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Why there? Developers' rationale for building social housing in the urban periphery in Latin America

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ABSTRACT

Inadequate housing has become endemic to Latin American cities for over six decades. All that has changed has been who is going where. In the 1960s, the *rural poor* who came to the city solved their housing needs by building their own informal settlements on peri-urban lands. Today, the *urban poor* relocate to peri-urban housing complexes built by the private sector with state subsidies. Why have these new housing units for low-income households been built in peri-urban areas? This paper examines some of the mechanisms behind the location of the urban poor in cities, with a specific focus on the role developers have played in the construction of affordable housing in peri-urban areas of Brazil and, Mexico. The paper explores these mechanisms through interviews with affordable housing developers. We found that economies of scale – and not land prices – explain developers' preference for building in peripheral areas. Initial savings that accrue to developers due to lower land prices in the periphery are offset by the cost of having to build basic onsite infrastructure. Plus, large lots – which are available almost exclusively in urban peripheries – enable developers to achieve significant cost savings because these large lots make it possible for developers to build more than 500 units. In addition, weaker municipal regulations and fewer bidders, both of which are typical for projects in difficult-to-access peripheral locations, make for a shorter and easier approval process for these large housing projects.

1. Housing demand and housing policy

The dream of living in a safe and comfortable home eludes millions of urban residents everywhere. In Latin America, more than a third of the population still does not have adequate housing, and it has been that way for more than six decades. This may be partly due to the way the region urbanized. Cities grew very rapidly as a consequence of an inflow of migrants who were often fleeing either poverty or violence.

In fact, the housing deficit has been one of the shaping forces of today's Latin American city. Since 1950, the number of urban residents in the region has grown sevenfold, and the urban population has now reached 450 million (UN-DESA, 2013). But as the region's economic growth has averaged only 3% annually over the last 60 years, inadequate housing has become endemic (Hardoy & Satterthwaite, 2014). All that has changed has been who is going where. In the 1960s, the *rural poor* who came to the city solved their housing needs by building their own informal settlements on peri-urban lands (Aguilar, Ward, & Smith, 2003). Today, the *urban poor* relocate to peri-urban housing complexes built by the private sector with state subsidies.

Why have these new housing units for low-income households been built in peri-urban areas? This paper examines some of the mechanisms behind the location of the urban poor in cities, with a specific focus on the role developers have played in the construction of affordable housing in peri-urban areas of Latin America. By doing so, it conceptualizes housing location as the outcome of a rational response to the economic incentives policy frameworks create. In that sense, it continues the scholarly tradition of analyzing urban form as the physical consequence of the search for economic surplus (Harvey, 1985). At the same time as it emphasizes that the regulatory frameworks play a significant role in determining the economic advantages of each specific form of land occupation, which takes place on top of pre-existing imbalances between the public and private powers regulating land uses. These imbalances are not only between public and private actors, but also between municipal jurisdictions within metropolitan areas.

The paper explores these mechanisms through a qualitative methodology based on semi structured questionnaires and in depth open ended interviews with developers of subsidized affordable housing in Goiania, Brazil and in Puebla, Mexico. In total, ten developers representing four companies participated. The interviewees were evenly divided between those who develop affordable housing in central location and those who develop it in peripheral locations. Both Brazil and Mexico have ambitious housing programs where most housing units have been built in peripheral areas. Together, these countries account for about half of the region's households. Both have demonstrated a

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century-long commitment to supporting affordable housing, but they have seen a shift from the state as the producer of affordable housing to the state as the regulator of private production of such housing (Bouillon, 2012).

The findings of these paper show that developers who built affordable housing in the urban periphery are intrinsically indifferent to project location. Their preference for building in those areas rest in their ability to find larger plots of unused land with a lower number of bidders. This is because these plots allow them for shortening the time for municipal approvals, and for accommodating larger number of units and hence achieving economies of scale that contribute to lower the cost per housing unit built. The consequence on the urban form is that the larger housing complexes get built in the less attractive areas of peripheral municipalities.

With this finding this paper also contributes to the urban form theory based on the seminal works of William Alonso, which poses that households' economic resources determine where they choose to reside and that the aggregate result of these decisions shapes residential geography. A household decision is the outcome of a tradeoff between housing amenities and housing location. In as much as the cost of commuting remains low, it could choose to live in suburban areas where they can afford larger plots (Alonso, 1964). But the dynamics is different for a household who depends on a subsidy for buying a housing unit. This subsidy does not allow him to participate in the existing real estate market, but stimulate developers to produce ad-hoc housing units at below market prices. Hence, and as households are a captive market, it shifts the trade-off decision between amenities and location from households to developers.

The next section provides background on housing demand and housing policies in Brazil and Mexico. The profile of the cities studied, the methodology and the main findings of the study are then presented. The final section concludes with a critical analysis of current housing policies.

