

# **WHAT TO DO WITH PUBLIC RENTAL HOUSING? CHALLENGES AND OPTIONS**

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“The opinions expressed in this document are those of the author and are not intended to represent the views of the Inter-American Development Bank”

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## **Foreword**

*This study, by Nelliana Villoria Siegert, addresses a problematic that our borrower countries must frequently tackle: What to do with Public Rental Housing (PRH)? The question stems from the fact that—in most cases—this form of housing engenders financial, social and political problems due to the expenses that its operation and maintenance represent, and the inadequate physical and social conditions that exist in them. Many times these conditions limit the urban potential of the area where they are located.*

*What to do with PRH to improve these conditions? This question is the subject of this study. To address it, Villoria reviewed the existing relevant bibliography and the experience of countries from Latin America, the Caribbean, Europe, and North America. In addition, she conducted a series of interviews with public and private officers that have had experience with the topic in some way or another. The study presents this experience and alternatives to improve PRH. These experiences and conclusions may also be useful for those countries of the region that are considering the provision of PRH.*

*The direction and coordination of the study was under the supervision of Mauricio Silva (Urban Specialist, IDB Region 3). Jose Brakarz (SDS) and Michael Jacobs (EXE) provided comments to the draft version. Ana Lucia Saettone (SC3) was in charge of the presentation, edition and technical attainment of the document.*

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## *EXECUTIVE SUMMARY*

*This paper is intended primarily for those governments in Latin America that have public rental housing (PRH). Although there is currently not a great deal of PRH in the region, it is one of the most affordable housing solutions for low-income populations in some Caribbean countries. Still, the governments that own public housing face a number of problems owing to the fiscal and administrative burden it represents.*

*The challenges presented by PRH have been experienced widely by many countries at various levels of development. The majority have faced the dilemma of deciding how to preserve the positive attributes of their PRH, while mitigating its negative impacts on the State, tenants, urban areas, and society as a whole.*

*This paper aims to: (i) identify positive and negative features of PRH; (ii) identify the alternatives other countries have found in their search for a solution to the problems associated with PRH, (iii) identify the lessons learned from implementing those alternatives; and (iv) analyze which elements might be drawn from these lessons to guide the design of affordable housing policies in the Latin American region. In short, the aim is to highlight the major challenges and options for governments that have PRH, and what can be done in view thereof.*

*Although this paper was written with those Latin American and Caribbean countries in mind that have PRH, it can also be useful for governments that are considering the idea of providing PRH in the future.*

*In preparing this paper, a literature review served to identify the various alternatives to PRH implemented worldwide. In addition, a series of telephone interviews were conducted with professionals and academics from the housing sector in countries at varying levels of development, as well as with professionals from international development agencies, who provided valuable first-hand information.*

*An inevitable question arises from the central theme of this paper: Should the State provide PRH or not? This question has no single answer, for as will be seen later, every option has its pros and cons. It must be noted that PRH is not a bad housing model in and of itself. Its negative effects stem from the lopsided way that all financing, management, and maintenance activities fall to a single, already overburdened entity—the State. There are governments that have implemented it effectively and have found formulas to mitigate the adverse effects without having to do away with PRH altogether. Others, however, the majority in fact, have turned to alternatives that have allowed them to share the responsibility for managing PRH with other players, or have fully shifted that responsibility to the private sector.*

*The principal challenges a government faces as owner of PRH revolve around three critical issues. These three issues define the essential questions that a government must ask itself when facing problems owing to its role as PRH landlord. These questions and their underlying concerns are:*

- 1. Does the government wish to continue to be a direct provider of PRH? This involves the issue of who should own the housing, a question which shapes the other two in that landlords are directly responsible for managing and maintaining their property.*
- 2. What should be done with deteriorated properties? This involves the matter of repairing existing properties. Often, the public sector's financial difficulties result in the maintenance of PRH developments being postponed. The consequences are felt by (i) the occupants of these dwellings, who must endure substandard physical living conditions, (ii) the State, which faces social pressure from tenants, (iii) the urban area where the PRH development is located, and (iv) society as a whole.*
- 3. How can resources be optimized so as to achieve efficiency in the administration and management of PRH developments? This involves long-term responsibilities that affect the useful life of the property, its economic value, and that of the community where it is located. As will be shown, the efficient management of PRH developments is one of the greatest challenges facing the landlord of this type of housing, be it because of costs or because of the specialized knowledge it requires.*

*The following are the options identified and their principal drawbacks:*

- A. The State decides to transfer ownership of PRH to the private and/or third sector (non-profit organizations from civil society). These are the alternatives implemented by governments at varying levels of development:*
  - 1. The most common option worldwide has been to sell units to their tenants. The main problem with this option is that for tenants to purchase their home, they must be able to afford it. The chief advantage is that it promotes homeownership, which is very important in view of the lack of job security affecting the majority of low-income households in Latin America and the Caribbean.*
  - 2. A very common practice, especially in Europe, has been the creation of non-profit housing associations to which the State transfers ownership of its PRH. The greatest challenge for the Latin American region would lie in that these organizations need to be at a certain level of development in terms of providing social housing. The greatest advantage is the access that such organizations have to communities as well as to public and private financing.*
  - 3. The State can transfer PRH to tenant cooperatives. With this option, paying for maintenance represents a major hurdle for lower-income households. However, it is an option that promotes community action and can bring down rental costs.*

4. *The State can transfer ownership of the units and their common areas to tenants who form condominium associations. This option presents challenges similar to those of cooperatives. However, because it involves individual homeownership, it also requires an ability to save and greater access to formal financial mechanisms. The advantage is that the State can transfer all its responsibilities.*
  5. *Finally, the State can sell its PRH complexes to private sector real estate developers. The greatest danger with this option is that affordable housing options vital to low-income families might disappear from the real estate market. The greatest advantage is that if the needed incentives are put in place, it could lead to successful experiences with direct private sector participation in providing social housing.*
- B. *The State decides to continue to own its PRH, in which case it must do something about the physical deterioration of existing housing and the management and maintenance thereof:*
1. *Most of the time, existing PRH developments are located in urban centers, which makes rehabilitation more difficult and in many cases raises historic preservation issues. Mexico and Uruguay have both had experience with recycling housing in the centers of their capital cities. The principal downside to this alternative is the relocation of tenants, given the political sensitivity of the issue. The main advantage is the investment of resources in community economic development, the increase in property values and the opportunity to create new units from the redistribution of spaces. Likewise, it allows to address existing social problems such as overcrowding and physical deterioration.*
  2. *If the PRH developments in question do not warrant physical rehabilitation, either because they lack historical value or because the rehabilitation costs are greater than the cost of new construction, then it is worth it to demolish them and reconstruct in the same or another location. In this case, the primary challenges lie in guaranteeing that existing units are replaced and located close to jobs. Its advantages are similar to those mentioned above.*
  3. *When the State decides to maintain ownership of PRH, there are two options that offer a solution to the problem of inefficient management. In the United States, Canada, and England, management and maintenance organizations have been created that are tenant-based. It is an option that strengthens community development and relieves the State of an administrative burden. However, it presents the challenge of ensuring transparency in the tenants' use of funds and may cause difficulties in community relations or their relations with the government.*
  4. *The State's other option for tackling the management and maintenance problem is to contract for-profit or non-profit private property management companies. In Uruguay, they are mandatory in the case of housing cooperatives, and in England they are a prerequisite for obtaining State financing.*

*As this paper will demonstrate, the State has a variety of options that range from transferring responsibilities in part to transferring them in full. Finding the most suitable alternative depends largely on an in-depth knowledge of the real estate market in question and on the willingness of the various social actors to participate in partnerships to provide social housing.*

*Overall, it has been shown that in both less developed countries and those that are more developed, it is not beneficial for the State to be the only provider and manager of social housing. The problems deriving from this experience are precisely what have led various governments to seek options that enable them to provide affordable housing while at the same time minimize the negative impacts on the State, urban areas, and society as a whole.*

*Lastly, it is worth mentioning some recommended ways to improve the chances of success in providing affordable housing in Latin America and the Caribbean: (i) institute demand subsidies; (ii) create incentives for the private sector to produce housing that benefits lower-income groups and those with the greatest housing needs; (iii) promote the development of a competitive market for property management services; and (iv) strengthen partnerships among the public, private, and non-profit sectors.*



## I. INTRODUCTION

- 1.1 The term “public rental housing” (PRH) refers to housing owned by the State, which usually rents it at subsidized prices and looks after its maintenance and administration. PRH constitutes an affordable housing option for low-income groups. However, this affordability comes at the expense of a sizable share of the public budget, and depends on the administrative capacity of the State. The experience of several countries shows that the State is often inefficient when it comes to managing and maintaining the rental developments it owns, largely because of fiscal constraints and limited administrative capacity. This translates into decaying living conditions in PRH developments, thus helping to perpetuate poverty in the countries of Latin America.
- 1.2 PRH has been a housing solution used widely by several countries throughout the world, especially during the period following World War II. In recent decades, many of these countries have sought alternative solutions that preserve the advantages of having an affordable housing stock, yet enable the State to delegate responsibilities to the private sector and civil society so as to reduce the budget and operational burden.
- 1.3 In Latin America and the Caribbean, PRH existed mainly back when State housing institutions first began to operate. Over time, though, most Latin American governments have abandoned this model in favor of promoting homeownership. Nevertheless, PRH is still seen in some countries of the region, especially in the Caribbean. These countries now face the same problems that others faced in the past, and need to find alternative solutions that ensure that they achieve their social objectives while at the same time enabling the State to play its part more efficiently. In addition, other nations in the region are considering a return to building PRH.
- 1.4 The aim of this paper is to identify the alternatives to PRH that have been tried in different contexts and analyze the lessons —applicable to Latin America— that have been learned in implementing them. In doing so, it attempts to indicate key factors to consider in the design of housing policies associated with PRH developments. This paper is intended primarily for those countries of the region that have PRH.
- 1.5 A review of experiences reveals that there are several alternatives to PRH, which can be combined to achieve the desired housing policy objectives. Selecting the right alternative hinges on a clear definition of what those objectives are and a sound rationale for why particular strategies are chosen. These objectives should generally include: (i) guaranteeing that the selected housing solution is accessible to lower-income families and current occupants; (ii) increasing the effectiveness of the State, and (iii) optimizing urban development of the area.
- 1.6 A literature review conducted in preparing this study allowed for various alternatives to PRH to be identified. In order to obtain first-hand information about the lessons learned from implementing the various alternatives, phone interviews were conducted with

professionals and academics from the housing sector in countries at varying levels of development, as well as with professionals from international development agencies.<sup>1</sup>

- 1.7 It is important to note that the information and analysis presented here should be taken as a guideline, bearing in mind that all the case studies refer to different political, economic, social, demographic, cultural, and spatial contexts.
- 1.8 This study is divided into two main parts. The first offers an overview of the origins of PRH, why it exists, and what advantages and problems it presents. The second gives ten core alternatives that may be combined to achieve the desired objective, and the lessons that have been learned from implementing them in various contexts.

#### **A. Origins and use of PRH**

- 1.9 It is difficult to trace the origins of PRH. However, we do know that after World War II, European countries included it as part of the programs created to guide the process of rebuilding their cities. At the time, one of the key missions was to overcome the housing shortage. For example, England expanded its stock of PRH from 18% in 1951 to 31% in 1981,<sup>2</sup> and today, PRH in Sweden represents over 30% of the housing stock. These percentages are fairly high when compared to Canada and the United States, where PRH represents little more than 2% of the housing stock. Nevertheless, Canada has approximately 4,800 public housing developments, which translates into more than 205,000 units of PRH, representing more than 40% of the federally assisted social housing assets, and housing 430,000 persons. To illustrate, Table 1 shows the percentages of PRH in some countries of Europe, the Americas, Asia, and Oceania.
- 1.10 PRH is also common in countries that were under communist regimes. For example, in China in the 1980s, 84% of the housing stock was PRH; in Eastern Europe, one of the housing policies was to nationalize housing and do away with private property; and in Cuba, the government expropriated private rental properties at the beginning of the revolution and later granted ownership to their tenants.

