

# Rental Housing

An essential option for the urban poor  
in developing countries

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# Preface

A large proportion of residents in cities and towns of developed as well as developing countries are tenants. Despite this, the number of governments actually trying to support rental housing development is rather small. Multilateral agencies are little better. Although some agencies at least recognize the importance of the rental housing sector, the majority are mostly remiss and virtually never mention rental housing nor develop loan programmes to encourage it. In 1989, a meeting of experts organized by UN-HABITAT concluded that governments should review their housing policies and devise appropriate strategies for rental housing which remove biases against non-owners. Unfortunately, little has actually happened since, and recognition of the important role played by the rental sector still constitutes the greatest hole in many national housing policies.

This neglect of rental housing has, however, not been wholly uncontested. A number of studies have appeared over the last two decades and, during the 1990s, a number of researchers argued that greater attention should be paid to the rental-housing sector.

This report does not make an attempt to claim that renting is anything but a partial answer to the housing problems that so many people in so many human settlements both in developed and developing countries are facing. Nor does it deny that rental accommodation is often inadequate, or contest that many of the buildings in which tenants and sharers live would fail any conscientious housing inspection. The report is in fact pragmatic rather than visionary. Governments should not close their eyes to reality. They should not perpetuate the myth of the achievability of universal homeownership. Instead, they should accept that millions of households live in rental housing and that at some point in their lives most people need rental accommodation. Governments should thus modify the regulatory framework, develop credit programmes and other forms of assistance to support housing production, with a view to creating more rental housing and to improve the existing stock. To put it directly, many politicians should change their attitudes regarding current housing policies, and should try to do something practical to help those members of their society who live in rental housing, as well as the ones who can provide those dwellings.

This report is published as a part of the Global Campaign for Secure Tenure, one of the main advocacy instruments of UN-HABITAT towards the implementation of the Habitat Agenda. The report's argument for a balanced view on the security of tenure for tenants as well as for landlords is an important aspect of the Global Campaign, as well as an essential factor towards

the realization of target 11 of the Millennium Development Goals: “By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.” An appropriate level of security for both tenants and owners is in fact an essential requirement for the progressive realization of the right to adequate housing.

I wish to express my appreciation and gratitude to all those who have contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read 'Anna K. Tibaijuka', written in a cursive style.

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# Contents

<b>Preface .....</b>	<b>iii</b>
<b>Acknowledgements .....</b>	<b>v</b>
<b>Contents .....</b>	<b>vii</b>
List of boxes .....	ix
List of figures .....	ix
List of photographs .....	ix
List of tables .....	ix
List of acronyms and special terms .....	xi
<b>Executive summary .....</b>	<b>xix</b>
<b>I. Introduction: The significance of renting and sharing .....</b>	<b>1</b>
I.A. The neglected sector .....	1
I.B. Defining terms .....	3
I.C. Quantitative importance of renting by country and city .....	8
I.D. Tenure trends .....	11
I.E. Explaining local and national variations .....	14
I.F. Rich countries versus poor .....	15
<b>II. The nature of the rental housing stock .....</b>	<b>25</b>
II.A. Diversity is the main feature of rental housing .....	25
II.B. The public sector .....	27
II.C. Social housing .....	33
II.D. The private sector .....	39
II.E. Informal renting of lots .....	44
II.F. The location of rental housing .....	46
<b>III. Landlords, tenants and sharers .....</b>	<b>53</b>
III.A. Who are the landlords? .....	53
III.B. Who are the tenants? .....	57
III.C. Who are the sharers? .....	64
III.D. Understanding the motives of landlords .....	68
<b>IV. Problematic issues in rental housing .....</b>	<b>77</b>
IV.A. Discrimination against some categories of tenants .....	77
IV.B. Rent levels .....	79
IV.C. Quality of the rental housing stock .....	83
IV.D. Inner-city problems .....	88
IV.E. Legal issues .....	89