The extent to which inadequate housing shapes urbanization today in Latin America is striking. Of the more than 150 million Latin American households suffering some housing deficit, the vast majority are urban households that lack access to basic infrastructure. In terms of the percentages of people affected, the housing deficit stands at 32% in Brazil (79.6 million people) and 27% in Mexico (31.2 million people). Two-thirds of these housing deficits are due to the quality of housing – that is, people living in overcrowded units, lacking proper titles, or not having access to basic services such as tap water and sewerage. The other third suffers what are called quantitative deficits, which implies that they either do not have a home, share one with another family, or live in an improvised dwelling.

If the current urban population growth rate continues, it is expected that 2 million out of the 3 million households that are added to Latin American cities every year will suffer a housing deficit (Bouillon, 2012). The magnitude and the persistency of this housing deficit is an indication of the difficulties faced by national governments trying to close this gap (Rolnik, 2013).

Both Brazil and Mexico have specific institutions responsible for designing and supporting affordable housing (Murray & Clapham, 2015): the Ministry of Cities in Brazil; and the Secretariat of Territorial, Agrarian, and Urban Development in Mexico (Secretaría de Desarrollo Agrario, Territorial y Urbano – SEDATU) (Table 1). These ministries have solid frameworks though which they channel funding for affordable housing programs. Brazil relies on the Federal Savings Bank, also known as La Caixa, (La Caixa Econômica), a government-owned corporation that provides banking and financial services. The Federal Savings Bank is the fourth-largest bank in terms of assets in Brazil (Caixa, 2015). Mexico's financing mechanism is similar, although more complicated. The Federal Mortgage Society (Sociedad Hipotecaria Federal - SHF), a second-tier bank with funding from the Ministry of Finance, sells credit products to financial intermediaries, including the National Housing Fund Institute for Workers (Instituto del Fondo Nacional de la Vivienda para los Trabajadores - INFONAVIT) for private sector employees and the Social Security and Services Institute's Housing Fund for State Employees (Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado – FOVISSSTE) for public sector workers. These two agencies collect mandatory contributions from employers and employees for a fund to finance affordable housing, which is then built by the private sector (SEDATU, 2013). As the Table 1 shows, the aim and organizational structure of both countries is somewhat similar, although the Mexican case is more complex because it includes more than one financial intermediary.

In addition, the national budgets of these countries allocate a substantial amount of funding for housing programs that historically has ranged between 1 and 2% of their respective gross domestic products (GDP). By comparison, the United States allocates about 0.55% of its GDP to support housing programs (OMB, 2015), and member countries of the Organization for Economic Co-operation and Development (OECD) allocate an average of less than 1% of GDP (OECD, 2012). Currently, expenditure on social housing programs in Mexico and Brazil amounts to about 1.7% of their respective GDPs.[1] This is twice what Mexico spent and four times what Brazil spent in the 1990s. The contribution of these funds to increasing the housing supply is considerable. In Brazil, the flagship national program, My House My Life (Minha Casa Minha Vida - MCMV), facilitates housing credit for low-income households without access to mortgages, thus fostering the construction of housing for these households. The program has been responsible for about 750,000 housing units per year, which represents about 30% of annual housing production by Brazil's formal housing sector (Magalhaes, 2013). Determining the amount of housing production in Mexico is particularly complex because 60% of it is informal (Hebert, Belsky, & DuBroff, 2012). One approximation is that 70% of the 600,000 housing mortgages filed each year are linked to national programs for social housing (Monkkonen, 2011).

Table 2 shows the housing deficits in Brazil and Mexico, the amounts of subsidies for affordable social housing, and the numbers of beneficiaries. Brazil has a larger, more urbanized population and a higher level of housing deficit than Mexico. In both countries, most the deficit is of a qualitative nature, although in the Brazilian case one in three households in housing deficit classifies as needing a new unit, and in the Mexican case only one in twenty. Nonetheless, in both countries most funding goes for building new units. In terms of size, Brazil's total number of households with housing deficits more than doubles that of Mexico, while its funding for programs amounts for more than six times the Mexican funds.

The impressive scale of these national programs has aimed for a large impact as measured by the number of units delivered. For example, in 2013 the Mexican government pledged to deliver 1 million social housing units in its first year of office, while in 2014 the Brazilian government promised to deliver 2.75 million housing units by the end of its administration. While these numerical targets did not imply any specific urban focus, they certainly increased the pressure for quick delivery of large-scale projects, the magnitude of which could only be attained in urban peripheries.

Data on the budget allocations of national programs show a marked preference for sponsoring programs that support new housing units over those that improve existing ones (Tables 3 and 4). This signals a pronounced mismatch between the nature of the housing deficit and the type of housing support offered, as surveys indicate that the vast majority of households need to improve their current unit (qualitative

[1] Expenditure on housing is particularly centralized in Latin American countries. In 2000, after the decentralization process was almost consolidated, housing accounted for about 14% of total central government spending but less than 9% of local government spending. In contrast the average share of housing expenditure among OECD countries was less than 3% for national governments and more than 13% for local ones (De Mello, 2003)