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<sup>1</sup> For a list of persons interviewed, see section IV, Sources Consulted.

<sup>2</sup> Willem Van Vliet, ed., *International Handbook of Housing Policies and Practices*, 1990.

**Table 1: Percentage of Public Rental Housing (PRH) in Some Countries of Europe, Asia, and Oceania**

Country	% PRH <sup>3</sup>
China	84
England	26
Hungary	25
Singapore	17
Israel	12
Holland	7
Japan	7
Australia	7
Italy	6
Canada	2
United States	2
Pakistan	0.7

Source: Willem Van Vliet, *International Handbook of Housing Policies and Practices*, p. 24

- 1.11 In Latin America, PRH is currently found in the countries of the English-speaking Caribbean. For example, in Trinidad and Tobago the State owns about 6,000 rental housing units.<sup>4</sup> In most Latin American countries, the governments offered PRH in their early role as social welfare providers, but very soon rid themselves of it through mechanisms that let them transfer ownership to the tenants.
- 1.12 For example, PRH existed in Chile during the 1970s, administered and managed by the local authorities. However, mainly owing to maintenance problems, it was transferred to the tenants. Venezuela constructed PRH units in the 1930s, but in the a940s they were sold, either to the tenants or to private entities. In Mexico, two agencies constructed PRH in the late 1940s, but the program failed because of difficulties with rent collection and rent-raises during periods of inflation. When both agencies began to lose revenue, they decided not to produce any more PRH, and the existing units were gradually sold.

**B. Should the State provide PRH?**

- 1.13 A discussion of the various options available to the State for dealing with the existing PRH situation inevitably raises the question of whether the State should provide PRH or not. Although it is not the principal objective of this paper, it seems appropriate to present the reader with a brief synopsis of the pros and cons of providing PRH. As reflected by the

<sup>3</sup> These statistics reflect the housing situation in some European countries in the 1980s. There are more recent estimates, but they generally include PRH in the “social housing” percentage. Few sources separate these two categories, since in Europe the concept of social housing is itself an alternative to PRH. A series of tables reflecting this information can be found in BIPE, “European Public Policy Concerning Access to Housing,” France, September 2000.

<sup>4</sup> This figure is an estimate from a study done for the IDB by the Canadian consulting firm Planning Alliance. For further information about the PRH situation in Trinidad and Tobago, see: “Conversion of Public Rental Units. Second National Settlements Program,” Government of Trinidad and Tobago, December 2001.

experience of various countries around the world, both developed and developing, even when PRH offers the advantage of affordability for low-income groups, this comes at the price of disadvantages that make implementation difficult.

- 1.14 A point in favor of PRH is that it is not only one of the most affordable ways of providing housing, but also it offers flexibility to groups that are in a period of transition in their lives, giving them a place to live while they increase their buying power, as is the case of young couples/families, singles, or single parents. It is also convenient for the elderly who need a dignified home without the long-term commitments that homeownership entails; and finally, it is particularly well suited for population groups with special needs, such as persons with physical or mental disabilities and whose income is limited.
- 1.15 Conceptually, PRH is meant to act as a bridge between renting and homeownership, i.e. families and/or individuals are expected to use this housing temporarily until their finances allow for another alternative. In practice, however, in countries where there is a major quality housing shortage and an unstable macroeconomic situation, it is harder for the State to fulfill its dual role of social benefactor and landlord, because often there are no better options that allow occupants of PRH to use it as a temporary solution. The State needs to take on a more active role in controlling the temporary use of PRH, although this represents an administrative burden that the State cannot always carry, and a conflict with its role of guaranteeing the social welfare of its constituency.
- 1.16 Because the State has to rent this housing at highly subsidized prices to make it affordable for the lower-income population, there are negative impacts on the real estate market. In some European countries, the amount of PRH built by the State was so great that it ended up displacing the private rental market, which could not compete with the highly subsidized rents offered by official agencies. However, it should be noted that measures to correct imperfections in the real estate market will be needed whatever the housing policy adopted; for example, the opposite has happened in Latin America—the homeownership market has displaced out the rental market, both public and private.
- 1.17 Currently, Latin American countries are characterized by a predominance of homeownership (see Table 2), a small, exclusive private rental market, and an almost total lack of PRH. For example, Brazil has no public rental option, and in Colombia most of the rental housing stock is private. Some of the key factors that have made rental housing, public or private, fairly uncommon in Latin America are: (i) the existence of legislation that limits supply; (ii) the macroeconomic context, which has allowed homeownership to be promoted at certain times in history; (iii) the financial and administrative burden that PRH represents, which States soon realized they could not undertake; and (iv) the political and social tensions that poorly managed PRH created. By favoring homeownership policies, the State has disregarded the importance of both public and private rental developments, thus hastening the deterioration and abandonment of the rental housing stock.

**Table 2: Homeownership Rates in Some Latin American and Caribbean Countries**

Caribbean	% Homeownership	South America	% Homeownership	Central America	% Homeownership
Grenada	79	Venezuela	76	Nicaragua	84
Nevis	79	Paraguay	74	Honduras	80
Barbados	76	Peru	72	Mexico	78
Montserrat	72	Brazil	70	Panama	76
Dominican Republic	72	Chile	68	El Salvador	70
St. Lucia	72	Argentina	68	Costa Rica	66
Belize	66	Ecuador	68	Guatemala	65
Turks and Caicos	66	Colombia	68		
Antigua and Barbuda	65	Bolivia	66		
Guyana	63	Uruguay	63		
Jamaica	53				
Virgin Islands	40				

Source: ECLAC, “Sustainable Development of Human Settlements: Achievements and challenges in housing and urban policy in Latin America and the Caribbean,” p. 27;

ECLAC: [www.eclac.cl/publicaciones/estadisticas/1/LCG21518B/C2\\_X1.pdf](http://www.eclac.cl/publicaciones/estadisticas/1/LCG21518B/C2_X1.pdf), p. 730.

- 1.18 In Latin America and the Caribbean, the State has often failed to be efficient in selecting its tenants, which has led to equity problems in the allocation of housing. Owing to political factors that influence the housing award process, and to insufficient supply for other, more affluent segments of the population, PRH does not always meet the needs of lower-income groups. This supports the notion that in certain cases the State is shouldering a responsibility that could very well be assumed by some of the current tenants.
- 1.19 The negative impacts of the high level of subsidies PRH requires are also felt by the State. PRH units are often rented at well below market rates, requiring a large government subsidy and making it impossible to recoup the investment. What is more, if rents are not reviewed and updated often enough, and rent collection rates are low, the result is a lack of housing maintenance, large financial drains on public housing agencies, and a low return on investment. This brings about an accelerated process of deterioration and a decline in tenants’ living conditions.
- 1.20 Add to this that for the production of State-owned housing, all initial investments must come from public funds, limiting the possibility of contributions from the private sector (investors, communities, or families). Finally, State ownership of housing increases its responsibility —both real and perceived— for guaranteeing that the families housed there live in good environmental, health, social, and safety conditions.
- 1.21 Nevertheless, PRH is not a bad alternative *per se*. In fact, there are success stories wherein the State is the largest landlord of rental housing, such as Hong Kong and Singapore. Although the sociopolitical and economic conditions may be very different from those of Latin America, it is worth exploring these instances to identify the factors that led to success.

- 1.22 The Government of Hong Kong owns about 600,000 PRH units housing approximately 30% of the population.<sup>5</sup> These units were built when it became clear in 1954 that the State would have to take a holistic approach to the squatter settlements encroaching on parts of the city and depleting what few open areas remained.
- 1.23 Monthly rents are typically very affordable, no more than 8% of tenants' monthly income (private sector rent can be up to 25% of income). It must be noted that one of the peculiarities that has enabled the Hong Kong government to have this degree of control over resources and to have large sums of money to pour into these programs, is that it owns most of the land throughout the country; the State generally rents the land to individuals or businesses for productive uses, which generates large sums of capital that it reinvests in PRH without needing to draw public funds from other areas.
- 1.24 To make the system of selecting recipients fair and equitable, criteria are based on beneficiaries' current housing status and income; for instance, people who have been tenants of the State of Hong Kong for more than ten years and whose income exceeds the set limit have to pay higher rent. Another factor that has guaranteed the success of PRH policies in some countries is the government's commitment to institutional effectiveness, which enables it to do a satisfactory job of operating and maintaining PRH.
- 1.25 Notwithstanding the Hong Kong government's relative success in providing PRH, it still represents a considerable burden for the State that would ideally be divided up between the public and the private sector. In fact, efforts are currently underway to encourage occupants to buy their units.
- 1.26 Another lesson learned in Hong Kong is that while the State can indeed be a good landlord and manager of PRH, its dominance in the market is damaging to the development of other sectors that are also necessary and has undermined the growth prospects of the private rental housing sector. An option currently being explored is to introduce demand subsidies<sup>6</sup> so that poor families can enter the private rental market. Another problem is that the expectation of obtaining decent housing from the State has fuelled the appearance of new squatter settlements.
- 1.27 As the preceding analysis suggests, the question of whether the government should provide PRH or not has no single answer, but rather depends on the resources and capacity of the State in question, the state of the real estate market, and the State's willingness to invest vast amounts of money in PRH, among other factors. However, it is worth noting that PRH is so costly an option, in economic and financial as well as social terms, that the trend in more developed countries has been to seek alternatives whereby the State goes from being the direct provider and landlord of public housing to being a purely financial and regulatory entity, relying on the private investment sector and civil society to do the rest.

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<sup>5</sup> For more information on PRH in Hong Kong, see [www.housingauthority.gov.hk](http://www.housingauthority.gov.hk)

<sup>6</sup> B. Ferguson, "Housing Policy in the New Millenium," Conference Proceedings, U.S. Department of Housing and Urban Development, Washington DC, 2001.

## **C. Critical issues facing States that own PRH**

1.28 Focusing again on this paper's central theme, existing PRH, at least ten basic options have been identified that have been used in various countries to deal with the problems PRH creates. These options aim to solve three critical, interrelated problems:

### **1. Repairs**

1.29 Repairing the units and their common areas is a short-term matter, i.e. it is urgently needed in the majority of deteriorated PRH developments. Repairs include all activities aimed at restoring the physical condition of the property to its original state. It can also include modernization done to bring the structure in line with today's habitability standards, and in some cases may include the restoration of historical features.

### **2. Management and maintenance**

1.30 The management and maintenance of PRH is a long-term task that must be performed consistently over time to ensure that buildings remain in good condition and to avoid the risk of accidents caused by deteriorated infrastructure to preserve the capital value of the structure. It includes: property management operations, tenant selection, monthly rent collection, enforcement of rules, and frequent unit inspections to identify any areas needing maintenance, such as plumbing, water, electrical systems, waste disposal, ventilation, etc. Efficient property management and maintenance ensures that property values will appreciate and makes for stable cash flow.

### **3. Ownership**

1.31 The issue of who will hold ownership of PRH involves policy decisions that transcend the local sphere and require a clear definition of the State's goals, i.e. whether it wishes to nationally promote the rental market or homeownership, individual or collective action, for-profit or non-profit housing.

1.32 The basic options or alternatives identified address in different ways the three critical elements just described; the final solution that a country selects may be some combination of them. As the reader may recall, this paper is intended for those countries of the region that already have PRH, so the following section presents a decision-making model designed to set out the various options that the State has when it comes to deciding what to do with existing PRH. However, this model is also useful for those States that are considering the possibility of providing PRH. The idea is to describe the range of existing alternatives, the challenges that each one entails, and how these address different housing policy objectives.

## **D. Decision-making model**

1.33 As the following sections will illustrate, no one alternative is better than another. Rather, the application of each one in different contexts points up advantages and disadvantages.