IV.F. Mobility and eviction .....	91
IV.G. Landlord-tenant conflict .....	94
<b>V. Public policy: Debunking the myths .....</b>	<b>103</b>
V.A. Myth 1: ‘Everyone owns in affluent countries’ .....	103
V.B. Myth 2: ‘Everyone wants to be a homeowner’ .....	105
V.C. Myth 3: ‘Ownership offers people a better life’ .....	112
V.D. Myth 4: ‘No one invests in rental housing’ .....	116
V.E. Myth 5: ‘Renting is inequitable’ .....	118
V.F. Myth 6: ‘Governments should prohibit the renting of poor quality accommodation’ .....	120
V.G. Myth 7: ‘Mobility is bad for you’ .....	123
V.H. Myth 8: ‘Homeownership encourages the emergence of a politically stable society’ .....	125
<b>VI. Appropriate forms of public intervention and assistance .....</b>	<b>131</b>
VI.A. Determining the appropriate level of government responsibility .....	131
VI.B. A balanced government housing policy .....	134
VI.C. Encouraging large-scale investment in rental housing .....	136
VI.D. Encouraging the self-help landlord .....	140
VI.E. Improving the quality of the housing stock .....	152
VI.F. Affordability and rent control measures .....	158
VI.G. Affordability and the role of subsidies .....	162
VI.H. Conciliation and arbitration .....	164
<b>VII. Promoting rental housing: An international agenda .....</b>	<b>171</b>
VII.A. Stimulating a debate about rental housing .....	171
VII.B. Human rights and tenure .....	173
VII.C. Persuading governments to include renting in their policy agendas .....	180
VII.D. Research needs .....	182
VII.E. The ultimate task .....	183
<b>List of references .....</b>	<b>187</b>
<b>Appendices: Choice of case studies .....</b>	<b>213</b>
Appendix 1. South African rental housing .....	215
Appendix 2. Reviving private investment in rental housing in Colombia .....	225
Appendix 3. Leasing: The best of renting and owning? .....	231
Appendix 4. The accelerated repossession procedure in the United Kingdom .....	235
Appendix 5. The rental slums of Kenya .....	237
Appendix 6. The family dimension: Sharing West African style .....	241
Appendix 7. Is the “American Dream” materialized in housing? .....	247



## List of boxes

Box 1. Definitions of social housing in selected countries of the European Union.....	34
Box 2. Living conditions in the backyards of South African cities .....	86
Box 3. Improving living conditions in South Africa: A household rental grant proposal.....	141
Box 4. Efforts to improve the quality of private rental housing.....	154
Box 5. Buy to let in the United Kingdom .....	161
Box 6. Family housing in Bamako, Mali .....	242

## List of figures

Figure 1. Distribution of non-owners by district in Mexico City.....	48
Figure 2. Service levels and rental housing in Mexico City .....	87

## List of photographs

Photograph 1: Council housing in Cape Town, South Africa.....	29
Photograph 2: Public rental housing in Buenos Aires, Argentina.....	31
Photograph 3: Renovated hostel accommodation in Cape Town, South Africa .....	39
Photograph 4: Rental housing in one of Brasilia's satellite cities.....	41
Photograph 5: Rental housing in Mafekeng, South Africa .....	42
Photograph 6: Backyard accommodation near Pretoria, South Africa.....	45
Photograph 7: Deteriorating rental housing in inner-city Puebla, Mexico.....	88
Photograph 8: At risk in an earthquake? Consolidated self-help housing in Medellín, Colombia .....	150
Photograph 9: Tribunal Gardens rental housing development in inner-city Johannesburg, South Africa .....	220
Photograph 10: Backyard shelter near Pretoria, South Africa .....	222
Photograph 11: Nairobi's informal rental housing.....	237

## List of tables

Table 1. Housing tenure for selected countries, per cent (1994-2002) .....	9
Table 2. Housing tenure for selected cities, per cent (1994-2001) .....	10
Table 3. Urban housing tenure by region, per cent (1998) .....	16
Table 4. Housing tenure in urban and rural areas for selected countries, per cent ..	17
Table 5. Homeownership and city size, Brazil .....	18
Table 6. The diversity of rental housing .....	26

Table 7. Housing characteristics in 52 cities, by income group of country (early 1990s) .....	28
Table 8. Proportion of tenants in four consolidated self-help settlements in Bogotá, 1997 .....	47
Table 9. Spatial distribution of tenant households in Mexico City, 1990-2000 .....	47
Table 10. Tenants and sharers by zone in selected cities, per cent (1980s) .....	49
Table 11. Income variation among tenant households in South Africa .....	59
Table 12. Landlord-tenant relationships in different kinds of rental housing in South Africa .....	97
Table 13. Total consultations in mediation and conciliation units, Colombia (1998-1999) .....	166

