant-buyers. The Peruvian State can remain faithful to its aim of supporting homeownership, as rent-to-buy would be a complementary policy.

A second alternative, one that has yet to be proposed by the authorities, concerns people who demand rented accommodations but have not planned on purchasing a home due to circumstances linked to the cycle of life. This is the case of both workers and students who are temporary migrants to the city, as well as people who wish to emigrate abroad and prefer to allocate their resources in that direction. This policy should envisage the possibility of producing rental housing not only for sale, but also to be leased permanently.

In both cases, the administrative aspect of rental housing has to be examined with care. In the case of rent-to-buy, and given that the proposals would have to be coordinated with private firms that participate in the building phase, banks would probably be responsible for subsequent management. In the case of housing designed solely for renting, a government-run administration, similar to that which is responsible for part of the social housing stock in European countries, would enable the public sector to collect the rents.

Refurbishing existing housing for rent would be the other main, non-exclusive, public policy alternative, which could operate only after the land question had been resolved. The public sector would support small owner-landlords who wish to extend their properties so they can earn a fixed complementary income, while guaranteeing that decent building standards are observed. Rental housing subsidies for enterprises or small owner-landlords should only be provided in exchange for a supply of decent housing that can be regulated by the authorities. This may mean overhauling the legal framework that regulates housing quality, the National Building Regulations (*Reglamento Nacional de Edificaciones*).

Building administration would continue to be the responsibility of owner-landlord families, with a minimum of possible public intermediation, to keep down costs. The viability of and the contribution made by instruments such as the still-unimplemented Real Estate Formalization Bond (2007) (*Bono de Formalización Inmobiliaria*) should be evaluated, and the urban area boundaries established by the municipalities should be supported.

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# The Rental Market as a Genuine Alternative in Uruguay

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## INTRODUCTION

### The Main Housing Problems in Uruguay

There are various problems associated with housing in Uruguay. The three main ones are: limited access, insufficient house building, and irregular settlements.

#### *Limited Access to Housing*

Access to housing is restricted by limited mortgage credit availability, which represents merely 5 percent of GDP. A significant proportion of the population is non-bankable and lacks access to existing financial products. This exclusion is caused by factors linked to both the ability to repay a mortgage and strict down payment requirements. When it comes to access to mortgage credit, the groups that face the most obstacles are young people, low-income households, and households headed by elderly people. In all age groups, access to credit is more restricted for women than for men. Even after a decade of growth and real wage increases, barriers to access remain. The rise in incomes has not been enough to enable the most vulnerable groups to access decent homes.

The government has prioritized housing in its work plan. Following a period of institutional restructuring (2005–09), policies were developed to strengthen demand. These include a down payment subsidy for bank loans provided by financial institutions, a Mortgage Loan Guarantee Fund

(Fondo de Garantía de Créditos Hipotecarios), which enables the initial down payment to be lowered, and a Rental Guarantee Fund (Fondo de Garantía de Alquileres) with favorable conditions for young people.

### *Restrictions on Housing Supply*

An examination of the dynamic of the construction sector over recent decades clearly shows that the sector ground to a halt during the 2002–04 crisis but then recovered, driven by luxury home developments on the east coast of Montevideo. In its final years of operation, the Mortgage Bank of Uruguay (Banco Hipotecario del Uruguay, or BHU) concentrated its building programs along the coast, according to the proposals of private sector construction firms under the so-called Project, Price, Land (Proyecto, Precio, Terreno, or PPT) model. Meanwhile, housing *stock* deteriorated appreciably in central areas of the city, which resulted in an ageing *housing stock* everywhere but the east coast.

Among the policies designed to encourage the supply of service-connected, social interest housing (SIH) in central areas were the following: the law promoting SIH and the Real Estate Development Guarantee Fund (Fondo de Garantía de Desarrollos Inmobiliarios), which provides additional guarantees to facilitate access to credit for small-scale project entrepreneurs. This law (Law 18.795) has had a significant impact, with more than 8,000 homes delivered and 5,000 homes promoted in the two years since its enactment.

### *Informal Settlements*

The aforementioned restrictions have led many Uruguayan households to find their own housing solutions and thereby create a problem for the city as a whole. The worst problem is the formation of informal settlements that lack access to basic services and exacerbate social and territorial segregation. This process got underway in the 1950s, but expanded in the 1980s and even more so in the 1990s, when the phenomenon grew considerably. The lack of territorial policies encouraged this process, thereby storing up future costs if the situation is one day to be reversed. Disorderly urban sprawl is an additional problem. An example is the way that Ciudad de la Costa has been transformed from a spa to a bedroom community. Finally, the existing legal arrangements in the greater part of the public loan portfolio (unwritten promise to purchase agreements) are rather weak.

During the institutional restructuring period (2005–09), the government prioritized providing property title deeds for the public loans portfolio. In the second stage (2010–13), it sought to boost housing supply, lowering

sale prices as well as rent rates, and to make progress on reducing the number of households living in settlements via the Plan Juntos (Together Plan). This plan, however, has been only gradually developed and has yet to effect significant changes. Nor has the economic growth of the last decade enabled settlement dwellers to become part of the formal urban fabric.

### The Importance of the Rental Market

In this context, studying the rental market is justified for a number of reasons. First, the number of tenant households, and their share in the total number of households, has been growing constantly. More and more Uruguayans are entering the rental market, which is, in itself, worthy of analysis.

Second, renting is also relevant for housing policy. Historically speaking, the characteristics of the formal property market caused severe problems of access and sustainability during periods of economic crises, inflation, and subsequent market liberalization. This is one of the reasons for the growth of irregular settlements. It is important to learn from this experience, rather than persevering with the same mechanisms that failed to help families remain in their homes.

Renting can help to solve these problems. The rental market can demonstrate families' capacity to pay and enable them to build a credit history, which will improve their access to credit. This is a direct verification mechanism in the case of homes sold under the rent-with-option-to-buy model. The rental market can also bring empty homes back into the housing market and does not need to resolve property titling problems.

Not only is rental homebuilding exempt from the taxes levied on construction; it is also exempt from the taxes levied on rental income. This constitutes an opportunity to boost housing supply in the rental market.

Using renting as an alternative solution for housing emergencies (rehousing, separation due to family violence) avoids the costs of maintaining unused state-owned accommodation, with all its implied construction, maintenance, and security costs. The use of renting as a housing policy instrument also yields a financial advantage, because it reduces the use of the National Housing Fund (Fondo Nacional de la Vivienda, or FNV) and enhances its results. Using these funds for homebuilding delays the delivery of housing solutions until the construction process is concluded, while all disbursements must be made within that period and for the total value of the dwellings. Incorporating rentals as an instrument in pensioner housing programs would lead to more and faster solutions.

## THE STRUCTURE OF TENURE

### The Evolution of Tenure

Uruguay is a small, underpopulated country, and urbanization took place early in its history. In the period when the country was processing waves of European immigrants who settled in the capital city, which was also receiving contingents of migrants from the rural exodus, a large part of the population of Montevideo were tenants. The low-income strata sought their own housing solutions in *conventillos* and *inquilinos*. At the beginning of the twentieth century, public hygiene policies sought to eradicate these solutions. This approach formed the basis of future housing policies. Legislation on housing, and on popular housing in particular, has a strong homeownership bias, reflecting and reinforcing the cultural preferences for homeownership.

Data provided by the National Institute of Statistics (Instituto Nacional de Estadística, or INE) reveal that, historically speaking, Uruguay has always had a high percentage of owner-occupied households.<sup>1</sup> As Figure 12.1 shows, this proportion has decreased in recent years, as the tenant category has increased its share as have, to a lesser degree, informal occupiers and homeowners.<sup>2</sup>

During the intercensal period 1996–2011, the number of households increased, as did all other forms of tenure. In 2011, there were more homeowner, tenant, occupier, and informal homeowner households in Uruguay. But not all categories grew in the same way, meaning that in relative terms the proportion of homeowners diminished, the households that rent their accommodation remained stable, while informal homeowners and occupiers increased. The same trend seen in Montevideo can be observed throughout the country.

### Differences in the Structure of Tenure between Montevideo and the Rest of the Country

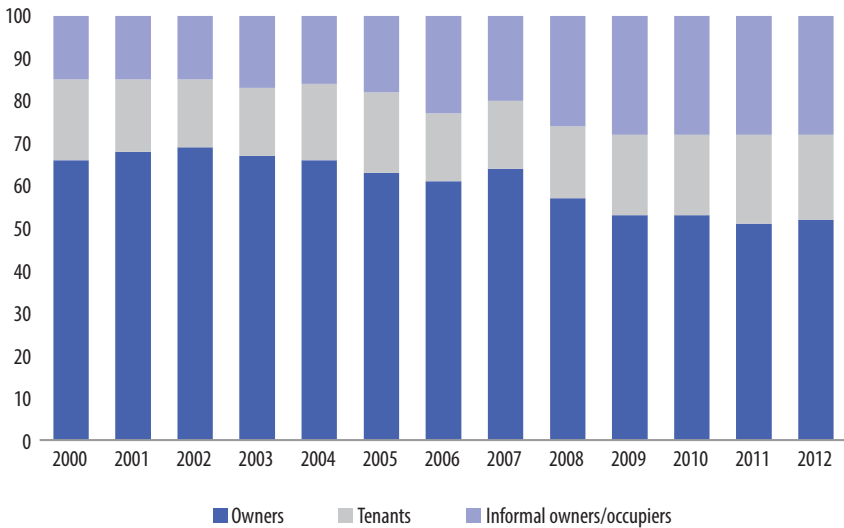
As in most Latin American countries, most of the population is concentrated in the Uruguayan capital, Montevideo, and its metropolitan region, with more

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<sup>1</sup> The National Institute of Statistics (Instituto Nacional de Estadística, or INE) shows the different forms of tenure both in the censuses and in permanent form in the Continuous Household Survey (*Encuesta Continua de Hogares*). Each household is consulted with respect to their situation, including the home in which they live.