But how does one decide which option to choose, when none proposes a course of action guaranteed to bring success? The following decision tree may help to guide this process once objectives have been clearly defined.

- 1.34 First, as the current owner of PRH, the State must ask itself whether it is willing to take action to mitigate the negative impacts of this housing model and preserve the positive ones (see figure I: decision # 1).
- 1.35 If the State decides to act, then it must analyze how it is going to tackle the three critical issues mentioned in the preceding section: repairs, management and maintenance, and ownership. Of these three issues, the third (ownership) shapes the other two, since the responsibility for repairs and management/maintenance generally lies with the property owner. The decision-making model proposed here is therefore arranged along two main paths: (i) the State totally or partially transfers ownership of its housing developments (see figure I: decision # 2) or (ii) the State continues to be the owner. The State must ask itself: What is better for those who live there? And how are public resources best optimized? As stated before, it must be borne in mind that this decision has housing policy implications on a national scale.

### **1. The State transfers ownership of PRH**

- 1.36 If the State decides that it cannot continue to own these housing developments, then it must ask itself: What housing policy objectives should be promoted? Rental or ownership? Collective or individual action? For-profit or non-profit housing? The answers will determine which is the most appropriate alternative (see figure I: decisions 3, 3a, 3b, and 3c).
- 1.37 Behind the housing policy objectives pursued is a question of vital importance—that of rental vs. private ownership. Both models have their advantages and disadvantages, and each one matches the preferences of different population groups. Especially in the case of Latin America and the Caribbean, where homeownership has predominated historically, it is worth asking oneself what the causes of this preference are. There are various interpretations: (i) some analysts claim that because of the volatile macroeconomic conditions in Latin American countries, it is more expensive for poor families to live in a home that will never belong to them, and whose rent might be raised at any moment; (ii) another cause has been the indiscriminate implementation of rent control laws, which have eroded the incentive for a healthy private rental market to exist; (iii) in other cases, legislation regulating the rental market disproportionately protects the tenant over the landlord; and (iv) finally, it is politically more advantageous to promote homeownership because it is a cultural value in Latin America, and in many other parts of the world, for a home is a good that can be left to one's children for the future.
- 1.38 Opinions are divided as to the advisability of instituting policies to promote the residential rental market in Latin America. Advocates for such policies argue that: (i) there will always be population groups for whom the homeowners market is out of reach, so their best option is to rent; (ii) renting allows for greater mobility, since families



are not tied down to their homes by a long-term commitment; (iii) it can be a temporary solution for families or individuals who are not ready to own their own home, such as singles, young couples, single parents, etc.; and (iv) it is a flexible option for population groups with special needs, such as the elderly and the disabled, for whom it is difficult to live independently and take on the commitments of homeownership.

- 1.39 The proponents of policies that promote homeownership also make strong arguments as to why ownership is more advantageous than renting. These arguments include: (i) homeownership provides an incentive for owners to invest capital in their home because it belongs to them and it is in their interest to improve it and increase its value; (ii) it represents an economic benefit because it provides families with limited purchasing power the collateral they need to gain access to the formal financial market; and (iii) from a political standpoint, promoting homeownership is seen as guaranteeing votes.
- 1.40 The disadvantages of rental housing pointed out by some are: (i) in cases where the rental market is not formalized, there is greater vulnerability and risk of eviction; and (ii) if there is rent control, the immediate consequence is a disincentive to private investment in rental housing, while having no rent control creates the conditions for real estate speculation to thrive, which can reduce access for more vulnerable population groups.
- 1.41 The disadvantages of homeownership are that it carries with it responsibilities, such as paying taxes and maintenance and repair costs, which involve capital injections that not all families and individuals can afford. Long term, a lack of investment by owners in their homes creates externalities that adversely affect the urban environment where those homes are located.
- 1.42 Transferring State ownership of housing to either individual or collective for-profit or non-profit entities is also known as “tenure conversion.” This is a very common option that has been implemented in various parts of the world, producing different results in each case. The State has the following options if it wishes to transfer ownership of its housing developments:
  - a. Sell the properties to their current occupants, which promotes individual homeownership. A related option is to transfer ownership through the rent-with-option-to-buy model (also known as lease).
  - b. Transfer ownership of the properties to a non-profit housing association, which is an alternative that promotes the not-for-profit delivery of housing and social services.
  - c. Transfer ownership of developments to occupants who organize into housing cooperatives, which is an alternative that promotes collective non-profit housing arrangements.

- d. Transfer ownership of developments to residents who organize into condominium associations. This option, while it does require a certain degree of community organization, does not connote the same collective values as do housing cooperatives.
- e. Sell the housing complexes to a private developer. Here the idea is to transfer ownership to a single individual or entity, who then places it on the real estate market at market prices.

## **2. The State decides to continue to own PRH**

- 1.43 If the State decides to continue to own PRH, then it must implicitly make three additional decisions. The first is to assess whether it is worth it to repair the buildings, or if their current state warrants their demolition and reconstruction (see figure I: decision # 2a). Generally, regardless of the type of tenure or management that is chosen to improve the operation of PRH developments, it is an almost obligatory step to rehabilitate or repair deteriorated properties. It is essential first and foremost for political reasons, since tenure conversion alternatives become more viable the better the condition of the housing. This is because tenants will be unwilling to make changes in their lifestyle, and even less willing to make capital investments, if they do not feel that the property is worth the effort. Repair is also a key factor in making residents feel motivated to organize and assume responsibilities, and may even improve the relationship between the State and the beneficiary communities. Demolition, for its part, is justified in the cases where it is not worth the costs to save the building because of the extent of physical deterioration.
- 1.44 Once the problem of physical deterioration has been resolved, the next consideration has to be who will manage and maintain the property efficiently, so as not to let it fall back on disrepair (see figure I: decision # 2b). If the State decides to be in charge of these tasks, then the best thing it can do is to commit to reforming the way it operates so it can reduce operating costs, guarantee decent housing to the low-income population, and ensure that common areas are suitable for community development.
- 1.45 If, on the other hand, the decision is not to assume the responsibility of managing these properties, then there are two options (see figure I: decision # 2c). One is to hand that responsibility for maintenance to organized tenants, providing them with the financial resources and technical and social assistance to perform these tasks. The other option is to hire private management and maintenance companies to take over these tasks, or non-profit organizations financed by the private sector or by the State itself. These two alternatives are particularly well suited to the instances in which the State wishes to continue to own PRH, but considers that it is not efficient at managing and maintaining it.
- 1.46 The basic alternatives and options analyzed in this paper are not mutually exclusive, meaning that they may be combined in any number of different ways. Each alternative simply addresses a different need or objective, as shown in Table 3. For example, some countries have mixed forms of ownership, whereby the State retains partial ownership. As another example, different financial mechanisms may be combined to achieve

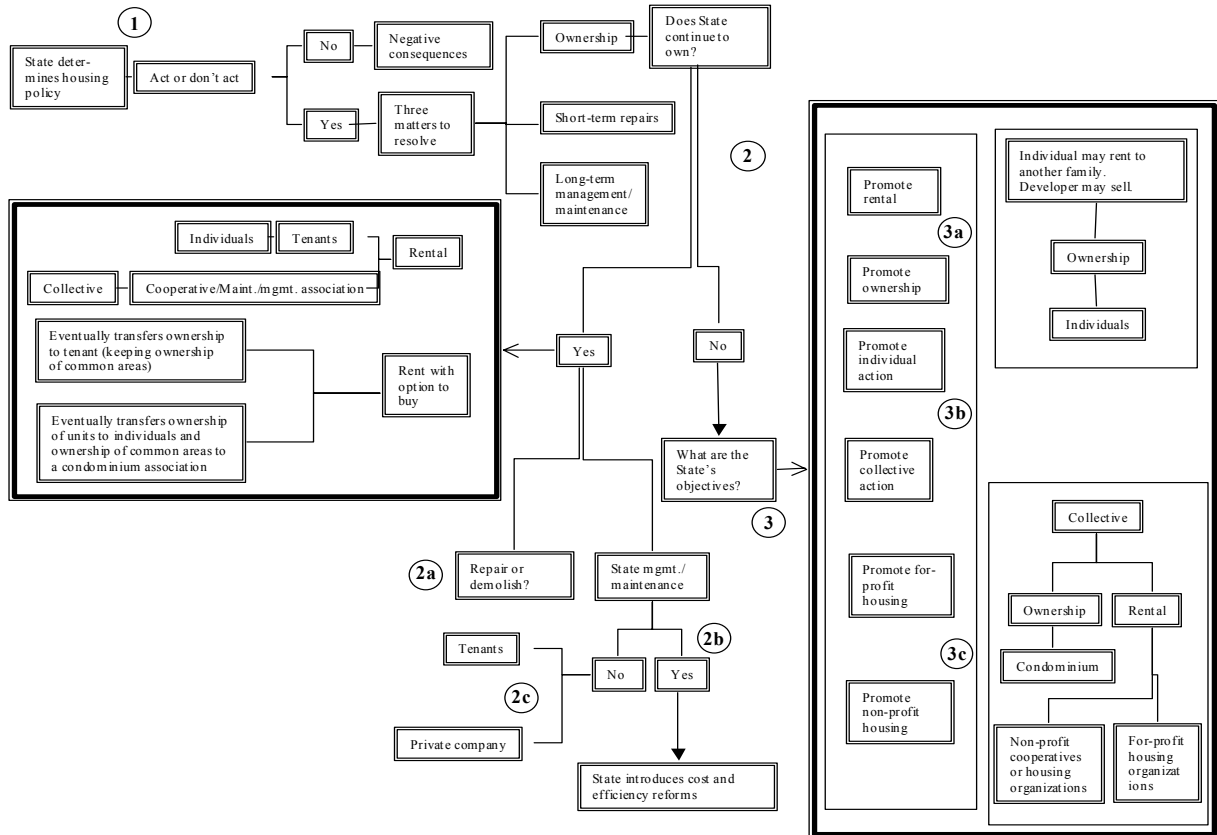
accessibility for lower-income groups. What matters most is that the solution be designed based on the specific needs of the country in question and the housing project selected.

- 1.47 It should be noted that this decision must not rest solely with the State; it should involve the affected community in a process of participation, not just “consultation,” to ensure the success and political viability of the option chosen.
- 1.48 What have other countries learned from implementing these alternatives? The following sections sum up the lessons learned in different contexts, outlining challenges and options for States who own PRH, and wish to reduce its negative impacts, yet at the same time wish to preserve the access and affordability of existing housing. These alternatives and lessons may also be useful for countries that are thinking about starting PRH projects or programs. Table 4 attempts to summarize the lessons learned, broadly classifying them into six separate categories: (i) level of access to housing for lower-income groups; (ii) level of social equity resulting from the implementation of each alternative; (iii) political viability of the alternative; (iv) financial feasibility; (v) institutional aspects; and (vi) social aspects.

**TABLE 3: BASIC PRH ALTERNATIVES AND THE ISSUE THEY ADDRESS**

Alternatives	Repair	Management/ Maintenance	Ownership
1. Rehabilitation			
2. Demolition			
3. Organized tenants			
4. Private management and maintenance company			
5. State remains owner			
6. Sell to occupants			
7. Rent with option to buy			
8. Housing association			
9. Cooperative			
10. Condominium			
11. Sell to private developer			

Figure 1



## II. LESSONS LEARNED

2.1 This section aims to summarize the principal lessons learned by different countries from implementing various solutions to the social, economic, and political problems caused by PRH, since there are numerous examples throughout the world for the analysis of each alternative, a small number of cases was selected that was felt still provided enough information to yield lessons. The selection of information was based on the quantity and quality of the literature found on the topic.