## List of acronyms and special terms

- Allegado* Term used for people living in the backyards of Chile's cities. The word is best translated as those who are near, close or related. The '*allegados*' became a significant feature of the Chilean housing scene under the military regime of the 1970s and 1980s when many young adults set up homes in their relatives' backyards.
- Anticresis* A tenure situation in which the tenant has to pay a large amount of money (often between 25 per cent and 40 per cent of the value of the house) in advance, but lives rent-free for an agreed period of time (generally two or three years). "*After this period the house owner returns the initial payment and the occupants have to vacate the dwelling unless a new period of anticrético or other contract is agreed upon by the parties*" (Beijaard, 1992: 43). *Anticresis* contracts are obligatory for one year with a second optional year. "*The system is popular in Bolivia due to the high interest rates on borrowing from credit institutions and the difficulties in procuring capital.*" Used to be for higher and middle income groups but now also becoming more popular among poorer households (Richmond, 1997: 120).
- Asentamiento* A term sometimes used in Chile to describe a self-help settlement.
- Bairro* A term used in Brazil to describe a neighbourhood. Implicitly it means a formally developed area as opposed to a *favela*. Hence the settlement upgrading programme in Rio is known as Favela-Bairro.
- Barrio* Term used in Venezuela to describe a self-help settlement. In other countries it often describes an ordinary neighbourhood.
- Bogey* An arrangement in Bangalore, India, similar to *anticresis* and *chonsei* (see Kumar, 2001).
- Bustee* In West Bengal, "*bustees are settlements with a distinctive three-tier arrangement: bustee dwellers ... rent space in huts built by thika tenants on land leased to them by the land-owners*" (Banerjee, 2002: 49).
- Chawl* A row tenement in Mumbai usually informally developed but sometimes produced by the authorities (Pimple and John, 2002: 76).

<i>Chonsei</i>	A lump sum deposit made by the tenant in the Republic of Korea, which the owner uses to invest. The tenant pays no monthly rent and the deposit is fully refunded at the end of the contract period, which is usually one year at the minimum (Kim, 1992). See also <i>anticresis</i> .
COHRE	Centre on Housing Rights and Evictions.
<i>Colonia</i>	Term used in Mexico sometimes to depict a low-income settlement.
Contingent valuation	Methodology to assess willingness to pay “ <i>based on structured surveys conducted with a sample of beneficiaries who are asked how much they would be prepared to pay for different levels of service</i> ” (Brakatz and others, 2002: 61).
<i>Conventillos</i>	Term used in Argentina, Chile and Uruguay to describe centrally located rental tenements.
<i>Cortiços</i>	“ <i>[T]he dilapidated private houses usually situated in central areas [of Brazilian cities], where thousands of families live in precarious and hazardous conditions</i> ” (Fernandes, 2002: 208-209).
<i>Ejido</i>	The Mexican <i>ejido</i> was established under the land reform of 1915. It granted agrarian communities the right to farmland in perpetuity. Members of the community had the right to cultivate land but not to sell it. Urban development has increasingly led to cities spreading onto <i>ejido</i> land and many <i>ejidatarios</i> have illegally sold out. This has created a major problem for the authorities.
<i>Favela</i>	Term used in Brazil to describe informal housing areas or shantytowns. The official definition of the term regularly changes.
Fedelonjas	The Federation of Exchanges, a professional body that represents a series of Colombian companies administering rental accommodation, managing buildings and carrying out property surveys, is leading the campaign.
First and second-generation rent control	The first tend to freeze rents to a level significantly below the market level whereas the second tend to permit rent rises linked to the rate of inflation. The first tend to prohibit evictions whereas the second allows them under certain conditions.

Freehold and leasehold tenure	These formal tenures confer on the title-holder the maximum control and discretion over the land, normally only circumscribed by law and/or planning and zoning restrictions. It provides for the land (and improvements) to be used as collateral and mortgaged, and it may be transferred or bequeathed at the discretion of the title-holder.
GDP	Gross domestic product.
Ghetto	The geographical concentration of particular social groups, normally against their wishes, and usually applied to ethnic minorities, although it may sometimes refer to groups like the old, the gay and even the mentally ill.
<i>Girvi</i>	An arrangement in Surat, India, similar to <i>anticresis</i> and <i>chonsei</i> (see Kumar, 2001).
Hedonic pricing	A method of calculating housing prices. <i>“Where there are formal markets with well-defined prices, tenure can be regarded as a ‘bundle of attributes’, each one of which combines with other dwelling or site attributes to set the price or rental value of housing. The methodology is very well established, and the ‘shadow price’ of various kinds of tenure can be calculated from actual market data”</i> (Flood, 2002).
Homelessness	Definition varies between countries and regions, and is political rather than semantic. UN-HABITAT encourages the use of a narrow definition in developing countries, e.g., of the type used by the United Nations for statistical purposes (for more details, see UNCHS, 2000): <i>“households without a shelter that would fall within the scope of living quarters. They carry their few possessions with them sleeping in the streets, in door ways or on piers, or in any other space, on a more or less random basis”</i> (United Nations, 1998: 50).  In developed countries a wider definition is more appropriate, e.g., <i>“Homelessness is the absence of a personal, permanent, adequate dwelling. Homeless people are those who are unable to access a personal, permanent, adequate dwelling or to maintain such a dwelling due to financial constraints and other social barriers...”</i> (Avramov 1996: 71, cited in FEANTSA, 1999: 10).
ICA	The International Co-operative Alliance.
ILO	International Labour Office.