<sup>2</sup> The terms “informal homeowners” and “informal occupiers” refer to those households who are owners of the dwelling, but not of the land on which it is built.

**FIGURE 12.1** Evolution of Housing Tenure in Uruguay, 2000–12  
(percentage)



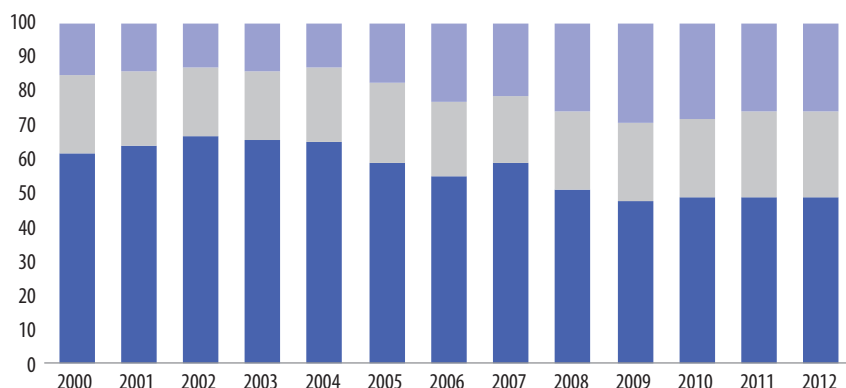
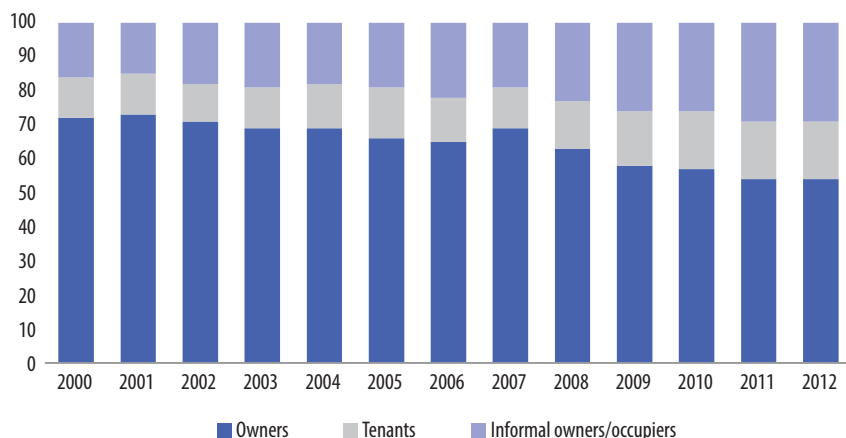
Source: INE (various years).

than one million inhabitants. The higher incidence of tenant households is noticeable here. In 2012 it made up a quarter of the households (26 percent). This category comprises the young people who go to study in the capital, where the widest range of tertiary education is provided. These are therefore temporary migrants from the country's interior. Most of the work available in the service sector (including government services) is also concentrated in the capital, which also helps to explain the internal migrations.

Although the way that tenure has evolved during the period under consideration has been similar throughout the country, there are significant differences. Homeownership most clearly dominates in the urban interior. The proportion of occupiers is particularly high in rural areas, as many people, such as farm workers and others, also depend on the owner of the property for their jobs.

### Households Living in Informal Settlements

The third type of tenure presented in the official statistics is households in irregular settlements. These settlements burgeoned in the 1990s and are a cause for concern to both national and international agencies.

**FIGURE 12.2** Evolution of Housing Tenure in Montevideo, Compared to the Rest of the Country (percentage)**Montevideo: 2000–12****Interior: 2000–12**

Source: INE (various years).

According to information from the Technical Institute for Integrated Development (Instituto Técnico para la Promoción del Desarrollo Integral, or INTEC), presented by Amarante and Caffera (2003), between 1984 and 1994 the number of homes in the informal settlements of Montevideo grew at an accumulated annual rate of 9.7 percent and, in 1994, was 7,013 homes. Couriel (2010) estimates the figure at 29,297 homes for 2002 and 39,116 for 2006. According to data from A Roof for My Country (Un Techo Para mi País, or UTPMP), the number of dwellings in informal settlements

throughout the country was 58,695 in 2008 and 61,525 in 2010, occupied by 251,884 and 256,958 people, respectively (UTPMP, 2010).

Although these estimates may be inconsistent, it is undeniable that there has been an expansion in informal dwellings. This can be attributed to the effects of interventions in the rental market in the middle of the 1980s, which reduced the supply of properties, and by the tolerance shown toward illegal occupation of fiscal and public lands. This is illustrated by the fact that 73.8 percent of these settlements occupy land that was once fiscal and public property (UTPMP, 2010).

Amarante and Caffera (2003) demonstrate that the settlements are made up of both households that come from the formal city and new households. Moreover, they point out that more settlement dwellers are now in formal employment and that the number of homes built with lasting materials has increased. They advance several hypotheses about the reasons why settlements are formed. The first concerns the economic difficulties faced by Uruguayan society, especially the low-income sectors. Second is the land market, the existence of available public land, and the costs and administrative difficulties inherent in creating new urban development land. The third is the rising cost of formal dwellings, including utilities and municipal taxes, as well as inflation in the rental market, given that freedom of contract has caused rent values to increase, mainly for the lower-income strata.

Table 12.1 shows the proportion of households, for each of the areas studied, that live in informal settlements and in the formal urban fabric. Montevideo has the highest incidence of settlements, reaching 7.5 percent of all households in 2009.<sup>3</sup>

As informal settlements are much more prevalent in the nation's capital, the form of tenure in this area has been disaggregated according to whether the household lives in the formal urban fabric or in an informal settlement. As observed in Table 12.2, no "homeowner" households are to be found in the latter, whereas in the formal city the proportion reaches 51 percent. The predominant regime in the settlements is the "informal

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<sup>3</sup> According to the Ministry of Housing, irregular settlements are defined as "groupings of more than 10 dwellings, located on public or private land, built without the owner's permission under informal conditions, and without regard for urban planning requirements. This group of homes also suffers from a lack of some or all basic urban infrastructure services in the vast majority of cases and, moreover, added shortcomings or serious difficulties in accessing social services." The formal city, by contrast, comprises the areas in which there are no irregular settlements.

**TABLE 12.1** Distribution of Households in Informal Settlements and in the Formal City

	Montevideo		Urban interior		Rural areas		Country total	
	No. of households	Percentage	No. of households	Percentage	No. of households	Percentage	No. of households	Percentage
Households in settlements	35,641	7.5%	8,923	1.6%	349	0.5%	44,913	4.1%
Households in the formal city	440,012	92.5%	536,908	98.4%	69,008	99.5%	1,045,928	95.9%
<b>TOTAL</b>	<b>475,653</b>	<b>100%</b>	<b>545,831</b>	<b>100%</b>	<b>69,357</b>	<b>100%</b>	<b>1,090,841</b>	<b>100%</b>

Source: INE (2009).

homeowner” category, followed by the “occupier” category. Furthermore, in the formal city the presence of tenant households is even higher than for the city as a whole, standing at 26 percent. Although the proportion is low, it is interesting to note the category of 4 percent of households that live in informal settlements but are paying rent for their home. These belong to an informal, hitherto undocumented, rental market.

Households that rent a home in an irregular settlement pay an average monthly rent of UYU 2,998 (current Uruguayan pesos in 2009) (INE, 2009), which represents 60 percent of the average rent paid by tenants living in Montevideo’s formal urban fabric. However, the proportion of monthly household income that this monthly payment represents is greater for those renting in a settlement, as their average income is lower.

**TABLE 12.2** Housing Tenure in Informal Settlements and in the Formal City, Montevideo

Tenure	Settlements		Formal city		Total	
Homeowners	—	0	226,490	51	226,490	48
Informal homeowners	29,601	83	11,717	3	41,318	9
Tenants	1,384	4	112,979	26	114,363	24
Occupiers	4,656	13	88,826	20	93,482	20
<b>Total no. of households</b>	<b>35,641</b>	<b>100</b>	<b>440,012</b>	<b>100</b>	<b>475,653</b>	<b>100</b>

Source: INE (2009).



Heads of households in the settlements are on average younger than those in the formal city: age 39 and 45, respectively. The average household size in the settlements is 2.96 members, a higher figure than the 2.46 members recorded in the formal city. There are also gender differences among heads of families; in the formal city, 42 percent of households have a female head, whereas this proportion rises to 58 percent in the settlements.

There are also particular differences between tenant households in the settlements and those in the formal city. Whereas almost one in three households renting in the formal city is a single person, this proportion is much lower in the settlements, at nearly one in five. Single-parent households are more frequent among those renting in settlements, whereas two-parent households are more likely to rent in the formal city. Finally, extended households, composed of a nuclear family and other relatives (uncles and aunts, grandparents, and so on), make up almost a quarter of all tenants in settlements, whereas in the formal city they represent just 12 percent.

### Changes in the Structure of Tenure

#### *Population Growth, Rate of Urbanization, and Household Size*

Uruguay has traditionally recorded the lowest rates of population growth in Latin America. The demographic projections for the coming years do not indicate a change in this trend, which means that the country's population

**TABLE 12.3** Typology of Tenant Households in Montevideo, 2009

Type of household	Settlements		Formal city	
	Number	Percentage	Number	Percentage
Single-person	295	21.32	33,126	29.32
Nuclear, without children	104	7.51	18,950	16.77
Non-family, non-single-person	15	1.08	2,762	2.44
Nuclear, single-parent, with children	288	20.81	14,199	12.57
Nuclear, two-parent, with children	332	23.99	28,864	25.55
Extended (other relatives)	325	23.48	13,185	11.67
Compound (others, non-relatives)	25	1.81	1,893	1.68
<b>Total</b>	<b>1,384</b>	<b>100</b>	<b>112,979</b>	<b>100</b>

Source: INE (2009).

will continue to grow at a very low rate (0.34 percent). However, when projections for urban population growth are examined, the changes are noticeably greater. The urban population is expected to increase by around 3 percent throughout the country.