### A. The State decides to transfer ownership of PRH

#### 1. Sell the properties to their current occupants

2.2 This is perhaps the most common alternative found in the literature. England provides one of the most emblematic cases of PRH being sold to its occupants, first, because historically it has been the country with the highest percentage of PRH in Europe, and second, because of the massive scale of the conversions. However, the sale of PRH units has also taken place in many other parts of the world. For example, it was done in Eastern Europe following the fall of communism as part of the resulting denationalization of housing; more recently, China has adopted this approach; Hong Kong, despite favoring the existence of PRH, has utilized this strategy as a way of promoting private property; in Ghana in the 1970s, and in Africa in general, it was a common policy for redistributing wealth in the period following the end of colonialism; and South Africa sold its housing stock in the early 1980s.

2.3 In England, the strategy was called “privatization” and was driven by the Right to Buy Act. England’s housing policies have fluctuated in recent history with two basic crosscurrents, that of the Conservative Party, which has promoted homeownership, and that of the Labor Party, whose housing ideology emphasizes providing PRH for all. The sale of PRH units began in the early 1970s, but had its heyday in the latter half of the 1970s and the first half of the 1980s, during Margaret Thatcher’s administration.

2.4 In Hungary in the early 1990s, when the housing nationalized by the communist regime began to be privatized, 50% of the housing stock was PRH. Actually, privatization had become technically possible in 1969, when the first laws to that effect were enacted; yet it did not take off until the early 1990s. The demand on the part of tenants to buy was considerable, owing primarily to two factors: the uncertainty as to what was going to happen with the PRH sector, and the highly advantageous terms at which one could purchase the units—at 15% of market price, because no maintenance had been done for decades. Between 1990 and 1992, close to 20% of the public rental housing stock was sold to tenants.<sup>7</sup>

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<sup>7</sup> Jozsef Hegedus and Ivan Tosics, “Privatization and Rehabilitation in the Budapest Inner Districts,” *Housing Studies*, 9(1) (1994), 39-54.

- 2.5 The United States implemented the HOPE I Program to help low-income families buy their homes; the program was last funded in 1994. In Sweden this strategy has not been as successful as that of transferring ownership to cooperatives: the total number of PRH units sold to tenants in the 1980s represented only 2% of the PRH stock.

### **Lessons learned**

- 2.6 **Affordable housing options for the lower-income population may be reduced.** An immediate consequence of this option is that it decreases the affordable housing stock that the State has to offer. This drawback may be overcome if equally affordable housing alternatives are provided for in other sectors of the real estate market. The experience in Eastern Europe showed that the range of options offered should be as wide as possible to meet the population's varying needs and capacities. Before PRH was privatized in Eastern Europe, some governments used to offer their tenants the option of moving to units in better condition within the same PRH system. In essence, the sale of PRH limited the option for renters to upgrade to better conditions within the system, because the total number of units had shrunk. It is recommended that if the State decides to sell PRH to its tenants, it should plan ahead together with the private sector and civil society so that options exist to mitigate a decline in tenants.
- 2.7 One effect of the sale of PRH in Hungary was that the tenants that did buy in most cases lack the resources to rehabilitate their homes, and the cost of doing the rehabilitation put off by the State is so high that few financial institutions are willing to provide the necessary financing. There, privatization has led to equity problems because the neediest tenants have remained in the units and areas in greatest need of attention. This was also one of the lessons learned in the English case: **the units in better condition and with the best features are the ones that sold the quickest, leaving the worst units for those who are already at a disadvantage because of their limited buying power.** It is therefore recommended that the State repair the units before selling them to its poorest tenants. The benefits of doing so not only are felt by the buying individual or family, but in the long term translate into appreciation of the unit's value and that of the part of town where it is located. Along the same lines, the experience in Eastern Europe has taught us, as have almost all other experiences, that the process of selling PRH to tenants is only viable if the housing units are repaired prior to sale. This is explained by the fact that the current occupants are not willing to purchase property in a state of disrepair, especially if they still have the option to rent it and wait for their economic situation to improve to the point where they can buy a home in the future.
- 2.8 **Selling PRH units to their tenants may increase a family's or individual's housing costs.** In England, it was learned that an adverse effect for the families that bought these units was that they ended up paying higher housing costs, because the mortgage payments were considerably higher than the rent they had paid previously. This effect undoubtedly helps to some degree to identify which tenant households are experiencing the greatest real financial hardship, since it is likely that those households that can spend

more will be the first to purchase their unit, relieving the State of a major part of its fiscal burden and leaving only the neediest households in its care.

- 2.9 **Selling PRH units to their tenants has other consequences that directly impact the State.** In England, although selling some units to their occupants has significantly lightened the load on the State's budget, the State did have to offer huge discounts to make the units affordable for the tenants, which ended up meaning more of a short-term sacrifice than a benefit for the budget. Russia, as another example, aiming to stimulate the privatization of housing, adopted a policy of equal treatment of tenants and owners: The owners of privatized apartments continue to pay the same highly subsidized maintenance fee as the tenants of State-owned apartments. Nevertheless, despite the existence of numerous discounts and subsidies, there will always be a large number of families and individuals who have no access to market mechanisms for buying their units. In England, although the government offered large discounts on the sale price and partially subsidized mortgage interest, only those who had the necessary purchasing power could buy their home. The consequence of this was what has commonly been termed "residualization"—the units in the worst condition, located in the least attractive areas, are left for the poorest population groups.
- 2.10 **There is always the temptation for buying tenants to take financial advantage of this option.** In Holland, most properties were purchased by families that could just as well have bought in the private market, leaving the poorer families with the properties in the worst condition. Despite having bought under preferential terms, many families resold their home and moved back into PRH, citing economic reasons. This is a problem that could be headed off by adopting strategies to periodically certify occupants' income.
- 2.11 **It should not be implemented on a massive scale.** It has been learned that no alternative that suddenly impacts the real estate market should be implemented on a massive scale, as it might destabilize that market as a result. In England, because of how rapidly and massively this strategy was implemented, the result was a period of inflation that profoundly affected everyone that had taken on a mortgage.<sup>8</sup> To mitigate the impacts of such a strategy, it is recommended that the State carry out pilot projects that enable it to learn from its own experience on a smaller scale and make the necessary adjustments based on specific needs.
- 2.12 An indisputable outcome of this alternative is that **the State's responsibility for management and maintenance is transferred along with ownership.** However, as previously stated, in the case of England's multifamily complexes only some units were sold, which became a problem when it came to tackling the maintenance and repair of common areas; the properties not purchased by their tenants ended up scattered among different housing estates, which made their administration, maintenance, and conversion to other forms of ownership such as condominiums or cooperatives more difficult because of the diversity of interests among occupants.

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<sup>8</sup> Telephone interview with Geoffrey Payne, England, October 2002.

- 2.13 In Armenia, although the State was willing to privatize ownership of housing, it did not want to relinquish ownership of the land, leading to further deterioration of the buildings because of the State's inefficiency in managing and maintaining the common areas. It is therefore recommended that the State first consider designing strategies enabling it to sell entire apartment complexes, be it to condominium associations, cooperatives, non-profit associations, or private developers.
- 2.14 The privatization experience in Eastern Europe taught us that **there should be an initial phase to thoroughly familiarize and prepare tenants with regard to every aspect of the process of transferring units to their occupants,**<sup>9</sup> and their new rights and responsibilities as homeowners, which will require a major educational effort. In Russia, for example, it was never clearly explained to affected parties that homeownership not only brings rights, but also responsibilities.<sup>10</sup>
- 2.15 An offshoot of the alternative of selling PRH units to their tenants is to transfer ownership via **rent with option to buy (lease)**. This is a very common model in Latin America whereby the State offers the units to beneficiaries in exchange for rent payments that accrue and are eventually deducted from the final mortgage amount. This model makes it possible to work toward homeownership gradually. This is a relatively accessible option, because it allows monthly rent payments to be converted into mortgage payments as long as the family can afford it. As with other options, there have been cases of tenants who could not make their mortgage payments and sublet their homes.<sup>11</sup> The problems associated with transferring ownership through rent-with-option-to-buy programs have been that (i) it does not resolve the issue of maintenance for common areas, which remains in the State's hands until all the units are purchased by the beneficiaries, and (ii) it does not resolve who will then take care of these areas in the long term. When the State owns the common areas and is not effective in managing them, and the community feels no commitment toward its own spaces, one often sees illegal additions being made to the structure.<sup>12</sup> This leads to problems when attempts are later made to switch to collective forms of ownership such as condominiums or cooperatives, because all the tenants will demand that their private spaces be enlarged as well to match those that were expanded without permission. Finally, in many of the cases where this option has been used, the State has not been efficient in collecting monthly payments, which has led to high levels of arrears, so one should consider tackling this administrative problem before selecting this option.

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<sup>9</sup> Correspondence with Barbara Czachorska-Jones, Cooperative Housing Foundation, United States, October 2002.

<sup>10</sup> More on the effects of housing privatization in Russia may be found in Olga Kaganova and Nadezhda Kosareva, "Russian Cities on the Road to a Market Economy: The Housing Sector," *The Urban Age*, 2(4) (1994), 5-8.

<sup>11</sup> Which may not be detrimental as long as financial commitments are met.

<sup>12</sup> This is the case in Venezuela. Telephone interview with Víctor Fossi, Venezuela, October 2002.



## **2. Transfer ownership of PRH to a non-profit housing association.**

- 2.16 Non-profit housing associations represent one of the forms of what is termed “social housing” in European countries. Social housing comprises three basic forms of providing housing on a not-for-profit basis: housing cooperatives, registered social landlords, and housing associations or corporations. The first will be explored later in greater detail as a very common alternative utilized in Latin America. The second involves private sector landlords participating in State-subsidized programs to offer access to families that meet certain requirements, such as the Section 8 program in the US. Housing associations are entities created in Europe, typically by municipalities, to which ownership and management of PRH are transferred.
- 2.17 Holland, for example, has the highest percentage of social rental housing in the European Economic Community (36% in 1994);<sup>13</sup> 22% of housing belongs to the social rental sector in Sweden, where these associations are also known as “municipal housing companies.” In Austria, 20% of housing belongs to the social sector, and in France, 17%. These are the four countries that currently have the highest percentages of social housing in Europe.
- 2.18 England also figures in the literature as an example of the ownership of large amounts of PRH being transferred to housing associations, a policy known as “voluntary transfers”. In 1991, fewer than 3% of housing associations owned 60% of the housing stock.<sup>14</sup> In Sweden, these associations are called “municipal non-profit housing companies,” and more than 300 of them manage over 800,000 housing units, which account for 21% of the total housing stock and 40% of multifamily dwellings. Another example deserving mention is that of Germany. Just as England is an emblematic case because of the large amount of rental housing provided by the State, Germany is an emblematic case because almost 100% of social housing is provided either by non-profit housing associations or by the private sector using State subsidies.<sup>15</sup>
- 2.19 The purpose of creating non-profit housing associations is to minimize operating costs and administrative burden on housing authorities, increase efficiency in the management of the housing stock, and satisfy the housing needs of the poorest population. One of the most important advantages is that they are interconnected with other non-governmental organizations that provide social services, which increases their capacity to offer support services to special groups such as the elderly or the disabled.

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<sup>13</sup> The percentage of social rental housing in the European Economic Community was 11% in 2000. IPE 2000. “European Public Policy Concerning Access to Housing,” France, September 2000.

<sup>14</sup> Mark P. Kleinman, “Large-scale Transfers of Council Housing to New Landlords: Is British Social Housing Becoming More “European”?” *Housing Studies*, 8(3) (1993), 163-178.

<sup>15</sup> Ibid.