Informal housing	Housing that begins informally, without a title deed or services, and which the members of the household design, finance and often build with their own hands. Such housing usually belongs to the poor and gradually improves over time. In this report, the term is used synonymously with self-help and spontaneous housing (for a discussion of the problems involved in using any of these terms see Gilbert and Gugler, 1992).
<i>Jjogbang</i>	Housing in the Republic of Korea rented by the day.
Key money	A tactic often associated with hard rent control regimes whereby landlords compensate for low monthly rents by demanding a high initial payment from the tenant before occupation. Deposits are also common in many other countries as a guarantee against damage and non-payment of rent.
Landlord	Someone who rents out property to a tenant. The term includes landlady, the latter only being used when it is clear that the latter is the landlord, e.g., in the case of a widow without adult sons. In many cases, the sex of the landlord is irrelevant because the householders are a couple. In some places, the man will manage the tenants; elsewhere it will be the woman. The inclusion of women under the term landlord is not meant to be sexist and is used in the same way that most actresses, these days, prefer to be called actors.
Millennium Development Goals	The Millennium Development Goals were adopted by United Nations Member States in the year 2000 through their adoption of the Millennium Declaration. The Goals address essential dimensions of poverty and their effects on people's lives; they are not imposed, but are an international call for action. Each country needs to set its own goals and targets in relation to recognized conditions, trends and needs.
NGO	Non-governmental organization.
OHCHR	Office of the United Nations High Commissioner for Human Rights.

Ontological security	One of several concepts suggesting that people need more than just adequate sustenance and shelter to live happy and fulfilled lives. <i>“They also need a secure base to which they can return if in trouble or fatigued. This base could be a personality trait, such as an inner sense of confidence or hardiness, a loving person such as a caregiver or partner or simply the normal routine of everyday life. It has further been argued that the home could function as a secure base...”</i> (Hiscock and others, 2001: 50). According to Saunders (1990) owners are supposed to feel it but renters not.
Owner	Those with legal or de facto right to occupy, let, use or dispose of a dwelling. This includes those who are in the process of acquiring the right to ownership (e.g., through payments on a mortgage).
‘Pirate’ urbanization	Term used in Colombia to describe self-help settlements developed with no or only partial services, without building licences and without the approval of the planning authorities. The difference with invasions is that the settlers normally buy the right to occupy a plot of land from the sub-divider. The sub-divider may or may not actually own the land.
Secure tenure	<i>“[T]he right of all individuals and groups to effective protection by the State against unlawful evictions”</i> (UN-HABITAT, 2002d: 6).
Self-help housing	A synonym for informal or spontaneous housing.
Shared housing	<i>“The sharing of a one-kitchen dwelling unit by two or more unrelated adults with or without children.”</i> In most countries of Africa and Asia, this definition is too limiting. Many adult children with their partners and children often share part of the home, or even the lot, with their parents, and vice versa. In places, and particularly in West Africa, sharing involves a much wider set of kin. The key difference with renting is that there is rarely a regular rental payment, although money is frequently offered to cover the costs of services and general expenses. One of the key characteristics of shared housing is that it is highly flexible. Sharer families include both households sharing a property with the owners, but not forming part of the owner’s household, and households living as part of an extended household, in any kind of tenure, without being the householders.

Slum	Pejorative term for poor quality housing, e.g., “ <i>a contiguous settlement where the inhabitants are characterized as having inadequate housing and basic services. A slum is often not recognised and addressed by the public authorities as an integral or equal part of the city</i> ” (UN-HABITAT, 2002d: 6).
Social housing	A vague term increasingly reserved for housing that is developed by non-profit making institutions, predominantly for the poor. The institutions involved may range from educational institutions, through charities, to housing associations and cooperatives. However, sometimes the term is applied to all formal housing built for poor people, and sometimes to all kinds of housing built by non-profit organizations. In Latin America, the term social-interest housing is occasionally used meaning, formal housing built for poor people and often subsidized, but produced by private sector companies. In this report, the term is confined to private non-profit making institutions building housing for poor people.
Spontaneous housing	A synonym for informal or self-help housing.
Sub-tenant	The tenant of a tenant.
Tenant	Households paying a prearranged rent for the exclusive occupation of all or part of a dwelling unit. This tenure also includes both formal and informal situations. That is to say, the term renting embraces households who pay a regular sum of money to a landlord whether the landlord is a government institution, a cooperative or a private individual and irrespective of whether a formal contract has been issued. A landlord in a self-help settlement who has established a verbal contract with the tenant is still a landlord. So long as the tenant recognizes that there is a contractual relationship with another individual who has ownership rights over the property and a regular payment is being made, the distinction between owners and tenants is a real one.
<i>Thika</i> tenant	In nineteenth century metropolitan Calcutta, “ <i>a complex arrangement developed that eventually led to a unique three-tier tenurial structure. A landlord would typically rent out vacant plots under his own ownership to members of his retinue (‘intermediate agents’ who became known as thika tenants) who, in turn, would build a large number of small huts on the plot. Rooms within the huts were then rented out to labourers</i> ” (Ramaswamy and Charavarti, 1997: 64).