The growth of the urban population evolves differently in each department. In Montevideo and Rocha, the population fell slightly, whereas San José, Canelones, Maldonado and Tacuarembó recorded growth of 11 percent, 9.89 percent, 8.71 percent, and 8.58 percent, respectively.

The urbanization of the population is a process that has been observed over several years, and Uruguay is the most urbanized country in Latin America. Ninety-four percent of its population lives in urban areas. This fact, added to the aforesaid population growth, implies that most of the quantitative housing demand will be seen in the cities.

Average household size has fallen in recent years to 2.72 persons in Montevideo and 2.83 persons in the country as a whole. This is due to various socio-demographic changes: a reduced birth rate, a higher divorce rate, increased life expectancy, and others. The importance of single-person households is evident, especially in Montevideo, where they account for 24 percent of all households, two percentage points higher than the national average.

These characteristics explain why the total number of households is growing. Moreover, they also determine changes in housing demand, given that a higher number of units are required to house a greater number of smaller households. This household disintegration might be behind the increase in rental housing's share of the demand, as well as the fall in the age at which young people become independent. For the latter, a rental contract offers more flexibility than a home purchase contract. The increase in the percentage of tenant households can also be explained by the change in cultural norms, according to which the preference for homeownership diminishes insofar as the preferences for consuming other goods grows.

### *The Evolution of Homebuilding*

Since late 2003, both the public and the private construction sectors in Uruguay have seen sustained growth. According to the First Real Estate Report (Primer Informe de Mercado Inmobiliario), published by the National Housing Agency (Agencia Nacional de Vivienda, or ANV) (ANV, 2013a), growth in the construction sector in 2012 was higher than GDP growth (18.7 percent and 3.9 percent, respectively). With regard to homebuilding in Montevideo, three stages can be distinguished:

1. The first took place during the 1990s, when there was a sustained increase in the number of built square meters, with preference for luxury housing development in the first half of the decade and thereafter an increase in the share of medium-sized tower blocks with elevators, and affordable housing.
2. There followed a phase in which the number of built square meters declined and luxury homes and middle-class dwellings lost market share as a result of the financial crisis that affected the country.
3. Starting in 2005, housing production recovered and sustained growth was recorded in square meters built, reaching a high point in 2011. In this final stage, luxury and middle-class house building increased their market share. Many of these dwellings are acquired by local and regional investors, mainly Argentines, who have no interest in selling them as there are no substitute assets available. Part of this housing *stock* finds its way onto the rental market, thereby increasing this market's share of total housing. Furthermore, the high prices paid for these properties makes them hard to access by buying, thus favoring access by renting.

### *Public Housing Policy*

The crisis of the BHU meant that public homebuilding plummeted. Moreover, with the crisis the main actor in the credit market disappeared, adversely affecting the chances of new households becoming homeowners and obliging many of them to opt for renting. Likewise, the increase in occupier or informal households, as well as households in settlements, might be attributable to the fact that many of them found their housing needs were not satisfied by the implementers of public policy, as well as to the effects of the Emergency Law (Ley de Emergencia) of 1985. The latter caused an increase in rent values due to the higher risk premium required by lessors and shrinking rental housing supply.

## THE RENTAL HOUSING MARKET: THE CURRENT SITUATION

### *The Geographic Distribution of Rental Housing*

Any analysis of the rental housing market must distinguish between formal and informal tenants. The historical data available in Uruguay, however, do not allow such a distinction to be clearly drawn. Therefore, tenants living

**TABLE 12.4** Tenant Households by Type of Contract, 2006 (percentage)

Type of contract	Place of residence			
	Montevideo	Urban/interior	Rural	Country total
Written	79	64	60	73
Verbal	21	37	40	28
Total	100	100	100	100

Source: INE (2006).

in informal settlements probably belong to the informal rental market, whereas it is impossible to establish the degree of contract formality in the case of dwellings rented in the formal city.

However, in the Expanded National Household Survey (Encuesta Nacional de Hogares Ampliada), carried out by the INE in 2006, tenant households were consulted regarding the kind of contract that they had:

**TABLE 12.5** Tenant households by type of guarantee, 2006 (percentage)

Type of guarantee	Place of residence			
	Montevideo	Urban/interior	Rural	Country total
No guarantee needed	6	25	65	14
Individual (friend, family member)	34	46	25	38
A private individual with whom there is some kind of contract	1	4	3	2
Comptroller General of the Nation (Contaduría General de la Nación)	33	4	1	23
ANDAs	9	4	0	7
PIAI Rent guarantee	0	0	0	0
BHU Escrow account	7	3	0	5
Private escrow account	8	11	4	9
Ministry of Housing (guarantee fund)	0	0	0	0
Other	3	4	4	4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: INE (2006).

written or verbal. The verbal contract implies the informal rental market, as the existence of a written agreement is regarded as a minimum requirement of formality.

According to this study, the proportion of households in Montevideo that rent and have signed a written contract (79 percent) is significantly higher than in the rest of the country (64 percent for urban areas in the interior and 60 percent for rural areas). The verbal contract is much more common in rural areas, where it is used by 40 percent of tenant households.

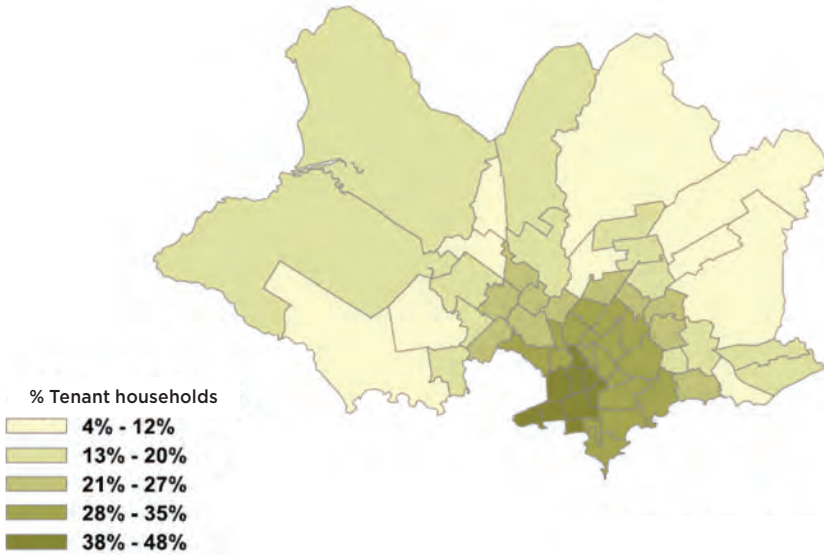
In the same survey, tenant households with a written contract were asked about the guarantee that backed their agreement, and significant differences were observed depending on the geographic area. In Montevideo, only 6 percent of tenant households with a written contract were not asked for a guarantee, whereas in urban areas in the interior this proportion rose to 25 percent, and to 65 percent in rural areas.

There were also noticeable differences in terms of the guarantees required in the different geographic areas. In Montevideo, a guarantee from a private individual (friend or relative) has practically the same weight as one provided by the Comptroller General of the Nation (Contaduría General de la Nación). In the rest of the country, the latter's importance is only marginal: between 4 percent and 1 percent.

Those households that do have a written agreement but lack a guarantee are also considered, to a certain extent, to be part of the informal rental market. If this criterion is applied, then the estimate of the country's total informal market rises to 38 percent. In any case, there are also regional differences: in Montevideo there are fewer variations, as guarantee requirements are much more common.

There are neighborhoods in Montevideo in which the dwellings subject to written rental contracts are concentrated; in turn, rental *housing stock* in these neighborhoods is oriented to different socioeconomic strata. To give three examples: the Barrio de la Unión has a population of low- and middle-income earners; El Centro has mainly middle-class people, whereas high-income earners live in Pocitos. These three neighborhoods head the ranking table for neighborhoods with tenant households. The spatial representation of these data reveals that rentals are concentrated in the central neighborhoods of the city. Thereafter, concentric circles can be drawn that include fewer and fewer tenant households the further they are from the city center (Cordón-Pocitos). This distribution corresponds to the density of each neighborhood. The coastal and central areas are denser, and the density diminishes toward the rural areas of the department (Map 12.1).

**MAP 12.1** Proportion of Tenant Households per Neighborhood in Montevideo (percentage)



Source: INE (2011).

Therefore, the proportion of households in Montevideo that rent their homes changes significantly according to the area where they are located. In the Cordón neighborhood, which has the highest concentration of tenants, 48 percent of households rent their homes. This is followed by Centro and Ciudad Vieja, with 44 percent. As Map 12.1 reveals, there is geographic proximity between the neighborhoods with the highest proportion of tenant households: Cordón, Centro, Ciudad Vieja, Tres Cruces, Villa Muñoz, Retiro, Aguada, La Comercial, Palermo, and Barrio Sur. The concentric circles in which the share of tenant households gradually declines become fainter the further they get from the center, following the city transport corridors that turn into the main national highways leading to the metropolitan area of Greater Montevideo.

### Public Rental Housing

The Government of Uruguay has produced rental housing at various times and through different institutions. This policy, however, was discontinued

a long time ago, replaced by homebuilding programs and housing access via loans and subsidies. Between 1937 and 1942, the National Institute of Affordable Housing (Instituto Nacional de Viviendas Económicas, or INVE) built homes for sale via mortgage loans, but also for letting to low-income segments of the population. These units subsequently became the responsibility of the BHU.