## Lessons learned

- 2.20 **It is an efficient way of protecting accessibility for the most vulnerable segments of the population.** If these organizations can earn money through another type of project, they can use those revenues to finance new social housing developments and keep rent affordable; they are organizations that can preserve many of the benefits of PRH while using private funding. An interesting example is that of Sweden, where the monthly rent is set as low as possible: Because these companies usually own several affordable housing developments, they add up the cost of all the housing units they own and calculate the average, so units of the same standard cost the same regardless of the age of the building. The Swedish housing companies can do this because they are non-profits, meaning that newer housing can still be low-cost, and this keeps real estate speculation under control. Another particularity is that units are offered to people of every income level, not only to the poor, which has the advantage of counteracting any stigmatization of the housing these companies provide. But it is obvious that this solution could not be applied successfully in contexts where higher-income groups' demand is not satisfied, since they would automatically have easier access to the units, displacing poorer groups.
- 2.21 **It depends largely on how developed civil society movements are in each country** and on the reputation that these organizations enjoy with regard to their transparency in managing funds. This may be one of the more acceptable options for the occupants of PRH, because of the positive perception people have of their operating on a non-profit basis, but it may present difficulties if non-profit housing associations' expertise is not developed. It generally takes time for this sector to evolve and become effective. Also, there has to be a clear legal framework for civil society organizations to work as managers and landlords of social housing.
- 2.22 **Housing associations may get financing from the State.** They also have ample opportunity to obtain financing from the private sector. In Sweden, for example, the State provides loans to the companies and subsidizes the families that cannot pay. The downside of this is that by receiving financing from the private sector, they have to operate according to the rules of the market; and if they do not obtain sufficient financing, either public or private, it ends up hurting the community, because rents go up, causing poorer tenants to be displaced to make way for those with higher incomes.
- 2.23 **Housing associations are not accountable to residents.** Another lesson learned in countries that have opted for this solution is that housing associations may have to be accountable to the public or private sector that gives them financing, but since the residents have neither voice nor vote, they do not necessarily have to be accountable to them, placing tenants at a disadvantage to the extent that they cannot influence decision-making. At the same time, it must be remembered that associations from civil society are not immune to the influence of power. Ideally, residents should be able to scrutinize decisions that are made with State money on behalf of the public interest. These associations should be willing to disclose their finances, and not elect their board of directors themselves, but ensure that residents are included in the decision-making

process.<sup>16</sup> Non-profit organizations can be public or privately owned, but in those cases where there is a risk of clientelist practices or corruption it may be a bad idea for the organization to belong to the State.

- 2.24 **The State is relieved of its role as housing administrator, which could contribute to reducing government bureaucracy.** England saw a positive change in overall attitude: the management and maintenance of properties became subject to market competition, and the best organizations at providing services rose to the top. To the extent that there is market competition and improved standards for these organizations' services, the private sector may be enticed to either provide sources of financing or to invest in the urban areas where these developments are located if their physical condition improves.

### **3. Transfer ownership of housing to tenant housing cooperatives**

- 2.25 PRH has been converted into cooperatives in the US, Canada, and Europe. Cooperatives are a type of non-profit housing association where all the residents are owners, not of their own units, but of a portion of the whole development, and are hence mutually responsible for its operation and maintenance. The deed is held by a non-profit community corporation, and each member has a membership certificate that confers the same voting rights as every other member. Members elect an honorary board of directors that formulates the cooperative's policies on behalf of everyone and is responsible for contracting and supervising the managing agent, designing general policies, enforcing the established rules and regulations, making mortgage payments and paying taxes, planning and making the necessary arrangements for making capital improvements, and exercising leadership in maintaining and constantly improving the community. Since the cooperative is operated as a non-profit, any excess funds must be returned in equal parts to the residents, either in cash, through a reduction in the monthly payment, or by making capital improvements that benefit the entire community.
- 2.26 A version of this seen a great deal, especially in the United States, is the rental cooperative: this involves the State transferring ownership of the complex to a cooperative, and the occupants renting their units. With this monthly income, the cooperative pays the mortgage; once it is paid off, it is submitted for the members' consideration whether they wish to own their apartments or whether they want to continue to operate as a cooperative. The members must pay a fee to cover maintenance costs, and they themselves decide if they wish to contract a manager. This option has also been used in Sweden, where tenants become part owners if they pay a fee.
- 2.27 The housing cooperative model has been very successful in both developing countries and industrialized countries. In Latin America this form of non-profit housing is not new; in fact, a cooperative movement with varying degrees of popularity has been seen throughout the region since the 1960s. In some countries they have been created

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<sup>16</sup> David Clapham and Keith Kintrea, "Community-based Housing Organizations and the Local Governance Debate," *Housing Studies*, 15(4) (2000), 533-559.

primarily for the provision of affordable housing, while in others cooperatives have been used more as a form of collective living. Uruguay is one of the countries with the most experience in this area.

- 2.28 Uruguay's wealth of experience with cooperatives, which had their origin in workers' associations and trade organizations, began in 1968 with the National Housing Law. There are two types of cooperatives in Uruguay, "owner cooperatives" and "user cooperatives." In the former, each family owns its own unit, and the cooperative owns the common areas, much like in a condominium. In the latter, all the residents are owners of all the areas and hold shares in the cooperative. This latter type has more political and social weight in Uruguay. The biggest difference between the two types is that in user cooperatives there is a greater interest in community life.
- 2.29 The Uruguayan notion of cooperative housing is based on the idea of all of life's daily activities being performed collectively: for this one pays a monthly fee that includes maintenance and risk insurance that covers the monthly payment in case a resident is temporarily unemployed.
- 2.30 The Uruguayan model is also interesting because it operates with the support of what are known as "technical advisory institutes," which are civil society organizations made up of a certain number of professionals trained to assist the community in managing the cooperative; the professionals are contracted and supervised directly by the residents. The Uruguayan cooperative model has been exported to Paraguay, Bolivia, Guatemala, Honduras, Nicaragua, and El Salvador together with the Swedish Cooperative Center and has been effective in terms of the cost and quality of housing.

### **Lessons learned**

- 2.31 **Cooperatives are not a more accessible option per se, but they allow for a number of ways to broaden accessibility.** The experience in Uruguay demonstrates that this is not necessarily a more affordable option for those with lower incomes, since the residents have to come up with the money for upkeep. If greater accessibility is desired, it may be convenient to provide demand subsidies. Another way to increase the accessibility of this option is to mix income levels in the same housing complex, which helps to balance cash flow and avoids the social stigmatization of one area of the city. For example, in Canadian cooperatives, some of the tenants pay rent at market rate, and others pay rent at subsidized prices, based on each household's income. The danger that arises when there are no funds to pay for maintenance is that the cooperatives find themselves forced to include more tenants who pay rent at market rate so they can generate income to fund the repairs. Lastly, because all the units are owned by a communal group in the cooperative model, it prevents real estate speculation.
- 2.32 **Cooperatives are an alternative in which politics play an important part.** These organizations must be recognized by the government and receive sufficient financial and political support from it. Uruguay's experience also taught us that cooperatives need

political support and recognition from the government. In Canada the experience was that a lack of political continuity or continuity in community leadership are factors that adversely affect the success of a cooperative,<sup>17</sup> and power struggles among tenants may prevent it from working out.

- 2.33 **From an institutional standpoint, technical and social support is decisive.** For a cooperative to work well, it requires ongoing technical and social assistance. This was shown in the experience of Uruguay, where it was also observed that such assistance should be chosen by the members of the cooperative themselves and not by an outside entity. Another lesson learned by the Cooperative Housing Foundation (CHF), is that there must be a clear legal framework that stipulates and regulates every aspect of the cooperative's operation so as to avoid distortions.<sup>18</sup> In the US, technical assistance from professionals with experience in the areas of legal services, accounting, and professional administration is considered a precondition for a cooperative's success.
- 2.34 **In the process of converting PRH into cooperatives, relocation represents a problem that undermines the political viability of this solution.** For this process to be viable, all the tenants must agree to the alternative selected, otherwise those persons that cannot or do not want to purchase their home individually or as part of a cooperative will refuse to be relocated or evicted from the building. A sticking point observed in Argentina and Uruguay is the preference of younger generations for private as opposed to collective ownership. Common ownership has its pros and cons: on the one hand, residents are more likely to stay, i.e. it has a greater use value, but, on the other, it represents an economic hurdle if one wishes to sell the property later on.
- 2.35 **A critical issue for lower income families is funding and performing maintenance.** The advantage for the State is that it no longer has to concern itself with managing or maintaining properties. In Canada, however, poor communities still need the State to fund such activities. For the neediest groups, one might consider subsidies that cover the portion of the management and maintenance fee that they cannot pay (similar to the Section 8 voucher in the United States). In Canada, cooperatives are also required to create a capital reserve fund for necessary repairs. In the United States, the Department of Housing and Urban Development also found itself forced to seek solutions to make cooperatives a feasible option. It learned that there has to be adequate initial funding and a realistic annual budget, so a solution that ended up being fairly satisfactory was to include persons receiving Section 8 assistance in the cooperative, which increased its monthly income because that assistance is guaranteed by the State.
- 2.36 **It is an alternative that helps to strengthen community organization.** In Uruguay, cooperatives have been an excellent way to foster and strengthen community organization and participation. A point in favor of conversion into cooperatives is that it

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<sup>17</sup> Cyrus Vakili-Zad, "Tenant Participation and Control in Public Housing in Canada," *Habitat International*, 17(2) (1993), 91-103.

<sup>18</sup> Telephone interview with R. Owens, CHF, United States, October 2002.

brings about a change in behavior: evidence in the United States shows that many cooperatives have seen their residents participate and take better care of their units and the common areas. However, a critical matter is what to do with those tenants that represent a problem for the community because they do not live up to their responsibilities. In this case, strategies should be designed to reeducate them and motivate them to participate.

#### **4. Convert the PRH into condominiums**

- 2.37 The condominium option is most commonly utilized in the case of multifamily housing. The occupants become owners, but in addition to paying for their unit, they must pay management and maintenance fees, which are managed by a unanimously elected resident board of directors. Examples of this type of tenure conversion can be seen in the United States and several Latin American countries. In the US, one of the reasons for converting PRH units into condominiums was to promote homeownership. To implement this strategy, the concept of the “converter” was created, a private sector real estate developer that purchases the properties and carries out the conversion process.
- 2.38 Another example in which the condominium concept has been used is those cases where the State had transferred ownership of the units to the tenants, either by direct sale of the property or through rent with option to buy, but where, the responsibility for managing and maintaining the common areas was left to the State. The most common solution for this has been to create a condominium. In Venezuela, for example, the Instituto Nacional de la Vivienda, after turning the housing units over to the residents, continued to own the land and common areas for many years, and hence continued to be responsible for their maintenance. Recently, programs have been launched to transfer the ownership of common areas to the unit owners, and technical housing assistance programs have promoted the creation of condominiums.

#### **Lessons learned**

- 2.39 **This option requires complementary measures to make it affordable for low-income groups.** This option is more accessible for higher income groups because management and maintenance costs must be assumed entirely by the residents. Those costs may put this option out of reach for the poorest population.
- 2.40 At least in the case of the United States, the tendency among converters was to purchase the housing developments in better physical condition, and in better locations, which excluded certain population groups whose living quarters were more deteriorated or whose neighborhood was less attractive. Another problem was that tenants were given very little notice (from two to nine months) of the complex being converted into a condominium, which raised tenure security issues and did not give them enough time to relocate. Another factor that fosters inequity is that the converter could sell the units on the market and not just to occupants, which again led to tenure security problems. In the case of the United States, because converters wanted to maximize profits, the sale price

was not accessible to the poor, which over time led to their being displaced by those with higher income. If this option is selected, the following is recommended: (i) create incentives for converters to purchase developments in worse condition, (ii) provide an adequate time period for displaced families to work out their housing situation, (iii) assist them in finding affordable options, and finally, (iv) incorporate demand subsidies to create incentives for the new condominium to absorb former PRH tenants.