<i>Tugurio</i>	Spanish American term for slum and for a rural hut or hovel
UNCHS	United Nations Centre for Human Settlements (Habitat), since 2002 known as the United Nations Human Settlements Programme (UN-HABITAT).
UNCRD	United Nations Centre for Regional Development.
UNDP	United Nations Development Programme.
UNECE	United Nations Economic Commission for Europe.
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean.
UN-HABITAT	United Nations Human Settlements Programme.
UNHRP	United Nations Housing Rights Programme, launched in 2002, as a joint initiative by UN-HABITAT and OHCHR.
USAID	United States Agency for International Development.
WHO	World Health Organization.



# Executive summary

1. Few governments have taken rental housing very seriously over the last thirty years. The report reveals the current level of neglect and suggests why the extent of encouragement given to homeownership has been misplaced. It then describes the diverse forms that rental and shared housing take before examining some of the myths that underpin much thinking about the rental issue. Finally, it suggests what governments might do to encourage landlords to create more and better quality accommodation for rent. The report discusses rental housing throughout the world but its main message is intended for governments in developing countries.

2. Chapter I provides definitions for the key terms used in the report. In particular, it stresses that the differences that exist between formal and informal renting often make little difference to people's lives. The following section quantifies the role that rental housing plays in the housing markets of different countries and demonstrates that despite so many States attempting to increase the level of homeownership, in several places renting and sharing have been on the increase. The different trends reflect the diversity in tenure patterns both between countries and within countries. The final section provides some explanations for that diversity. The level of economic development is not a particularly significant variable because housing tenure is so strongly influenced by the process of urbanization, the form of land occupation and most importantly by the nature of State policy.

3. Chapter II shows that diversity is also characteristic of the rental housing stock. The kind of rental housing that dominates in one country is often absent in another. In some countries, particularly in Northern Europe and in former communist countries, the public sector still provides a great deal of rental housing but generally public sector involvement is in decline. In some European countries, social housing institutions are taking over responsibility from the State but generally it is the private sector that provides most of the rental housing supply. In most developing countries, the principal source of rental housing is now the self-help landlord. An increasing proportion of rental accommodation is thus found in the low-income settlements that surround most cities of developing countries. As a result, much rental accommodation escapes government rules and regulations and few contracts between landlords and tenants are formal. Because of the diversity of the rental housing stock, it is extremely difficult to draw up a simple list of policy recommendations. The informality of so much of the process also limits policy intervention.

4. Chapter III examines the nature of landlords, tenants and sharers with an emphasis on the private rental housing sector in developing countries.

The time of the large, exploitative landlord is generally long gone. Small landlords now provide most of the housing stock, as indeed they have long tended to in many developed countries. Landlords generally live on the premises and are very similar to their tenants in terms of social and economic characteristics. On the whole, rich landlords rent to rich tenants and poor landlords to poor tenants. Small landlords tend to behave in similar ways whether or not they operate formally or informally. In practice, rental-housing practice covers the whole spectrum from total legality to total illegality and it is virtually impossible to draw a neat dividing line. Tenants across the globe tend to have very similar characteristics. They tend to be younger, are often single and when couples rent they normally have fewer children than owners. Renting tends to be a feature of the early part of the life cycle. But the demand for rental accommodation is heavily influenced by local cultural values and is strongly affected by social and demographic change. In some cultures, young people remain in the parental home until marriage, in others they leave home at quite a young age. Social and demographic change, in the form of increasing levels of divorce and separation, ageing, migration, the growth of large cities and the instability of employment also affects strongly who chooses to rent. In many cases, it is less income than life style and family circumstances that determines tenure. For example, those non-owners who share accommodation do so even though they are very like most tenants. The key difference is that they have relatives in the city who are able to provide them with shelter, whereas many of the tenants have no such fall-back option.