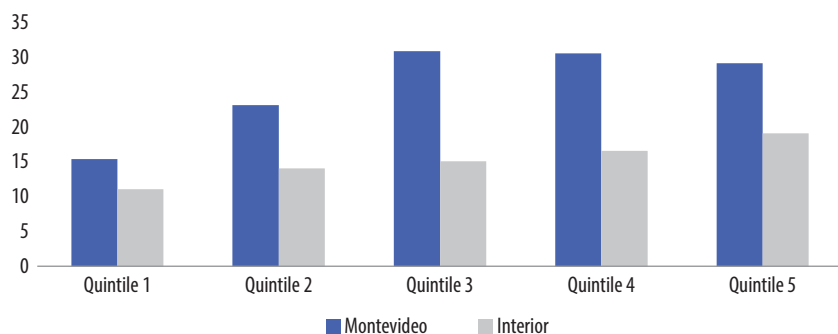
In times of economic crisis, the BHU allowed mortgage holders living in its housing developments (promissory purchasers) who were unable to repay the loan to rent their homes to ensure they had somewhere to live, and therefore managed rentals that originated in both the INVE and the BHU. Presently, some of these contracts from the BHU portfolio have expired and are regularized as rentals with an option to buy. The intendancies, in particular the Intendancy of Montevideo, also built affordable rental housing for low-income segments.

In the 1960s, the State Insurance Bank (Banco de Seguros del Estado, or BSE) began building housing complexes in a bid to diversify its assets. The sector Antitrust Act (Ley de Desmonopolización) and regulations of the Superintendence of Insurance (Superintendencia de Seguros) of the Central Bank of Uruguay (Banco Central del Uruguay, or BCU) forced the BSE to divest itself of the 500 homes that had been in this situation since 2005. The homes that become vacant are sold commercially, and the tenants have the right of first refusal on purchase.

The State Social Security Bank (Banco de Prevision Social, or BPS) includes rental housing in its pensioner housing programs, although this is a small program that covers less than 600 homes. This tenure option was also used to house the low-income, rural population in housing estates belonging to the Movement for the Eradication of Unhealthy Rural Housing (Movimiento de Erradicación de la Vivienda Insalubre Rural, or MEVIR), with total or partial subsidies provided by the Ministry of Social Development (Ministerio de Desarrollo Social, or MIDES).

### Tenant Household Characteristics

According to Second Real Estate Market Report (Segundo Informe de Mercado Inmobiliario) published by the ANV (2013b), heads of rental households are on average younger than the rest: their average age is 39 years, whereas the general average age is 51 years (INE, 2012). Tenants are predominant especially among the middle-income households. In Montevideo, the third quintile has the highest proportion of households living in rented

**FIGURE 12.3** Proportion of Tenants by Per Capita Income Quintiles (percentage)

Source: Authors' elaboration.

accommodation. In the interior of the country, tenants are concentrated among the households with the highest incomes (Figure 12.3).

### Affordability of Rental Housing

The rent burden is calculated using the rent-to-income ratio (RTI), which measures the percentage of income that tenant households are obliged to spend on rent. According to data provided by the Continuous Household Survey (Encuesta Continua de Hogares, or ECH) (INE, 2012), processed in the real estate report published by the ANV, in the case of Montevideo, the proportion of income spent on rent is higher than in the interior, at around 20 percent and 16 percent, respectively. The lower the income level, the higher the proportion of income spent on rent. In the first quintile, the RTI for Montevideo is 22 percent and 18 percent for the country's interior, whereas in the fifth quintile the ratios are 17 percent and 14 percent, respectively.

This indicator can be compared with the proportion of household income spent on paying mortgage installments by the households that purchase their own home. For the country as a whole, this proportion stood at 10 percent in 2012. In Montevideo, the average value of this indicator reached 12 percent for the same period but was slightly lower in the interior, at 9 percent. All these values are situated significantly below the 18 percent that tenant households throughout the country paid to rent their homes in the same year.

Over the last 20 years, the RTI has swung significantly. Although this ratio has recently been growing, it currently sits at rates similar to those



seen at the beginning of the 1990s. Tenant households spent significantly higher proportions of their incomes on rent between 1994 and 2004 than they do at present.

## A GENERAL APPRAISAL OF THE CURRENT SITUATION: LIMITATIONS ON THE DEVELOPMENT OF RENTAL HOUSING

### Public Policies

The Ministry of Housing, Territorial Planning and the Environment (Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente, or MVOTMA), created in 1990 by Law 16.112, is responsible for executing national housing policies. The MVOTMA was originally launched with responsibility for housing policies and programs targeted at satisfying the housing demands of poor, low-income, and insolvent people.<sup>4</sup> Furthermore, the BHU was the institution chosen to provide housing solutions for the solvent sectors.

This scheme excluded a wide range of people from the system, for whom neither agency provided a solution, and who therefore joined housing cooperatives or migrated to the periphery to live in precarious settlements.

Following the enactment of the Emergency Law (Ley de Emergencia) of 1985, rent prices increased due to the higher risk premium demanded by lessors. Amarante and Caffera (2003) point out that by 1999, the proportion of income spent on rent in the first decile was 66 percent. However, this figure is based on the rent paid by households in the fifth decile, given that the authors consider that the rent declared by the first decile households does not correspond to a decent home. The high rent values, alongside the existence of public and private lands lying unused for various reasons (such as speculation, due to difficulties linked to development costs and slow administrative procedures), encouraged the proliferation of settlements.

Public housing and habitat policies have gone through two clearly differentiated stages with regard to these settlements: (i) policies were unquestionably oriented toward eradicating them, and (ii) starting in the

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<sup>4</sup> “The MVOTMA’s role was directly related to compensatory policy for tackling poverty, which means that it mainly sees itself as an agency for combating poverty” (MVOTMA, 2010).

1990s, their regularization or at least their relocation was considered, according to the land uses stipulated in the municipal regulations and/or the prevailing environmental conditions in the occupied sites. At the same time, preventing further informal settlements became a public policy goal.

In the early 2000s, the financial, economic, social, and institutional collapse produced by the 2002 crisis meant that the BHU, the State agency that had until that time championed financing for homebuilding and supported the middle-income segments, needed recapitalization and restructuring. Uruguay's housing problems required an institution that would be responsible not only for creating new housing solutions, but also for facilitating access to rental housing, resolving the question of settlements in dangerous areas or decrepit buildings, tackling construction problems in affordable or medium-quality housing, finding alternatives to evictions for failure to pay for housing in the public system, solving the problem of the housing cooperatives' unpaid debt, and doing something about abandoned homes with utility connections or empty shells (unfinished buildings), among other issues.

Analysis of past shortcomings of public housing policy reveals the need to improve the efficiency of public resource use and public-private coordination to generate alternatives to SIH. A further weakness of the housing plans is that they failed to take the territorial perspective into account.<sup>5</sup>

In Uruguay, public housing policies have often exacerbated already unsustainable social and urban situations. Good examples of this are the housing programs of poor urban and architectural quality, which targeted vulnerable sectors of the population but led to densification in critical peripheral areas. In the past, plans aimed at eradicating informal settlements only led to consolidating population in unsuitable areas, thereby favoring the residential segregation that currently afflicts the city of Montevideo.

Moreover, adopting "economic solvency" as the sole criterion for segmenting the housing policy target population has in the past yielded regressive results from the residential segregation perspective, given that homes for each specific population group were located according to the minimum possible cost, thereby producing cheap housing solutions on the periphery for the poorest people. However, following the most recent administration, the MVOTMA began working on integrating the families

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<sup>5</sup> "Housing projects should serve to densify the city. It does not need to be extended, but should be kept within the framework of territorial planning schemes. Savings in the price of land that might bring short-term benefits subsequently imply higher overall costs for public investment, local governments, and citizens" (MVOTMA, 2010).

from different income ranges within the same housing complexes, which has had a positive effect from the social fragmentation perspective.

### Rental Market Legislation

The biggest and most recent change in terms of policy has been the promotion of private investment in SIH and the offer of additional benefits for owners who make these homes available for renting. Despite the significant number of homes promoted, these are mostly still in the construction phase, which means that their effects will not be seen for several years. The 2010–14 housing plan establishes two national renting policy priority target groups: young workers and/or students and Uruguayan returnees. Moreover, the policy seeks to provide nationwide coverage for services, which were previously limited to just Montevideo.

The regulation of rental or subletting contracts varies according to the property's use (domestic, trade, industry, and so on). But, in any case, contracts cannot contradict the terms established by law. The spirit of the legislation is to protect the lessee, considered to be the weaker party in a contract. Over time, the rental system has been increasingly deregulated, since starting in the 1980s, all legislative initiatives in this area were stopped. There are two different regimes for property used for living purposes, which are set out below:

#### *The protectionist regime*

- Regulation: Decree Law (Decreto Ley) 14.219 of August 1, 1974, and certain dispositions of the Civil Code (Código Civil).
- Price: fixed by joint agreement for the entire period of the contract.
- Adjustment mechanism: adjustments are made annually, must be stipulated in the contract, and are applicable until the moment when the property is reposessed by the owner. Otherwise, an annual adjustment is established that is divided into three four-month periods; each scale is a third of the accumulated adjustment of the previous stage. Therefore, in the first four-month period, rent is increased by a third of the adjustment, by two-thirds in the second, and in the third, the full adjustment is made (Law 15.471). If one of the increases resulting from the contract exceeds the adjustment coefficient, the lower figure between the annual variations of the adjustable rent unit (unidad reajutable de alquileres, or URA) and the consumer price index, then the lessee can choose

to adjust according to the readjustment coefficient until the property has been vacated. This option can be taken only once during the full rental period, and only if certain notice periods and formalities of communication have been observed.