- 2.41 **It reduces the PRH stock, which translates into greater pressures for the housing authority.** In the United States, to counteract this effect and preserve the stock of affordable rental housing, converters can be asked to set aside a fund for constructing new affordable housing units. It was also determined that incentives are needed to involve the private sector. For this, the US offered tax credits to make the process of condominium conversion more profitable for converters.
- 2.42 **The State gets to hand over responsibility for management and maintenance to the condominium,** but the burden may end up being directly transferred to a population group that already faces economic difficulties. In Venezuela, the low-income communities that underwent condominium conversions are now tasked with these activities, which represent an economic burden so large as to jeopardize maintenance: where the owners cannot contribute the necessary resources for the condominium, it will not always be possible to keep the buildings in a good state of repair, which has long-term repercussions on property values.
- 2.43 **It requires long-term social assistance.** New condominium members who come from PRH will require institutional coordination that provides them with legal, economic, and social support services. If this option is not well supported through social and technical assistance, it may fail as frictions arise among condominium members when collective decisions need to be made. In this case, the services of civil society organizations that can provide the necessary technical and organizational assistance should be made available to these condominiums.

## **5. Sell the PRH complexes to a private developer**

- 2.44 In this case, the State offers the properties to real estate developers for rehabilitation them and then decide whether to offer them for sale or for rental. This option has been used when the cost of demolition is too high. This was done in England, for example, in the case of some of the properties that could not be sold to their occupants under the “Right to Buy” scheme. These properties were sold at market prices with the requirement that developers sell them to new owners, i.e. they could not hold on to them in the hope of making a greater profit, for they were intended to be redistributed to other sectors of society. The idea is that private real estate developers purchase the properties, rehabilitate them, and then place them on the open housing market. In the cases where the real estate developers were not willing to comply with this clause, the housing authority imposed

special conditions on them.<sup>19</sup> Before deciding on this option, thought should be given to its political acceptability, the amount of excess housing stock that the public sector possesses, and its potential for generating profit for private real estate developers.

### **Lessons learned**

- 2.45 **The State must ensure that the building's current occupants are not displaced when it is sold to a developer.** In other words, this option may lead to the displacement of low-income tenants. For example, in 4 of the 11 complexes sold to private developers in England by 1986, the majority of housing units were bought by groups with greater purchasing power. Only two of the complexes were actually bought by their former tenants or by people on a waiting list, and the remainder were sold to a mix of buyers.<sup>20</sup> A low-income family's chances of buying its former unit after improvements are made is almost zero, since usually they live in PRH because of tight finances that do not enable them to afford their own home.
- 2.46 **The State should ensure that each affordable unit taken off the real estate market is replaced.** An immediate consequence of this option is the disappearance of part of the affordable housing stock, which increases pressures on the housing authority to provide housing to those who are homeless and/or on a waiting list. The housing policy objectives being pursued must be borne in mind, for if the aim is to guarantee housing for low-income families, then mechanisms should be incorporated that force real estate developers to replace each affordable unit that is taken off the market. This option is viable only if there is a surplus of PRH. Is that in England, 9 of the 11 projects bought by private real estate developers up to 1986 were located in areas where there was less demand pressure for PRH.<sup>21</sup>
- 2.47 **Fiscal incentives may be useful to guarantee that affordable housing is replaced.** The State may introduce fiscal incentives to encourage real estate developers to purchase PRH units and replace the affordable units eliminated through this conversion. In England, the housing authority offered purchase incentives that included 100% mortgage loans, coverage of closing costs, coverage of repair costs, etc. The drawback to offering these incentives is that in the long run, the housing authority will experience more losses than gains, for not only does it stop receiving monthly rental income, but it only generate revenues if the sales price covers the existing mortgage.
- 2.48 **The community should be consulted before this option is selected.** In the case of England, in high-crime areas where developments were going to be sold to a private developer, the families were given the opportunity to transfer to another PRH, with preferential treatment in terms of their position on the waiting list. They were not guaranteed to obtain better housing, but they were compensated for their trouble and for relocation expenses. The real estate developers, for their part, also had to introduce

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<sup>19</sup> Diane Diacon, "Deterioration of the Public Sector Housing Stock". Aldershot, England: Avebury, 1991.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.



incentives for the former occupants to buy the repaired and “privatized” units, offering a 10% discount over the prices of other homes in the area. It should be added that at least in England, this was not always the option preferred by local housing authorities; for instance, by 1986 a total of only 6,000 units had been sold via this method, in contrast with about 800,000 units sold to their occupants under the Right to Buy scheme.<sup>22</sup> The residents themselves may propose this alternative and choose the real estate developer.

- 2.49 **The State transfers the responsibility for managing and maintaining the properties.** With this alternative, the State frees itself of this task, reducing its institutional burden, but it may face political pressures if it has salaried personnel to perform these functions, since these workers may lose their jobs.
- 2.50 One opportunity that this alternative affords, and it is only one of the countless variations that can be derived from these options, is that for example, **if there are vacant lots adjacent to the PRH complex in question, the developer could undertake activities to redevelop the area (infill development).** This way, the housing stock is improved and rehabilitated, as are its immediate surroundings, which improves the reputation of the nearby areas, stimulates community development, and increases property values.

## **B. The State decides to continue providing PRH**

### **1. Do nothing**

- 2.51 Let us begin by considering the lessons learned from an option thus far selected by several governments: retaining ownership of PRH and postponing its maintenance. At first glance, this option seems simpler than the others; however, experience has shown **that in reality it is the costliest option, for the State as well as for the tenants and society in general**, not only because of the financial resources that it requires, but also because of the human, administrative, and institutional resources needed for the State to continue to provide this type of affordable service for the poor. In addition to the consequences explored in section I.B, the following are lessons learned by the majority of the countries that have provided PRH.
- 2.52 **Failure to maintain PRH developments and units fosters discontent and social unrest, as well as pressures on the State.** The communities that live there find themselves forced to pressure the government to perform maintenance or else watch helplessly as the State becomes incapable of taking care of its residential spaces.
- 2.53 The fact that the State is the sole entity in charge of the housing developments it owns leaves no opportunity for action for the communities that live in them. By failing to give communities the chance to participate, **the State is creating a paternalistic situation that encourages free-rider behavior among the population.** The role of the State should instead be to motivate communities to assume responsibility for their own residential

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<sup>22</sup> Ibid.

spaces and to fight and compete to keep them. Only then will tenants develop a true sense of ownership and identify with their homes, and then the desire to take care of them and maintain them will prevail. Successful examples tell of communities that can indeed assist the State with management and maintenance. A successful relationship between the State and communities promotes cooperation and reinforces democratic values.

## 2. Repair/rehabilitate PRH

- 2.54 There are two alternatives for dealing with the physical deterioration of PRH: rehabilitation or demolition. The first has been widely used by almost all the countries studied to renovate PRH developments that are in a state of disrepair as a consequence of budget cuts. Two illustrative examples of the rehabilitation process were selected for this study: the rehabilitation of housing in the historical district of Mexico City and the recycling of old homes in the center of Montevideo, Uruguay.
- 2.55 The Mexican program was created with the aim of revitalizing residential, commercial, and cultural activity in the historical district of the capital after parts of the city were destroyed by the earthquake of 1985. The State expropriated run-down properties owned by private entities that profited from them by renting to low-income families, rehabilitated them, and then transferred them to the former occupants in the form of condominiums.<sup>23</sup>
- 2.56 In Uruguay a program to recycle housing in the old part of Montevideo was launched in late 1986, with the aim of fostering a diversity of uses and revitalizing downtown areas while keeping the existing structures. To date, 248 buildings have been recycled in Montevideo, giving rise to 870 new housing units.<sup>24</sup>

### Lessons learned

- 2.57 **Demand subsidies may be needed to guarantee that former PRH occupants will have access to the rehabilitated units.** In the case of the rehabilitation of historical housing in Mexico City, the State assumed the transaction costs of converting the new properties into condominiums, so that the former occupants would not lose access to their dwelling because of the rehabilitation process. In the Uruguayan case, however, the beneficiaries had to have a certain ability to save to be able to qualify for loans from the Banco Hipotecario del Uruguay. The lesson to be drawn from this is that if the State wishes to use the banking system to supplement the public sector outlays, it may need to

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<sup>23</sup> More details on this project may be found in Paz Arellano, Pedro (coord.) et al. "La Rehabilitación de la Vivienda: Una Alternativa para la Conservación de los Centros Históricos" [Rehabilitation of Housing: An Alternative for Preserving Historical Districts]. Mexico City: Instituto Nacional de Antropología e Historia, 1988.

<sup>24</sup> For more details on this experience, see Gerardo García Miranda, "Estudio de Buenas Prácticas de Conservación de Patrimonio Histórico Urbano, Análisis de la Experiencia de Reciclaje de Viviendas del Casco Antiguo de Montevideo" [Study of Good Practices in Conserving Historical Urban Heritage, Analysis of the Experience of Recycling Housing in Montevideo's Historical Center]. Paper prepared for the Inter-American Development Bank (IDB), Montevideo, March 1998.

introduce mechanisms that allow it to financially assist the beneficiaries, or else they will have to have a stable monthly income with enough left over to save, which limits the lower-income population's access to these rehabilitated homes.

- 2.58 **Rehabilitation may help to increase the supply of affordable housing.** One advantage of rehabilitation is that it affords the possibility of redistributing the units to meet growing demand or to serve population groups with different needs. In both the cases mentioned, the old structures were reconfigured giving birth to a greater number of housing units, and their physical condition was substantially improved.
- 2.59 **Repairing the PRH units and common spaces increases the property value, which benefits the future owner thereof and the urban area where it is located.** In both the Mexican and the Montevideo experiences, a process of urban renewal extending beyond the housing project itself became evident. This clearly requires coordination amongst various social actors, such as private investors, landowners, local planning agencies, State housing agencies, and the community. A way to magnify this positive impact for the community is by incorporating commercial spaces in the rehabilitated structures, which contributes to the economic development of the urban area in decline. Another point in favor of this alternative is that by improving the physical condition of PRH developments, relations between the community and the State may improve.
- 2.60 **More inclusive financial mechanisms may be needed to guarantee that former State tenants will not be displaced from affordable housing solutions.** One risk of rehabilitation programs is that of gentrification—low-income population groups being replaced by more affluent groups because of the expectation of appreciating property values. At least in the case where old homes were recycled in Montevideo, the program contributed to the lower-income groups that occupied those dwellings being displaced by groups with greater purchasing power who had better access to the financial mechanisms on which the program was based.
- 2.61 **The relocation of tenants carries a high political, social, and economic price.** In the case of Mexico, before rehabilitation began, resident families had to be relocated, for which they were given the option of moving permanently to another unit provided by the government, moving in with another family for the duration of rehabilitation, or moving into temporary housing. Despite a variety of options and each family's ability to choose the best one, an unavoidable consequence is the temporary and in some cases permanent break-up of the community, which not only can harm the viability of a project, but can also adversely affect the final outcome. Still, this alternative is less aggressive than total demolition, since it does not completely destroy the existing urban and community structures. The lesson is that to carry out a process such as this, **the existing housing stock must be able to absorb those who are relocated.**
- 2.62 **The community should be included in the decision-making process from the start.** The decisions that affect a population, such as who will be relocated to other parts of the city and who will return to the rehabilitated units, should be discussed with them. Later

on, during the rehabilitation process, the community should be included as much as possible. An interesting strategy used recently by the Venezuelan government in the rehabilitation of public housing was to involve currently unemployed residents by having them work on the repair projects.