5. Chapter IV examines the main kinds of housing problem associated with rental accommodation in different parts of the world. To different degrees most rental housing markets are criticized for the following weaknesses: discriminatory behaviour by landlords, 'excessive' rent levels, poor quality accommodation, inner-city decay, illegality of rental contracts, high rates of mobility and regular eviction of tenants. Many of these problems are shown to be of much less concern to most tenants than many experts contend and, when they do constitute a severe problem, they are usually confined to particular cities.

6. Chapter V addresses the image of rental housing. Over the years, rental housing has gained a bad reputation in many countries. The report argues that much of this reputation is undeserved and has often been built on a very flimsy evidence. The chapter confronts some of the most common criticisms of rental housing and also poses questions about the supposed superiority of homeownership. Without disputing that homeownership is popular and has many merits, much of the bias against renting is unjustified. The chapter focuses on eight major myths about tenure: everyone owns in affluent countries; every household wishes to be a homeowner; ownership offers people

a better life; ownership always produces capital gains; no one invests in rental housing; renting is inequitable; poor quality accommodation should be removed; mobility is dangerous for tenants; and tenants are politically dangerous. Few of these arguments have much validity in most developing countries.

7. Chapter VI argues that rental housing is a valuable tenure to virtually every household at some stage in their lifetime and therefore should constitute a substantial element in the housing stock of every society. Of course, more and better quality construction is needed and the quality of the existing housing stock needs to be improved. The chapter examines critically eight broad approaches to how the current rental housing stock might be expanded and improved: persuading governments to recognize that rental housing really exists; creating a tenure-neutral housing policy; encouraging large-scale investment in rental housing; encouraging the self-help landlord to build for rent; improving the quality of the rental housing stock; the utility/disadvantage of rent control; providing tenants and/or landlords with subsidies; and finding ways to by-pass the expense and slowness of the judicial system.

8. Chapter VII argues that nothing will be done to develop more and better rental accommodation unless the majority of governments are forced to confront their obsession with homeownership. To do this, it is necessary first to put the rental issue onto the agendas of multilateral institutions from which in most cases it has all but disappeared. If international housing loans and policy advice at least recognized that not everyone wants to be a homeowner and that most people need rental accommodation at some point in their lives, this would help diffuse the message. Convincing more NGOs and social housing institutions on the benefits of rental housing would also be helpful insofar as few such institutions currently support its development. At present, many NGOs seem to be as hostile to rental housing as national governments. In changing attitudes, it is essential to show how an obsession with homeownership can generate many housing problems and that some countries with large rental sectors face fewer housing problems than those with high levels of ownership.

9. Chapter VII also considers the part that rental housing plays in the Global Campaign for Secure Tenure to guarantee that every person has a human right to adequate accommodation. Currently, the debate about security of tenure and affordability requires more consideration for rental housing, and more thinking needs to be done to mitigate the possible conflicts of interest that may arise between landlords and tenants as a result of the Campaign.

10. Moreover, chapter VII also proposes a number of issues that require further research before concluding with a call for a major initiative convincing more governments of the benefits of tenure-neutral housing policies. Rental housing is not going to disappear. Indeed, in some of the rapidly growing cities

of developing countries, it may even grow. If the only option is homeownership, then many governments may be faced by a vast wave of land invasions and irregular forms of urban development. Most cities need rental housing to accommodate substantial numbers of families. Support for rental housing should be regarded a complement to homeownership, not as a form of competition. After all, virtually all of today's owners were once tenants. It is also particularly important to recognize that self-help landlordism is not just a form of providing housing but also a way of generating work in construction and providing a supplementary income for many poor families. Since most landlords are little better off than their tenants, support for rental housing is not an inequitable policy. Indeed, encouraging self-help landlords to construct for rent generally helps them to improve the housing stock, creates more space and improves the vitality of low-income suburbs. Upgrading programmes cannot succeed without embracing renting because so many tenants live in informal settlements. The evidence presented in the report clearly demonstrates how renting can be encouraged. Renting will grow whatever governments do. However, the kind of rental housing that will be produced can be improved by more informed and better directed State action. To achieve this, it is essential that more governments change their current attitudes.

**11.** The report includes a number of case studies. Four appendices provide illustrations of how particular governments have sought recently to address the rental issue. South Africa has begun to resuscitate the inner cities through social rental housing. The Colombian government has recently reformed its rent control legislation in an effort to revive commercial investment in rental housing. Several governments in Latin America have begun to experiment with leasing schemes that give tenants the eventual option of buying their property. And, in the United Kingdom, a procedure has been introduced to reduce the time it takes landlords to repossess their property. Two further appendices examine two problematic areas of rental housing in Africa: the poor quality accommodation in the slums of Kenya and in the 'family houses' of West Africa. A final appendix considers housing policy in the international showcase of homeownership, the United States of America. The criticism inherent in the case study is important because so many governments seek to learn from the experience of the United States when arguably there are more helpful housing models available elsewhere.