- Currency of the contract: local currency (URU).
- Term of contract: a minimum of two years. If a shorter period is fixed, the remaining period up until the minimum will solely benefit the lessee. Once the contract is up, the lessee has the option of a one-year extension, which operates automatically.
- Eviction period: six months or a year, depending on whether it is sought before or after the contract has expired.
- Guarantees: (i) a deposit of up to a maximum of five months' rent, which can be updated according to the annual price increase in a period of 60 days, in cash, or in 10 monthly, equal, and consecutive payments; (ii) personal guarantee or guarantors (guarantees usually consist of real estate); and (iii) public or private rental guarantee services (public ones include the services of the Comptroller General of the Nation (Contaduría General de la Nación) and the MVTOMA, whereas private services are provided by ANDA and private insurance companies).

### *The freedom of contract regime*

- Regulation: Decree Law (Decreto Ley) 14.219, Civil Code (Código Civil), Law 8.153.
- Applicable, among others, to: (i) property with building permission dated later than June 2, 1968; (ii) tenants with incomes above 200 adjustable units (UR); and (iii) rentals with a rent value superior to UYU 70.
- The regulations of the protectionist regime are not deemed obligatory. For example, contracts can be signed in either local or foreign currency. The adjustment is made once a year. The same eviction period of six months or a year is valid depending on whether applied for before or after contract expiration.
- This regime has been formulated with new building permits in mind, and is therefore gaining an increasing share of the market.
- Furthermore, there is specific legislation concerning the renting with the option to buy model (leasing). This is regulated by Law 17.296, which defines it as credit for operational use. This is a contract whereby a legal or natural person agrees to allow use of the

property for a set period of time, while the user agrees to pay regularly a price for such use. When the agreed period has expired, the user enjoys some or all of the options envisaged by law.

- This mechanism is used for housing as an alternative to the promise to purchase agreements and mortgage loans offered by the State via the BHU and the ANV. It enables people with low incomes, volatile incomes, unable to save for a down payment, or the elderly (with a limited mortgage time horizon). Moreover, it enables the owner to generate a credit history of the client.

### *Impact of the Legislation*

In reality, the existence of signed contracts is partial, and contract registration is even less common. Such registration is very expensive; notary fees can be up to 2 percent of the total value of the contract, plus 0.36 percent for social security contributions. The use of standard form contracts is common. They are purchased over the counter and are signed by both parties. In any case, it is easy for tenants to prove their condition in court by merely presenting a utility bill in their name. Once this condition has been established, the aforementioned rules apply.

In certain cases, rental properties have to be certified by each departmental intendancy. It is not necessary to own the property to be a party to a rental contract. The link with the owner might be tenuous, but the contract might still be valid. Thus, all rental housing is covered by the legislation.

The judiciary no longer registers the number of eviction procedures initiated or those that end with the expulsion of occupiers for breach of contract, or the reasons for these procedures. From 2008 to 2011, the historical data show that 4,000 procedures were initiated each year. The majority of these proceedings are taken against tenants, but also against persistent mortgage loan defaulters. These proceedings can be very slow, but they usually find in favor of the owners.

### *The Structure of Housing Finance and the Mortgage Credit Market*

Until the early 2000s, the BHU monopolized mortgage credit. Thereafter, the market was opened up to participation by other public and private banks. After a period of scant activity caused by the financial crisis of 2002, there was a noticeable increase in the private bank share of the loan market.

In 2003, one of the few banks that continued to provide loans after the crisis was the COFAC cooperative (later acquired by the Banes Bank). It lent

up to 50 percent of the property's market value over 10 years, with a ceiling of US\$50,000. Presently, private banks are lending an average of 70 percent of market value, with repayment periods ranging from 15 to 25 years.

Recently, there has been a noticeable surge in mortgage lending activity in the private banking sector, coupled with positive public bank loan growth. After six years on the sidelines, the BHU began once more to provide mortgage loans in 2008, with a superior *loan-to-value* ratio to that offered by private banks (80 percent). A few months earlier, the other public bank (BROU) also entered the mortgage lending market (March 2008).

By around 2009, eight of the country's 28 banks were operating in the housing sector. The loans offered in the sector represented nearly 9 percent of total banking sector assets and 5 percent of the country's GDP. The average active interest rate was 24.2 percent, or 6.3 percent in U.S. dollars.

### *Microfinance*

A wide array of microcredit lending instruments are on offer within the public housing system. They are aimed at improving housing habitability standards, which in many cases are targeted to people in the same income range. Among the alternatives offered by the MVOTMA are reimbursable and non-reimbursable programs, the latter targeted to highly vulnerable population groups.

Among the non-reimbursable programs are those executed by intencancies in the country's interior, via agreements signed with the MVOTMA's Housing Directorate (Dirección de Vivienda), which define the situation of vulnerability and provide up to 100 percent subsidized credit.

With regard to reimbursable programs, urban renewal offices, which provide interest-free loans, are worth mentioning. In general, each intencancy defines the area of intervention, and potential beneficiaries have to register to receive a loan. A refurbishment loan administered by the ANV provides a subsidy to help with mortgage payments as well as technical assistance. The reimbursable refurbishment loans also include the Your Dream House (Tu Casa como la Soñaste) program, which functions in association with private institutions. These institutions take out a loan before lending to the final beneficiary, thereby fulfilling the requirements established by the MVOTMA.

Finally, the BHU can provide the bankable population with two possible lines of credit for refurbishment work as a way of encouraging people to remain in their homes. One of these is a five-year refurbishment loan and

another is a building repair loan, for which a mortgage must be taken out on the property to be repaired. These provide larger amounts of funds with a longer repayment period, of up to 20 years.

## CONCLUSIONS AND RECOMMENDATIONS

The use of rental housing as an instrument of housing policy is often restricted to emergency situations (domestic violence, families with numerous children). One possible explanation for its underuse is that excessive intervention in the rental market and the effects of previous housing policies have given these instruments a bad name.

However, rental housing can be a policy tool that enables low-income families, who are unable to save for a down payment for a mortgage, to access housing. Even when subsidies have to be provided, renting can still be a cheaper alternative than other mechanisms. Amarante and Caffera (2003) proposed using subsidies for long-term rental agreements as an alternative instrument, instead of regularizing informal settlements by building new homes or providing property titles for existing ones. This solution offers the right incentives and can achieve faster and more sustainable results. A policy of this nature is open to criticism, however, as it may encourage a culture of dependency on the State.

In addition to providing subsidies, the guarantee system should be used more intensively. Guarantees are vital for ensuring that owners really do rent out their properties. As far as the public systems are concerned, the MVOTMA-promoted guarantee for young people should be reviewed, as it has failed to deliver enough solutions.

Subsidies and guarantees can stimulate demand in the rental market. But increased demand without an equivalent increase in available housing stock would only serve to push up rents. Therefore, the path established by the policy of using tax exemptions to promote private investment in SIH seems to be the correct one. A possible parallel course of action is to bring empty homes back into use, as these constitute a significant proportion of the housing stock in certain neighborhoods in Montevideo. A combination of rental housing demand and supply incentives is a key option for achieving significant changes in a market that, although it already provides 200,000 units out of a total of 1 million households in the country, still needs further expansion to reach the 45,000 households that still live in settlements, as well as the rest of the population with a housing deficit.

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## **PART III**

# Toward New Policy for the Rental Market



# Conclusions and Recommendations

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

This publication argues that the rental market can be a key instrument of housing policy in Latin America and the Caribbean. It describes the problems of housing in the region in terms of quantitative and qualitative gaps and the questions of affordability and segregation. Moreover, it identifies the potential benefits of rental housing, demonstrating that it is a viable social housing alternative that can be fiscally more sustainable, and a more flexible approach for responding to the preferences of certain segments of the demand, and that can provide better locations and thereby discourage low-density development on the periphery.

This review of the state of rental housing in the region reveals that, although Latin America and the Caribbean is a region of homeowners, homeownership has not always been the main form of tenure in urban areas and that renting continues to be important, particularly for some segments of the demand. It also demonstrates that the probability of renting does not decrease as household income rises, that rented accommodation is not necessarily of poor quality, that it is, in fact, usually more centrally located, denser, and more accessible, and that the supply is diverse, private, and small scale. Finally, the study concludes that the formal market is limited by regulations, information asymmetries, and high transaction costs.

This final chapter draws together all of these elements to set out a series of policy recommendations for governments in the region. By their nature, these recommendations are general and are based on the implications of market characteristics and, in some cases, on adapting successful cases from international experiences to the region. Its objective, therefore,

is to provide a menu of options that must be evaluated according to each country's characteristics and peculiarities. These policies must be understood as forming part of a general and integrated framework for urban and housing policies based on the concept that housing is a service, which offers, in an impartial fashion, a continuum of different options that can respond with flexibility to the preferences and needs of different segments of the demand. Rental housing policies should therefore be a complement, but never a substitute, for homeownership, and should be incremental and contextualized in response to specific spaces and places. Furthermore, any policy decision must be accompanied by rigorous studies regarding the costs and benefits of the programs to be implemented, to ensure that such policies have an efficient operational and financial management framework.

The recommendations are grouped into types of interventions as follows:

1. Suggestions for the supply side, including incentives for increasing the provision of small-scale rental housing, and for encouraging commercial production on a large scale.
2. Recommendations for the demand side, which include incentives such as direct subsidies, renting with option to buy, and other alternatives that combine renting and homeownership.
3. Considerations about the legal framework, including suggestions that relate to rent setting, the repossession process, information asymmetries, transaction costs, and urban planning.