- 2.63 **Bringing in private investment helps reduce the costs of this alternative for the State.** In the case of Montevideo, the Banco Hipotecario del Uruguay granted loans to private real estate developers to rehabilitate the buildings, and then, when these loans were transferred to the beneficiaries, the bank offered incentives to encourage payment of those loans.
- 2.64 **The tasks of the different institutions involved should not overlap.** In Uruguay, where old buildings were converted into cooperatives, the process was costly and took a long time to complete because the Intendencia Municipal (municipal government) of Montevideo, whose primary function is administrative, also took charge of financial activities.<sup>25</sup>

### **3. Demolition and reconstruction**

- 2.65 Demolition, as the term indicates, involves tearing down the entire structure and replacing it with a new building. This option, like the previous one, only resolves the problem of physical deterioration. It was widely implemented by several countries around the world on housing developments built mainly during the 1950s, characterized by concrete residential high-rises, designed as high density housing with undefined common areas --reflective of modernist architecture and the International Style, which were blamed for many of the ills that stigmatized public housing in different countries
- 2.66 A recent example that illustrates this approach is the United States HOPE VI program, which was created in 1992 as a strategy for dealing with PRH projects, which exhibit high rates of poverty, deterioration, and social ills. The objective of this program is to revitalize the neighborhoods where PRH is located, and improve the impoverished conditions of the families that live there by demolishing some housing projects, renovating others, and addressing the economic and social needs of the residents.<sup>26</sup>

#### **Lessons learned**

- 2.67 **There is a risk of eliminating large quantities of affordable housing from the real estate market. Therefore,** there must be political commitment to see that for each demolished unit, a new one is produced that is equally affordable. Yet political commitment alone is not sufficient to avert the loss of affordable housing; it also requires administrative and institutional capacity on the part of the State, which must make sure

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<sup>25</sup> Ibid.

<sup>26</sup> More information on the experience of the HOPE VI program in the United States may be found in U.S. Department of Housing and Urban Development, "HOPE VI: Community Building Makes a Difference," Washington DC: HUD, 2000.

that the units that replace the demolished ones offer minimum conditions in terms of location and proximity to jobs and public transit routes.

- 2.68 **It is a costly alternative for the State and for PRH residents.** The costs of demolition, when added to those of construction, increase the final development costs of the new structure, reducing accessibility for the lowest-income groups and making this one of the more burdensome alternatives for the State in financial terms. The other lesson from implementation of the HOPE VI program in the US lies in the consequences of the residents of these projects being relocated to either renovated PRH units or to private sector housing with the help of demand subsidies. The biggest problem faced by some of the families relocated to private sector housing is that they found themselves having to pay higher rents. The result is that many of these families have ended up more vulnerable than before, meaning that social programs and services (medical care, support for the elderly, relocation assistance, etc.) have had to be strengthened; since by itself, the program is not adequate.
- 2.69 **The community should be consulted before deciding on demolition.** In the case of HOPE VI, many of the affected families do not want to leave their homes, for fear that the community structure they have created will be destroyed, because they feel rooted to their homes and residential areas, and because they do not consider that conditions are so negative as to warrant demolition.<sup>27</sup> On the contrary, they would like to see rehabilitation done to improve the existing structure. Like rehabilitation, this option involves the relocation of current tenants, which, as was mentioned above, carries a high political, economic, and social price, including the destruction of the community's social fabric.
- 2.70 **It affords the opportunity for economic development of the community**It allows for jobs to be created for unemployed residents in the community and represents an opportunity to include commercial spaces that allow for economic development and the generation of income. If the State offers incentives, the private sector may develop adjacent lots, which would promote the revitalization of the urban area where the housing developments are located.

#### **4. Organized tenants manage and maintain PRH**

- 2.71 This alternative consists of transferring the responsibility for maintaining and managing the properties to organized tenants. The experiences of the Tenant Management Corporations (TMCs) in the United States and Canada and the Priority Estates Project in England have been chosen to illustrate. In these three examples, the State encouraged the creation of resident organizations that would take charge of managing and maintaining the housing developments where they lived. The leaders of some of these communities received compensation in the form of a fee, while other tasks were done on a volunteer basis.

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<sup>27</sup> This study was recently conducted by the Urban Institute in conjunction with ABT Associates. For more information see The Urban Institute, "HOPE VI Panel Study: Baseline Report," Washington DC, 2001, and The Urban Institute, "HOPE VI Resident Tracking Study," Washington DC, 2001.

- 2.72 There are 3,400 public housing authorities in the United States that manage some 1.6 million PRH units.<sup>28</sup> The Tenant Management National Demonstration Program was created in 1975 with the support of the Ford Foundation and the US Department of Housing and Urban Development. This program has apparently not been very successful in the US, since right now only twelve TMCs are active, and of these only five are truly considered to be housing management corporations, in which the tenants make management and maintenance decisions for their communities.<sup>29</sup>
- 2.73 The program has enjoyed greater acceptance in Canada, where there are some 200 tenant associations in State housing developments. The first experience with organized tenants managing PRH came about in 1969, when the federal government awarded an organization of residents of a public housing complex a three-year grant of over 80,000 dollars, with which to hire a social worker for community development and organize the residents for neighborhood improvement efforts. The administrative board was made up of six residents and six representatives from the local housing authority.
- 2.74 England's Priority Estates Project (PEP) was set up by the Labor Party in 1979 as a five-year experiment to improve the management and maintenance of the most deteriorated PRH developments. In the late 1980s PEP became a non-profit organization independent of the State, whose aim was to carry out management and administration for housing developments at the local level with the participation of the residents themselves. PEP's activities include advisory services for tenant groups that wish to get involved in property management, helping residents to identify priorities, conducting feasibility studies to ensure ideas are supported by a majority of residents, assessments of how those ideas might work in practice, and training for tenants who decide to set up a property management organization. In 1996 England had 157 resident management organizations.
- 2.75 In Scotland there are close to 50 community-based organizations that came into being when the public sector's housing stock was transferred to residents as part of the 'community ownership' initiative. They are small, with no more than 100 units under their responsibility, and are run by a board of directors elected by residents. They engage in activities that range from developing new housing to managing it; the majority operate in the poorest areas and where housing is most deteriorated. The above experiences yield the following lessons:

### **Lessons learned**

- 2.76 **This alternative can be equitable in terms of allocation of resources if it creates jobs for the community.** The Canadian experience demonstrated that the creation of tenant associations that are paid to take on the tasks of managing and maintaining their community is beneficial from the standpoint of allocation of resources, because it creates much needed jobs for residents within the community.

<sup>28</sup> Cyrus Valiki-Zad, "Has Government Funding of TMCs Diverted Public Housing Tenants from Pursuing a National Movement to Reduce Poverty?" *Journal of Affordable Housing*, 11(2) (2002), 135-146.

<sup>29</sup> *Ibid.*

- 2.77 **There have to be control mechanisms and a cooperative community-authority relationship.** This option may not be very attractive to the government, because first, it implies handing control of publicly-owned spaces to tenants, and second, the housing authority may not have trust in the residents and in how they will use the resources. If the payment of tenants or the transfer of funds for maintenance is not monitored properly, it may well lead to corrupt practices and greater divisions within the community. However, it has been shown that if the tenant organization is created from the bottom up, i.e. it is not imposed by the housing authorities or other external entities, then residents have a greater opportunity to evaluate the board of directors' decisions, demand accountability, and adopt a more responsible attitude toward the resources it manages, which in the long term may serve to check corruption. There also has to be a commitment on the part of the housing authority, and political continuity among existing community leaders.
- 2.78 **It can save the public sector money.** In the case of Canada and United States, as well as in England, it was shown that this alternative saves the government money. In Canada's case it even reduced payment arrears, but more important still are the cost savings brought about by relieving the State of its management and maintenance duties and giving it an exclusively financial role.
- 2.79 **It gives the community autonomy and control over its living space.** From a community development standpoint, it requires an educational process, including instructing residents in the tasks of property maintenance and management and developing organizational capacity that can produce long-term benefits. However, the reader should be warned that in both the United States and Canada, this model has worked successfully in those instances where it has arisen as a response to a specific conflict with the housing authority, meaning that it is not necessarily an option that can be imposed on an unorganized community.<sup>30</sup> In other words, there has to be a prior struggle that motivates the neighbors to organize and construct a solid community group. Nevertheless, the form in which it was implemented in England is still viable, where tenant organizations exist as a pre-requisite/incentive for obtaining public sector funding.
- 2.80 **One of the negative outcomes of this alternative is that frictions might arise among residents when it comes to making joint decisions.** This alternative may lead to power struggles among residents who hope to hold paid positions on the board of directors. Another similar negative effect observed in one of the Canadian PRH developments was that residents became less willing to participate as volunteers because of the expectations created by the prospect of being paid to work in the management of residential areas.

## **5. The State contracts a private property management company or organization**

- 2.81 This is a fairly common option in industrialized countries, consisting of subcontracting management and maintenance services to a private, specialized company. In the United

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<sup>30</sup> Cyrus Valiki-Zad, "Tenant Participation and Control in Public Housing in Canada," *Habitat International*, 17(2) (1993), 91-103.

States, 7% of PRH is managed by organizations of this kind. Some developments that first went through the TMC experience later switched to this model, as was the case of the Fidelis Way development (now called ‘Commonwealth’), which is managed by a private property management corporation. Where the financing comes from the State, but the board of directors has the right to hire and fire the company.<sup>31</sup>

- 2.82 A similar option involves non-profit property management organizations. The advantage they have is that they may obtain private financing, and can be financed with a combination of public and private resources, depending on the level of trust the investment generates within the private sector. In Uruguay, the housing cooperatives use a similar system; they have to contract a non-profit organization made up of professionals that provide technical and social assistance to residents so that they can perform the tasks of management and maintenance by themselves. These organizations are called “technical assistance institutes.”

### Lessons learned

- 2.83 **A key factor for this alternative to work is the existence of a mature market for residential property administration and management companies.** This could be a problem in countries where these tasks have been put on the back burner. If the company hired is efficient, it can lead to major cost reductions and a more effective use of resources, in addition to providing residential spaces that enhance tenants’ quality of life and increase property value. Having private organizations take care of maintenance can guarantee the capitalization and appreciation of the properties, and to a greater extent, of the housing stock.
- 2.84 The main advantage of this alternative is that **the State rids itself of the responsibility for management and maintenance, without abandoning its role as supervisor.** However, this can be a disadvantage in terms of costs: from a political and social standpoint, the experience in other countries has shown that a problem can arise when contracting a private property management company implies a loss of jobs in the government bureaucracy. A solution has been for these companies, especially the non-profit organizations, to absorb some of the displaced personnel.
- 2.85 A lesson that has been learned in the United States as well as other countries is that **the community should be very well informed about how private management corporations work and what their role is in the community.** This is important for getting residents to be cooperative and help to preserve the companies’ work. A disadvantage is that these companies are usually accountable only to the housing authority, leaving the residents unable to evaluate their work and partake in decision-making on matters that concern them. For this reason, it would be advisable to put mechanisms in place by which the management and maintenance corporation must also be accountable to the beneficiary community.

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<sup>31</sup> Ibid.



2.86 As one can see, each experience has provided enough indications to draw lessons that can be useful to formulate housing policies for the countries of Latin America and the Caribbean. An analysis of these lessons learned shows that there is an entire range of options available to the State, from partially transferring responsibilities to transferring them entirely. How much the fiscal and administrative burden on the State is reduced depends largely on the degree of transfer that it selects. Below, the lessons learned from each alternative are summarized in the following table that attempts to make it easier to compare the different options and the challenges they present.