# I. Introduction: The significance of renting and sharing

Remarkably few governments have taken rental housing very seriously over the last thirty years. This chapter illustrates the current level of neglect and suggests reasons why a drive for ownership has tended to dominate most countries' housing policies. The chapter then provides some definitions of key terms before attempting to quantify the role that rental housing plays in the housing markets of different countries around the globe. It continues with a discussion of recent trends in housing tenure and explains why different patterns are occurring in different parts of the world. Finally, the chapter analyses statistical data in order to demonstrate how some of the assumptions made about rental housing are highly questionable. For example, housing ownership does not increase as national per capita income rises. If there is a critical variable that explains housing tenure, it is the nature of State policy.

## I.A. The neglected sector

Twenty years ago, renting and sharing in the cities of developing countries were neglected topics. They were neglected in two senses. First, as UN-HABITAT indicated, there was profound ignorance about who most tenants and sharers were, about the conditions in which they lived, and “*almost nothing is known about those who provide rental accommodation*”.<sup>1</sup> Second, governments were wholly uninterested in tenants and sharers, except to convert them into homeowners.

Today, more is known about tenants and something about sharers. As this report will demonstrate, a great deal of work has gone on in the 1980s and 1990s to clarify how the rental housing market operates. There are still areas of ambiguity and issues that must be investigated in more detail. But the broad outlines of the informal rental housing sector are no longer shrouded in mystery.

What has changed very little is government policy. In 1989, a meeting of experts organized by UN-HABITAT concluded that:

*“governments should review their housing policies and devise appropriate strategies for rental housing which remove biases against non-owners”.*<sup>2</sup>

Unfortunately, little has actually happened, and recognition of the important role played by the rental sector still constitutes perhaps the greatest hole in most national housing policies. It is difficult to find more than a handful of examples of developing country governments that even admit publicly that a rental housing market exists. In Nepal, there is a housing policy, but not a

recognition and focus on rental housing.<sup>3</sup> In South Africa, neglect of rental housing by the government means that it:

*“fails to fulfill its classical social function, namely, housing the poorer parts of the population with limited or no access to home-ownership in a formal dwelling”.*<sup>4</sup>

The number of governments actually trying to support or promote rental housing is rather small. The multilateral agencies are little better (see also section VII.C). It is clear, therefore, that most policy makers, and particularly those in developing countries, continue to sacrifice rental housing on the altar of owner-occupation. From constituting the primary focus of attention in the nineteenth and early twentieth centuries, rental housing has become invisible. Convinced that owner-occupation was popular with the electorate; most governments have followed the example of the developed world in encouraging its expansion. Few governments discuss rental housing and insofar as it figures in public policy at all, it is discouraged through the impact of ageing statutes on rent control. Most governments appear happy at the prospective disappearance of rental housing. In the last five years, the only partial known exceptions are the governments of Colombia and South Africa.

Neglect of rental housing has not been wholly uncontested. A number of research studies have appeared over the last twenty years and, during the 1990s, a number of writers argued that greater attention should be paid to the rental-housing sector.<sup>5</sup> The reason why rental housing needs to be addressed is clear:

*“To ignore rental housing given that half of the population are living in these dwellings is simply being irresponsible.”*<sup>6</sup>

And a recent paper expresses perplexity as to why:

*“so much attention has been lavished over the past decade on self-help for non-rent payers and why there are so few programs assisting tenants with their rights and/or assisting informal landlords to mobilize capital and participate in estate improvement in various ways”?*<sup>7</sup>

In Europe, while some governments have always had a rental housing policy, many have not. Fortunately, a few of the latter have begun to react to years of neglect by paying more attention to rental housing. In the United Kingdom, tax incentives have begun to attract investors back into the private housing market.<sup>8</sup> In Spain, *“subsidies and tax incentives are being offered for the creation of new, primary home, rental accommodation”*.<sup>9</sup> In Ireland, there are signs of renewed interest.<sup>10</sup> But in developing countries the policy cupboard is largely bare of policy initiatives and the occasional sign of change comes through efforts to reform the rent control legislation, for example, in Colombia, India and South Africa.



Many governments have neglected rental housing mainly for ideological reasons. Over the years politicians have queued up to attest that owner-occupiers are better citizens than tenants (see section V.C.). Many politicians have argued that owners are more mature than tenants and contribute more to both economy and society. They are politically conservative and contribute to the economy both through their savings and their investment. Building homes for owner-occupation creates jobs and is generally good for the economy. Little empirical support has been provided for these arguments but they seemed to appeal to the electorate.