As far as possible, the recommended interventions are distinguished according to whether they target high-, middle-, or lower-income households, as these markets are segmented and respond to different incentives.<sup>1</sup>

## THE SUPPLY SIDE

In a market characterized by its inelasticity, it is important to stimulate supply. Different estimates for the United States, which is a much more dynamic

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<sup>1</sup> Since most of the proposed types of intervention can be beneficial for different demand groups, the recommendations were not organized according to market segments. For example, reforms to the legal framework can benefit any of the income segments, and are therefore presented generally, whereas in the case of the supply incentives the tools relevant to each type of market were specified.

real estate market, suggest that rental housing supply has a price elasticity of between 0.30 and 0.70 over the long term (O'Sullivan, 2009). This implies that the supply of rental housing, as with housing in general, is relatively inflexible and is slow to respond to changes in demand. Therefore, any stimuli that fail to include supply incentives can lead to an increase in prices. This is what occurred in the United States following implementation of direct demand subsidies (vouchers), which actually increased rent for the lower-income segments by 16 percent (O'Sullivan, 2009). In the case of Latin America and the Caribbean, stimulating supply is even more important, as there are certain factors in particular—a longer and more expensive production process, greater scarcity of serviced land, and less purchasing power on the demand side—that can further limit the market's capacity to respond.

The supply of housing is segmented, and any incentive policy therefore has to differentiate according to demand-side income levels. In general, given that housing markets tend to satisfy higher-income earners more or less satisfactorily, measures based on changes to the regulatory and taxation framework are proposed for these sectors. The aim of such measures is to incentivize owners of vacant or underused properties to put these units into the effective rental housing supply in the short term, and then create over the long term the environment necessary for businesses in the real estate market to provide and administer commercial-scale housing supply. When it comes to providing housing for lower-income and, to a lesser extent, middle-income segments, direct production subsidies have to be introduced on top of the changes in regulations.

The proposed subsidies must be explicit, direct and transparent, and they must be included in budget categories and be given specific lines of financing. Tax incentive policies (tax breaks and exemptions, fiscal credits, preferential rates, and so on) should only be employed as a second option, as they conceal the real value of the subsidy and create inefficiency when it comes to tax collection. For their part, subsidies that affect relative prices, such as interest rate subsidies, should be avoided not only because they give rise to allocation inefficiencies, thereby affecting investment decisions of economic agents, but also because their sustainability is difficult to quantify.

### Small-scale Supply

The existence of a considerable proportion of unoccupied dwellings represents an opportunity to increase the effective supply in most of the region's cities over the short term. Furthermore, because the existing

supply is a result of the operations carried out by small-scale owners and landlords, promoting rental housing can help many families to complement their incomes. For these reasons, governments should create the conditions for unoccupied dwellings to be made available on the rental market. This applies mainly to that part of the potential supply that owners keep out of the market as a capital investment. In these cases, effective supply can be increased via a regulatory framework that makes property repossession easier, reducing the financial risk, and by introducing banking products that encourage households with homes that are already paid for to take out a second mortgage to buy and rent housing units. For example, the “Buy to Let” program in the United Kingdom, implemented in 1996, helped to increase by almost 60 percent the number of people living in privately rented homes between 2001 and 2008.

A taxation framework that balances the earnings from such an operation with other investment alternatives must also be developed. Only the net income from letting rental housing should be subject to tax, allowing costs such as operational expenses, asset depreciation, and losses to be deducted. For example, Germany, which is among the countries in which renting accounts for a high share of the housing market, applies these kinds of policies to the small private homeowner-landlords who provide around 60 percent of the supply. In a survey carried out in 2007, these landlords declared that, when it came to investing, the tax framework was a more important factor than the rate of return or real estate capitalization (Peppercorn and Taffin, 2013).

Another way of boosting the small-scale rental housing supply over the short term is by complementing regularization programs with financial incentives and technical assistance for building extensions, with a view to building rooms, apartments, and semi-independent structures for rent. An example of this idea is found in Colombia’s “Plan Terrazas.” Although this initiative was not exclusively aimed at renting, it offered a subsidiary line of credit for the subdivision or extension of houses (Jaramillo and Ibáñez, 2002). A study of 250,000 properties in 17 zonal planning units (UPZ) in Bogota estimated that more than 150,000 two-story homes could be built by making better use of regularized infrastructure and consolidated economic networks. At the same time, the policy would also reduce vulnerability to seismic events if the projects were overseen by appropriate technical assistance (Cities Alliance, 2006).

The case of El Salvador also offers interesting lessons on how to create housing supply from small informal homeowners by establishing

microcredit products, channeling remittances, and strengthening community cooperatives. These kinds of alternatives can be combined with regularization programs not only to ensure that the benefits of neighborhood upgrading reach more citizens, but also that the households living in informal homes can profit from complementary income.

### Large-scale Commercial Supply

Over the longer term, the abovementioned options will probably have to be complemented with incentives to encourage the construction of new housing units directly for rent. Although there are no solid data in this respect, it seems likely that a considerable part of the housing stock currently standing empty is made up of dwellings suitable for high-income groups, given that the supply in these segments tends to be greater. Furthermore, as described in Chapter 2, some of these empty homes would be unsuitable for renting, given their peripheral location and the lack of services. Moreover, regularization of informal settlements and encouraging the creation of good-quality rental housing via financing and technical assistance have to be accompanied by prevention strategies that not only produce more affordable formal housing, but also eliminate the incentives that might give rise to new informal settlements. It is true that programs of the “buy to let” variety can stimulate building by increasing demand among future homeowner-landlords. But it is also true that complementing supply with commercial operators that build to rent can boost economic dynamism in the sector and give rise to an industry with the capacity to significantly expand the market.

Two of the main constraints to large-scale rental housing supply are the complexity involved in managing these operations and the lack of specific financing for an activity wherein both the risk and the maturation period on the investment can be significant. These factors were alluded to in all the case studies undertaken for this publication as two of the key reasons underlying the lack of private sector interest in consolidating a commercial supply. Furthermore, the difficulties inherent in operating the business mean that many of the public rental housing initiatives are considered inefficient and unsustainable. The reason is that governments in general have not been effective when it comes to collecting the rent and maintaining the properties.

As a result, in the countries with higher levels of development, the cooperative sector is increasingly important for producing and operating

rental housing, especially for the lower segments of the demand. For example, around 2001 social housing institutions were responsible for two-thirds of all rental housing in the United Kingdom, whereas in Denmark they took care of nearly half, and nearly three-quarters in Ireland (UN-Habitat, 2003). Supporting these cooperatives and non-governmental organizations (NGOs) via financial incentives and training might provide a good opportunity to stimulate the supply of rental housing, given that these associations boast accumulated specialist knowledge and can obtain economies of scale that make the operation more efficient, and thereby reduce costs.

The introduction of real estate investment trusts has benefited large-scale housing supply in various countries, such as the United States, where large corporations operate around 30 percent of real estate property. These real estate investment trusts (REIT) have become a means of channeling capital toward real estate investments, diversifying risk among investors and stimulating professional management of rental housing operations (Peppercorn and Taffin, 2013). Since investors acquire shares rather than the property itself, these funds provide liquidity for their members and a considerable capital stock for large-scale investment, which gives rise to operational economies of scale.

Moreover, insofar as these funds are competing to generate a return for their shareholders, operational and managerial efficiency are vital. Therefore, specialist companies associated with the REITs provide such services or they are subcontracted (Peppercorn and Taffin, 2013). In this way, real estate investment funds can become a vehicle for increasing supply and generating a sustainable operation. In Colombia, for example, incentives have already been introduced for developing these kinds of funds, and tax incentives have even been established for the earnings arising from renting new social housing. Key elements, however, such as how the funds are obtained (Torres, 2012), remain to be regulated.

The use of public subsidies as a way to support private rental housing operators is also common in developed countries. Many of these programs are based on tax exemptions rather than on direct and transparent subsidies such as those suggested in these recommendations. For example, in the United States, the Low Income Housing Tax Credit (LIHTC) is an indirect federal subsidy that, via a competitive process, provides tax rebate certificates for the costs of property development (building, architecture, engineering, connections to services, and so on) in exchange for compliance with certain conditions regarding affordability. The credits represent between 4 and 9 percent of the total cost of development for each



year over a period of 10 years. The fact that these can be traded in the capital market means that developers can obtain up to half of the capital they need to cover the costs of a new project without having to borrow (Hackworth, 2007). The affordability conditions are maintained initially for 15 years, renewable to 30 years, and determine that 20 percent of residents earn an income either equal to or less than 50 percent of the average income for the area, or that 40 percent of residents earn 60 percent or less of the average income for the area (O'Sullivan, 2009).

The LIHTC has been classified as the most important program for creating affordable housing in the United States at present, and its results bear this out. Between 1987 and 2010, more than 2.2 million units were put into service, a quantity considerably above the number of public housing units for rent built since 1937 (HUD, 2012; Khadduri and Wilkins, 2008). Certain program characteristics have created suitable incentives. For example, private sector involvement in production has introduced market discipline to the supply side, whereas competition for subsidies among developers has meant that proposals are rewarded on the basis of specific policy goals, as well as ensuring a better final product. Likewise, the permanent character of the LIHTC has generated stability and confidence among investors, while the simplicity of the affordability requirements has made both getting results and program administration easier (Khadduri and Wilkins, 2008).

It is fair to say that certain problems persist, such as the difficulty of reaching the lowest segments of the demand, the program's sensitivity to changes in the financial market (Peppercorn and Taffin, 2013), and the possible displacement effects of projects that the private sector might have built anyway irrespective of the existence of the subsidy (Rosenthal, 2008). But it is also apparent that the LIHTC has generated a sustainable industry for building and managing affordable rental housing. Moreover, most of the housing units have maintained a reasonable level of rents, even after the program has concluded (Blanco et al., forthcoming; Finkel et al., 2006).