**Table 4. Synopsis of Lessons Learned**

	<b>Alternative</b>	<b>Accessibility</b>	<b>Equity</b>	<b>Political Viability</b>	<b>Financial Feasibility</b>	<b>Institutional Aspects</b>	<b>Social Aspects</b>
<b>1</b>	<b>Do nothing (keep providing PRH and deferring its maintenance)</b>	Accessibility for the poorest groups is maintained at the price of high State subsidies.	In some cases the process of selecting recipients is not efficient enough to keep housing from being assigned to families that could afford to rent in the private sector.	The deterioration of public rental housing leads to greater pressures on housing authorities from the community.  The provision of secure, well maintained affordable housing provides political benefits to a government.	It is the costliest option because all the funding must come from the State.	PRH require a high degree of organization and institutional effectiveness.	It leaves no room for communities to take action and participate.
<b>2</b>	<b>Rehabilitation</b>	Demand subsidies are needed to guarantee that former occupants will have access to the rehabilitated units.	Rehabilitation may help to increase the supply of affordable housing.  Repairing the PRH and their common areas raises the value of the property, which benefits its owner and the urban area where it is located.	It necessitates relocation of the building's residents, which they are usually opposed to.	The cost of relocating residents increases the costs of rehabilitation.  More inclusive financial and mortgage mechanisms are needed that take into account the particular situation of the informal workforce and guarantee units to their former occupants.  Including private investment greatly relieves the budget burden on the State.	The duties of the entities involved in executing the rehabilitation project should not overlap.  The State should act only in a supervisory and/or financial capacity under this alternative.  The housing stock should be large enough to absorb those who are relocated.	The community should be included in the process of choosing alternatives.
<b>3</b>	<b>Demolition</b>	There must be a commitment to replace each unit taken off the real estate market through demolition with affordable housing for the poorest groups.	With this alternative one runs the risk of taking large quantities of affordable housing off the real estate market.	Carries high political costs, because it requires tenants to be relocated, which they usually oppose because it destroys the existing social and community fabric.	It is a very costly alternative, as it involves relocation costs, demolition costs, reconstruction costs, etc.	The State should be efficient in relocating those affected, so as to cause them the least possible amount of trouble.	Demolition is a decision that should be consulted with the community.

	Alternative	Accessibility	Equity	Political Viability	Financial Feasibility	Institutional Aspects	Social Aspects
		The demolition and reconstruction costs that this entails make the new housing more expensive, and hence less accessible for residents and for low-income groups in general.					It can create jobs for the community by involving unemployed residents.
4	<b>Tenant organizations</b>	By reducing management and maintenance costs, it may lower overall costs and hence make the housing more affordable.	If it generates jobs within the community, then this alternative may be equitable in terms of allocation of resources.	<p>This may not be favored politically by the housing authority, but will be very much accepted by tenants because it gives them control of their living space.</p> <p>It is good for strengthening the capacity for community organization and participation.</p> <p>If the tenant organization is not created from the bottom up, it will be less likely to succeed.</p> <p>It may lead to frequent frictions within the community.</p> <p>It may limit tenants' willingness to participate on a voluntary basis in maintaining their community.</p>	<p>It saves the government money.</p> <p>It leaves the State with a purely financial role, relieving it of its administrative burden.</p>	<p>It requires the housing authority to have a greater skill in managing tenant associations.</p> <p>It also requires greater organizational capacity on the part of the community.</p> <p>It requires specific know-how in the area of property management and maintenance for this model to be efficient.</p>	<p>It creates job opportunities for community residents.</p> <p>It may lend itself to corrupt practices or misuse of funds.</p> <p>It gives the community autonomy and control over its living space.</p> <p>It may help to strengthen the tenant community, just as it may also give rise to internal frictions.</p>
5	<b>Private management company</b>	This may entail higher operating costs because private companies operate for a profit.	N/A	May cause problems for public housing agencies in that it eliminates government jobs.	It is more expensive for the State to pay a private sector company to take care of maintenance of PRH.	This alternative's main advantage is that the State rids itself of the duties of management and maintenance and takes on a supervisory role.	The community should be informed about its role in interactions with the property management company.

	Alternative	Accessibility	Equity	Political Viability	Financial Feasibility	Institutional Aspects	Social Aspects
						A key factor for this alternative to work is the existence of a mature market for residential property administration and management companies.	
6	<b>Sell to tenants</b>	Reduces the supply of affordable housing. It is an accessible option for those who have the capacity to pay and can save every month.	The more deteriorated properties are the ones that are hard to sell, so the poorest households are residualized to more deteriorated housing.  For those who become owners, housing costs as a proportion of their income may be higher than rent.	PRH residents will only be willing to accept this alternative on the condition that the units are repaired.  In general, providing the possibility of homeownership is positive from a political point of view.	This should not be done on a massive scale, because of externalities that may adversely affect the rest of the housing sector.  If the properties are sold at very low, discounted prices, the State will suffer sizable losses.	A good level of government effectiveness is required to avoid payment arrears.  This option does not resolve the issue of the maintenance of common areas, which remains in hands of the State.	There should be an initial phase to inform and prepare the community regarding the process of selling the units to PRH residents.  There must be technical assistance for the community.
7	<b>Housing associations</b>	Because housing associations operate as non-profits, this may lower costs.  Housing associations' position between the public and private sectors is beneficial because it gives them access to private financing, but this may affect rental costs, because private financing—unlike public financing—requires them to play by market rules.	N/A	This depends largely on how developed non-profit housing organizations are in a given country.	The financial feasibility of this option lies in the fact that these organizations have greater access to private capital.  The disadvantage of this alternative is that if private funding is required then market rules of final cost/recovery must apply.	The civil society organizations must have a high level of development and close ties with low-income communities.  The management and maintenance problem is resolved by transferring these duties to the housing organization.  It may reduce government bureaucracy.	The community benefits if it is encouraged to participate.  Because they are usually not elected by the residents, housing associations are not accountable to them.
8	<b>Cooperatives</b>	Only affordable for groups with financial assistance, since maintenance costs are paid for by residents.		Not all residents will be open to collective living.  A problem arises when not all the occupants of a residential complex can or are willing to purchase their home.	Broad government and institutional support is needed for a cooperative to work well.  An option to enhance financial feasibility is mixing income levels,	There should be a simple and clear legal framework that spells out the rules of the game in a cooperative housing system.	It strengthens cooperative ties within the community.

Alternative	Accessibility	Equity	Political Viability	Financial Feasibility	Institutional Aspects	Social Aspects
			<p>Long-term success depends on the continuity of political will and community leadership.</p> <p>Technical and social support is needed for it to succeed.</p>	<p>which may not be politically viable in some Latin American and Caribbean countries.</p> <p>Maintenance costs must be paid by the members of the cooperative, which reduces the political viability of this option.</p>	Ongoing technical assistance is required to guarantee its success.	
<b>9 Condominiums</b>	The beneficiary must be able to save and be in a position to pay an initial fee, in addition to covering the costs of management and maintenance.	<p>Preference should be given to former occupants if PRH units are placed on the market.</p> <p>The affordable housing stock and the amount of housing in better condition is reduced.</p>	A problem arises when not all the occupants of a residential complex can or are willing to purchase their home.	<p>It is financially feasible for smaller numbers of residents.</p> <p>The State rids itself of the responsibility for management and maintenance.</p>	Requires technical assistance, at least in the implementation phase.	There must be technical assistance for the community.
<b>10 Sell to a private developer</b>	If no mechanisms are put in place to force the real estate developer to offer affordable housing options, it may contribute to the displacement of the lowest-income households.	The State should make sure that each affordable unit taken off the market is replaced by the private developer.	The State should intervene and supervise the process if it wants to protect the PRH residents who will be displaced.	<p>The State should introduce incentives for the private real estate developer to place new affordable units on the real estate market.</p> <p>Otherwise, it costs the State nothing, because it sells the housing, thus obtaining income while shedding its fiscal and administrative burden.</p>	The State rids itself of the responsibility for management and maintenance.	<p>The community should be consulted before this option is selected.</p> <p>It may afford the community an opportunity for economic development by introducing spaces that generate income.</p>

### III. CONCLUSIONS AND RECOMMENDATIONS

- 3.1 The State's options for tackling the problems created by the existence of PRH are unquestionably varied and address a diverse range of needs. Nevertheless, the key idea resulting from this analysis is that each option distributes responsibilities differently among the public, private, and non-profit sectors. This study has therefore summarized the advantages and disadvantages of options that range from placing all the administrative and fiscal responsibilities on the shoulders of the government, to shifting them in their entirety to the private sector, with options in-between that divide responsibilities among several players. Generally speaking, the countries of Latin America and the Caribbean should opt for intermediate solutions that involve the participation of various players, and in which the State's role is to facilitate the process of providing affordable housing, so as to avoid overloading its administrative and fiscal capacities.
- 3.2 A review of alternatives to PRH makes clear that there is no ideal formula for solving the problems presented here. Rather, this study shows that not only are there multiple alternatives to PRH, but they afford the advantage that they can be combined to adapt to a specific context or situation. This suggests that two key points to ensuring the success of the alternative selected are an in-depth understanding of the housing market in the country where one wishes to implement it, and a clear definition of housing policy objectives.
- 3.3 The value of a study that presents lessons learned is that it serves as a guide as to what problems may arise when certain strategies are applied, and what the greatest benefits are that one can expect to attain. In this paper, the analysis of lessons learned by countries at different levels of development revealed issues particular to each alternative, which were explored in detail in the text. However, there are a few cross-cutting issues that appear as constants across all or almost all the alternatives, and should be highlighted, for they constitute problem areas that may manifest themselves due to the very limitations of the alternative, yet when identified beforehand, may represent less risk during implementation. These cross-cutting issues are:
  - a. Housing is an issue that cannot be dealt with by itself—it involves employment and social policies that support the beneficiary population and enhance their ability to access formal financial mechanisms.
  - b. One critical issue that is not fully resolved by any one alternative, but may require demand subsidies, is that of lower income groups' access to the formal housing market.
  - c. Supply subsidies continue to be important and necessary for ensuring that the private sector enables the provision of affordable, quality social housing for the poorest groups.
  - d. Any tenure conversion process that trades PRH for homeownership means a reduction in part of the affordable housing stock for specific segments of the

- population. These policies should therefore be accompanied by mechanisms that ease the population's access to other sectors of the real estate market.
- e. In many of the alternatives presented, success depends largely on which social actor pressures for change to occur. Experience dictates that the best results are seen when the pressure comes from the community's own initiative and the State facilitates the process. In this sense, it is very important that the community participate in the process of making decisions about the future of its residential areas.
  - f. Opportunity for mixed-used developments: Some PRH developments could include commercial spaces that would generate revenues for the organized community, and those resources could be used to pay for maintenance costs.
  - g. Partnerships among various players from the public and private sectors, such as housing authorities, non-profit housing associations, the central government, banks, and real estate developers, etc., tend to spread risk and responsibilities, thus offering better quality and greater affordability in the housing sector.<sup>32</sup>
  - h. The matter of property management and maintenance is critical not only because it is the area that exposes the State's inefficiency as a landlord, but also because it is a responsibility that is not addressed by many of the alternatives presented here, and where it is, it represents an economic burden for the beneficiaries, creating a vicious circle of deterioration and poverty. It would be advisable to promote the existence of a competitive private market to develop expertise in these areas in Latin America. The advantages of such a policy would extend beyond ensuring the proper maintenance of residential areas, to raising property values, increasing personal safety, and keeping entire urban areas in good condition.
  - i. Because the majority of PRH developments are located in urban areas, generally in the inner city, the externalities of each alternative on the surrounding environment should be taken into account.

3.4 Several topics were mentioned throughout this study that deserve further investigation. These topics are:

- a. The question of whether the rental housing market should be promoted in Latin America and the Caribbean. This warrants a separate inquiry, not only to explore the causes and consequences of the policy's limited use in the region, but also to assess its political viability and financial feasibility, as well as the benefits and limitations that it presents. In any event, rental housing should be seen as a transitional solution for a family until it is in a position to purchase its own home.
- b. The issue of the responsibility for operation and maintenance. The success of the rental housing market depends largely on the existence of a mature property management market.<sup>33</sup> This market is often underdeveloped in countries of Latin

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<sup>32</sup> B. Ferguson, "Housing Policy in the New Millenium." Conference Proceedings. Washington DC: U.S. Department of Housing and Urban Development, 2001.

<sup>33</sup> Telephone interview with Xavier Jongen, Ecorys. Research and Consulting, Holland, October 2002.

- American and the Caribbean, and it is an area within the real estate field that could create jobs.
- c. Whatever the alternative selected for a specific country, it should be explored in greater depth so as to obtain a more accurate picture of its implications and advantages.
- 3.5 Lastly, it is important to point out that any alternative selected should be accompanied by transparent, flexible, and well-defined rules of the game, a clear and realistic assignment of roles, simple legal frameworks, and a vision of cooperation among social actors.



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