Some Latin American and Caribbean countries have introduced programs for subsidizing rental housing construction. Results, however, have been limited. In Argentina a tax benefit for building rental housing has been in place for 28 years, but nobody has taken advantage of it due to the country's high rate of tax evasion (Reese et al., 2012). In Colombia, a program similar to the LIHTC has had little demand because developers are unable to convert the tax benefits into capital via the financial market (Torres, 2012). In Jamaica, the so-called soft credits have not been taken up because the rate of return is too low to make the operation profitable

(McHardy, 2012). In Mexico, tax credits have had limited impact, as they are aimed at only certain segments of the population, such as military personnel (Salazar et al., 2012).

The above suggests that this type of program has to be adapted to the context of the region. In addition to designing explicit, direct, and transparent subsidies to guarantee their fiscal sustainability, the region's governments must create the necessary incentives so that a construction industry currently prone to focusing on short-term projects (Sabatini, Brain, and Mora, 2012) gets interested in investing in the long-term rental market, and also to make it attractive for the financial market to provide the necessary funds to improve the returns on these kinds of enterprises.

Another interesting alternative for countries in the region is to establish public-private partnerships via a commodate or trust agreement in which the State provides the land or the public buildings and the private sector takes care of building or refurbishing the structures with a view to providing social rental housing services. This type of mechanism is used successfully in Spain and might be an interesting option for Latin America and the Caribbean due to the existence of well-located, publicly owned land and buildings that are either vacant or underused. This kind of alternative, as suggested in the case of Chile, would boost the supply of social housing, make better use of land already developed, lead to more compact cities, and bring life back to the city centers. This can be achieved, moreover, with a minimum of public spending and risk, and include the possibility that ownership of the real estate reverts back to the municipality once the original period of the commodate has run out.

## THE DEMAND SIDE

For lower-income households to access these units, supply incentives have to be complemented with demand incentives. In the first instance, tax administrations should balance the tax burden on rental tenure with regard to property holding (UN-Habitat, 2003). It is therefore important to limit tax deductions for mortgage interest, capital gains from the appreciation of real estate appreciation, and the so-called imputed rent (the value of the rent that owners would be paying if they were renting), as these constitute preferential tax treatment for homeownership that works against renters and discourages rental tenancy (Blanco et al., 2012a; O'Flaherty, 2005). It is also fundamental to reconsider property taxes, as these can

also incentivize property ownership when they are very low. The case of Latin America and the Caribbean is illustrative in this sense, as the tax revenue from this category represents, on average, 0.30 percent of GDP in the region, compared with 1.15 percent in OECD countries (Bonet, Muñoz, and Pineda, 2014).

The use of direct subsidies is also necessary, given that when the households in question have almost no earnings, merely reducing the rent to make the dwelling affordable is not enough, however cheap the dwelling may be. Brazil's case is illustrative, as 9.1 percent of the demand is estimated to be made up of families lacking any monetary earnings whatsoever, whereas nearly 2 million families commit more than 30 percent of their income to pay the rent (Pasternak and D'Ottaviano, 2012). For the same reason, to be more effective and fiscally sustainable, direct rent subsidies have to target those who really need them: families from the bottom income quintile and homeless people, young people, students, women heads of household, elderly adults, people in emergency situations such as refugees or victims of violence, and even those home owning households living in dwellings that entail environmental or financial risk.

In a region where most people declare that they wish to become homeowners at some point in the future, there is a political requirement for demand subsidies to complement the desire to become a homeowner. Therefore, a household that benefits from a demand subsidy for rental should maintain the option of accessing subsidies for property ownership, after having fulfilled certain basic requirements. As will be seen later, demand subsidies can even support the desire to become a homeowner if they are accompanied by incentives to save, or if they are reported to the credit bureau, enabling families to begin building their own credit history.

Likewise, demand subsidies should be based on the concept of co-responsibility. This implies that beneficiaries should cover a part of the rent with the aim of creating incentives for them to access a better home when their earnings improve. Minimum quality requirements should also be included to ensure that household living conditions effectively get better. Furthermore, demand subsidies must be coordinated with supply incentives to avoid market distortions and possible price increases that are detrimental to non-beneficiary families and that reduce the effectiveness of the support given to the target beneficiaries. The rent assistance program in the United States known as "Section 8" is a good example of an intervention that has all these characteristics. The program covers the difference between 30 percent of household income and the current market rent in

the area. Topping up the rent ensures that there is a shared effort with the beneficiary, while demanding a direct contract between the tenant and the homeowner-landlord guarantees minimum housing quality and encourages private supply. The program currently covers 1.2 million units (Landis and McClure, 2010).

As was highlighted in the case of Peru, it is also crucial that beneficiary housing units are of the necessary quality and are not merely rooms or spaces that might give rise to problems of overcrowding. Public programs must therefore include certain minimum decent living standards and create certification mechanisms. As suggested in the case of Chile, it is not necessary for this activity to be developed directly by the public sector, as it can be subcontracted to private operators instead with a view to reducing the operational and administrative burden for the State.

The following section proposes three demand incentive mechanisms with specific examples from the region based on experiences in Brazil, Chile, and Colombia: direct subsidies, leasing programs, and alternative systems that link rent support to the desire to become a homeowner.

### Direct Subsidies

In 2004, the municipality of São Paulo launched a program of demand subsidies entitled “Bolsa Aluguel.” This is an initiative whereby assistance is provided for rent payments in the private rental market to families earning between 1 and 10 times the minimum salary, for periods of 30 months, renewable for a further 30 months. The program offers a deposit of three months’ rent as a guarantee and gives priority to families earning six or less times the minimum salary that live in municipal intervention areas or in risk conditions. “Bolsa Aluguel” has evolved over time, but up until now its range has been limited: it currently covers 21,000 families out of an estimated total of 257,000 families that are unable to commit more than 30 percent of their income to paying the rent (Pasternak and D’Ottaviano, 2012).

In Chile, the Ministry of Housing and Urban Planning (Ministerio de Vivienda y Urbanismo, or MINVU) has established that around 34 percent of the subsidies for owned property be provided to households where the head is under the age of 30. This situation is problematic because as was revealed by a survey carried out by the MINVU, a third of the households comprising members aged between 18 and 29 years declared that they would continue to live for only one more year or less in their current residence (MINVU, 2012). It was for this reason that, in 2013, the MINVU began to

implement a demand subsidy program targeting heads of household aged 30 and under with the goal of providing greater mobility to the residential market. The subsidy tops up rent payments for those beneficiaries who fulfill certain criteria in terms of income and socioeconomic circumstances. Likewise, requirements are set regarding the minimum quality of the dwelling—which have to be certified by a competent body—and the maximum rent payable. The beneficiaries are given one year to find rental accommodation, a period which is not covered by the subsidy. From the moment that the rental contract is signed between the homeowner-landlord and the tenant, the latter is entitled to three years of benefits, which can be prolonged for two more years albeit at a reduced rate. When the five years are up, additional points are awarded for a homeownership subsidy. The MINVU estimates the existence of up to 150,000 potential beneficiaries, and does not omit the possibility of extending the program to other groups of people. To avoid market distortions caused by a lack of demand incentives, the MINVU intends to introduce the subsidies gradually, beginning with just 10,000 for the entire country (MINVU, 2012; Sabatini, Brain, and Mora, 2012).

### Renting with Option to Buy

Renting with the option to buy or leasing programs seek to combine the advantages of renting and homeownership by channeling a part of the rent toward a possible purchase of the property. This approach facilitates the mobility of families and avoids the transaction costs associated with property deals, while at the same time offering a guarantee of purchase in the event that the occupants opt for this choice. Renting with option to buy also permits households to consolidate their savings and amass the initial deposit and, possibly, get lower interest rates by reducing financial risk and generating a credit history that can be reported to the credit bureaus (UN-Habitat, 2003).

Although these kinds of programs have been implemented in various countries in the region, Brazil and Chile are the countries with the longest experience in these matters. In both cases, results have been limited due to the specific characteristics of policy design. In Brazil, the federal government introduced the Residential Rent Program (Programa de Arrendamiento Residencial or PAR) in the 1990s. This is a leasing initiative focused on families that earn between three and six times the minimum salary and whose monthly rent is equivalent to 0.7 percent of the value of the dwelling. The

families are entitled to make an offer to purchase after 15 years, deducting a part of the value of the rent paid (Pasternak and D'Ottaviano, 2012). The PAR generated a considerable supply during the 2000s and included more than 230,000 housing units around 2006 (Gilbert, 2012). However, it declined following the introduction of the program “*Minha Casa, Minha Vida*,” (My Home, My Life) through which the government offers subsidies for homeownership to the same segment of the demand. As the PAR was not accompanied by changes in the regulatory framework that might encourage private supply, it was mostly financed by public banks, represented by the Federal Economic Savings Bank (Caixa Econômica Federal), which incurred high administrative and maintenance costs (Pasternak and D'Ottaviano, 2012; Peppercorn and Taffin, 2013).

In Chile, renting with option to buy was introduced in 1993. The design was based on administration by private banks, which maintain ownership of the property and collect the rent and savings contained in the monthly payment for a period of 15 to 20 years. In general, demand for this program has been limited and by 2002 represented just over 1 percent of beneficiaries of housing policy subsidies in the country (UN-Habitat, 2003).

### Other Alternatives Combining Renting and Ownership

Some markets have created hybrid tenure systems, such as *antichresis*, a mortgage contract whereby the homeowner-landlord allows the tenant to occupy a property without monthly rental payments in exchange for a “loan” not greater than 40 percent of the value of the property, which is returned without interest when the rental contract expires (UN-Habitat, 2003). *Antichresis* is beneficial to both homeowner-landlord and tenant: in the former case because it allows access to credit, and in the latter because it enables the tenant to save the cost of the rent while also conserving the value of accumulated savings, at least in nominal terms. This system is popular in countries such as Peru, where nearly 5 percent of households were living with this kind of tenancy agreement in 2007 (Calderón, 2012).

This option can be combined with subsidy programs. For example, for Colombia, Jaramillo and Ibáñez (2002) propose that the government should transfer to a special account the amount of the subsidy for purchasing the property in the case of beneficiaries who have yet to amass the sum needed for the down payment. In the original proposal, the financial returns achieved in the period that the user defers in accumulating the necessary savings and accessing the property are utilized to conserve the real value

of the subsidy, as well as for a periodic payment intended to help the family pay the rent. One alternative is that the user employs this value to access a dwelling via antichresis, with the condition that the payments previously made to cover the rent are now saved. In one way or the other, this might encourage families to save, and thus improve both the efficiency in allocation and the use of subsidies, as well as housing conditions.

## THE INSTITUTIONAL FRAMEWORK

### Rent Setting and the Repossession Process

The negative impact on the supply of rental housing toward the middle of the twentieth century in the region caused by rent controls and the difficult repossession process demonstrate the need to balance the interests of homeowner-landlords with the interests of tenants. Cases such as Germany and Switzerland suggest that it is possible to provide security of tenancy for renters while at the same time building an environment of security, profitability, and confidence for landlords. The specialist literature indicates that a balanced legal framework can include rent controls, but that they must be set in relation to market values in the area and be subject to amendment depending on how inflation behaves. Specifically, Peppercorn and Taffin (2013) propose differentiating between the new units produced by building and refurbishment in which the rent levels have to be free within the established parameters, vacant units in which the rents are not controlled but are compared to reasonable limits (the current rent values on the area), and units in which the tenant himself renews the contract, in which case the increase in the rent would have to be indexed to inflation. In any case, changes must be gradual to avoid abuses, flexible to respond to cases of temporary or local scarcity, and should be accompanied by other measures that support demand to alleviate the effects for tenants.

With regard to repossessing the property, is it important not only to accelerate the process but also to make it less expensive for the homeowner-landlord. Although it is desirable to introduce alternative conflict resolution and arbitration mechanisms, there should also be incentives and fines to prevent non-paying tenants from coming to an arrangement before a judicial hearing or eviction and remaining in the unit without paying the rent for as long as the process lasts. The model applied in the United Kingdom from 1993 onward includes some of these elements, as it allows

the hearing to take place only weeks after the case has been presented, as well as separating the process of repossessing the property from recovery of the back rent. This thereby guarantees that the homeowner-landlord reduces the losses in the short term and can recover part of the back rent in a separate judicial process (UN-Habitat, 2003).

For the law and conciliation to be applied, there has to be an increase in the use of contracts between homeowner-landlord and tenant. The specialist literature encourages the use of standardized contracts that describe the unit, fix the duration and the price of the rental, and determine the processes whereby amendments, extensions, or conflicts can be dealt with (Peppercorn and Taffin, 2013; UN-Habitat, 2003). It is worth highlighting that in a region where a large part of the rental market has some degree of informality, this change would be contingent on creating the necessary incentives to make the use of contracts more attractive, with more benefits than costs for the actors involved. A legal awareness-raising process must also accompany the amendments, given that both tenants and homeowner-landlords are unaware of the established procedures. It is equally advisable that matters that often cause conflict, such as maintenance, the right to improve the property, and the payment of administrative and public utility bills are clearly stipulated in the standard contracts. In the latter case—which is one of the main points of discord—it is also advisable to explore legal amendments that would enable tenants to directly contract services in their own names with the utility providers, as happens 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 posed when it comes to regaining possession of a property mean that, in the formal market, homeowner-landlords increase requirements for tenants, whereas in the informal market filters are created via personal recommendations. Both cases give rise to higher transaction costs that discourage dynamic activity in the sector and are detrimental to the actors involved. In Argentina, Colombia, and Mexico, for example, in the highest segments of the demand, certain financial sector firms offer insurance policies that guarantee compensation for homeowner-landlords in the event of non-payment. Although this solution implies a cost, it raises the level of certainty, reduces the risk for the homeowner-landlord, and improves the options open to tenants for accessing a home. It is true that



these kinds of solutions have yet to become general practices and, in fact, it is estimated that coverage extends to just 5 percent of the formal rental housing stock in Mexico (Peppercorn and Taffin, 2013). However, due to their convenience and efficiency they might offer an area of growth and consolidation for the rental market, at least among the highest-income segments.

For lower-income segments, and even for middle-income segments, some kind of state support is needed to address information asymmetries. The Rental Guarantee Fund (Fondo de Garantía de Alquileres, or FGA), introduced in Uruguay in 2006, is a useful mechanism as it provides rent payment insurance for the homeowner-landlord whose tenants have low incomes and qualify for inclusion in the program according to certain limits relating to earnings and the value of the rent. In exchange, the tenant pays an initial quota equivalent to 24 percent of the rent and monthly quotas of 3 percent. In the case of failure to pay the rent for three months, the repossession process gets underway, during which time the FGA continues to pay the rent of the defaulting tenant. By March 2010, 1,200 contracts had been signed, of which 18 percent corresponded to defaulting tenants, while only 2 percent of the total has ended up in eviction processes (Moya, 2011).

However, there are some problems with targeting the insurance policy, as it is estimated that according to the access requirements, only 30 percent of beneficiaries would be in the first and second income quintiles. Despite this, the FGA seems to be an efficient tool when it comes to the costs involved in improving access to, and the quality of, housing. In this regard, the Ministry of Housing, Territorial Planning and the Environment (Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente, or MVOTMA), when comparing this option to other schemes for accessing new properties for homeownership, points out that “building 1,500 new homes at US\$45,000 each would imply an investment of US\$67,500,000 by the MVOTMA, with a tender process lasting 24 months. [In the meantime,] the entire fund allocated for guarantees is US\$1,500,000, which would be enough to cover around 8,000 rental contracts with a default level of around 5 percent” (MVOTMA, 2010).

In addition to insurance guarantees, information asymmetries can also be reduced if the entities in the sector publish information detailing the rents paid in each area, as occurs in the United States and Germany. Furthermore, reporting cases of failure to pay the rent to the credit bureaus can help homeowner-landlords to filter potential tenants more efficiently without having to demand requirements that make access to rented

accommodation more difficult. The latter action would also create greater incentives to pay as, according to one Mexican insurance company that offers rent guarantees, being one month behind in the rent has decreased from 30 percent to 5 percent since information began to be reported (Peppercorn and Taffin, 2013).

## Urban Planning

The specialized literature, as well as evidence for Latin America and the Caribbean, confirms that rental housing tends to be more central, denser, and more accessible. This suggests that coordinating rental housing policy with urban and territorial planning could help to reduce residential segregation and breathe new life into the city centers. The LIHTC in the United States is a clear example of the potential of this kind of coordination, as by setting affordability requirements for only 40 percent of the units in a property (rather than for 100 percent of them), better social integration has been achieved at the project level. In effect, despite the fact that lower-income households occupy 85 percent of the units (Rosenthal, 2008), this proportion is higher than in projects that are strictly public where, generally speaking, there is no recorded integration of families with middle or higher incomes. Furthermore, by offering additional points to the developers who participate in the bidding process for allocating tax credits for factors such as more central locations or proximity to public transportation, LIHTC projects have achieved greater spatial integration, as nearly half of the units are located in high- and middle-income sectors according to the census (Rosenthal, 2008). In fact, various studies have found that, compared with other public housing programs, LIHTC locations tend to disperse poverty (Newman and Schnare, 1997) and to offer better access to centers of employment, as well as to social and commercial services and other urban amenities (Blanco et al., 2012b).

On top of these incentives, mechanisms have been implemented in the United States for regulating land use as a way of generating supply of affordable rental housing in areas of high demand. Such is the case with so-called inclusionary zoning, a tool that requires developers to incorporate a percentage of social housing units (SHU) in projects that target the highest segments of the demand. Although it was foreseen that developers could be exempted from compliance with the regulations in exchange for a cash payment in certain cases, this type of local regulation has produced at least 90,000 units throughout the country, and perhaps even more when

considering that just 30 local governments in California reported that close to 34,000 units had been built under this scheme (Pendall, 2008).

In Latin America and the Caribbean, only a very few local administrations have managed to make progress on improving coordination between rental housing and urban planning. One exception is the municipality of São Paulo, which has used the PAR leasing program as a way of restoring historic buildings in the city center and producing housing for families earning between three and six times the minimum salary. It has also created the Social Renting Program (Programa de Locação Social) to create rental accommodation located in central areas of the city. In this program, the rent is determined by dividing the amount invested in the building by 30 years, which can represent a minimum of 10 percent and a maximum of 15 percent of the beneficiary's income. The municipality grants a subsidy that covers the difference between the rent and the reference value, which is determined by the property's investment and operating costs. Overall, both operations have given rise to inefficiencies and have been restricted to pilot projects in privately owned and publicly managed buildings: in the former case, 700 families living in seven buildings were beneficiaries, whereas the latter case was applied to 760 units in three housing complexes (Pasternak and D'Ottaviano, 2012). Other local governments in the region have used concepts that are similar to inclusionary territorial planning. This is true of the declaration on priority SHU development used in Bogota; however, these are initiatives that were not expressly set up with rental housing in mind.

For all these reasons, formulating rental housing policy has to be coordinated explicitly with the tools of urban planning. Combining these policies with such mechanisms as inclusionary zoning would not only help to reduce spatial social segregation, but would also incentivize the use of well-situated land for the provision of social housing. At the same time, this coordination might help to solve the problem of the lack of building land, a restriction that has traditionally been identified as a major obstacle to the construction of housing for lower-income households, and one of the main causes of informal development (Smolka, 2003).

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*Ministry of Housing, City, and Territory, Colombia*