This report demonstrates that most of those arguments are highly flawed. Owner occupation offers families a great deal but the advantages are greatly exaggerated. Criticisms of rental housing are equally exaggerated ignoring both the advantages that renting offers, to both tenants and landlords, and perpetuating false myths about the nature of landlordism. And, the key aim of government policy in most countries, to achieve universal homeownership, is a dangerous myth. No country can reach such a goal. The experience of the United States of America demonstrates that in this sense, the “American Dream” is unachievable (see appendix 7).

This report does not make an attempt to claim that renting is anything but a partial answer to the housing problems so many people are facing. Nor will it deny that much of rental accommodation is inadequate, or contest that many of the buildings in which tenants and sharers live would fail any conscientious housing inspection. Its argument is less visionary than pragmatic. Governments should not close their eyes to reality as so many in developing countries tend to. They should not perpetuate the myth of the achievability of universal homeownership. They should accept that millions of households live in rental housing and that at some point in their family lives most people need rental accommodation. Governments should formulate rules, credit programmes and forms of assistance to create more rental housing and to improve the existing stock. To put it directly, many politicians should change their attitudes regarding current housing policies, and should try to do something practical to help those members of their society who will always live in rental housing. The current policy void in so many countries is undesirable and unethical. Hopefully, it is also under review.

## **I.B. Defining terms**

Owners are defined in this report as those with the legal or *de facto* right to occupy, let, use or dispose of their dwelling. This includes those who are in the process of acquiring the right to ownership (e.g., through payments on a mortgage). Ownership always relates to the tenure of a dwelling but not always

to the land on which it is built. As such, it embraces ownership in leasehold tenure through to ownership of structures on land that is contested, as in the case of many settlements founded through land invasion. Thus, some owner households hold a full legal title to a serviced dwelling in a formally planned urban settlement whereas other owners now possess a legal title to a house built on land that was acquired illegally. *De facto* ownership includes homes where the household owns the structure but not the land on which it is built, for example, in the case of land invasions.

This categorisation recognizes that ‘ownership’ covers a broad continuum of rights. It also recognizes the fact and need to prevent housing evictions in most cities of the world, even households without formal title often have a realistic expectation that their tenure is secure. In any case, since most consolidated self-help housing areas in developing countries began life with some degree of illegality, excluding those areas from the category of ownership is simply unrealistic. It has long been recognized that the key issue to self-help housing improvement in most poor cities around the globe has less to do with formal ownership than expectations about security of tenure. As has been well documented over the years, self-help builders begin to consolidate their housing as soon as they believe they will not be removed from the land. This occurs years before formal title is issued.<sup>11</sup>

Ownership embraces a continuum of ownership rights from new settlements founded on invaded land through to full legal title in formally built housing. While it often makes sense to distinguish between the formal and the informal and it is easy to distinguish between the extreme cases, large numbers of households in poor cities fall into categories that fall uneasily between the two. This is illustrated by the problems that most census authorities have in classifying informal housing. For example, official data provided by countries suggest that that only 1.7 per cent of urban households in South Africa live in squatter settlements, 0.5 per cent of those Brazil and only 0.2 per cent in Mexico<sup>12</sup> when anyone who knows those countries will recognize that these are major understatements. Still worse, the census authorities in Egypt, Kenya and the Republic of Korea do not record figures for the numbers of households living in squatter settlements at all. If official figures fail to record that perhaps 60 per cent of Nairobi’s population live in ‘squatter’ or informal settlements, there is little value in using the official figures to distinguish between formal and informal housing.

Apart from the practical problems of using unreliable data on squatter settlements, there is the key philosophical issue of whether formality of title should be considered rather than perceptions of tenure. If most low-income families consider themselves to be homeowners well before they are given a title deed, using measures of informal housing, based on legal title is surely

irrelevant. Despite arguments that property titles are the solution to formalize illegal settlements and improve the human settlements conditions of the urban poor,<sup>13</sup> many in the housing field dispute this argument.<sup>14</sup>

A further complication in distinguishing between formal and informal ownership is that most settlements in developing countries were once, or continue to be, illegal in one way or another. Even elite housing sometimes breaks the rules and there are numerous examples of formal estates, even that built by the state itself, having been built on illegally acquired land.<sup>15</sup> At the lower end of the economic scale, much self-help housing lacks legal title but is built on land that has been purchased. The purchase is illegal in the sense that there is no formal title, servicing is deficient, the development lacks the permission of the planning authorities and no building licences have been issued for the construction. The majority of low-income settlements in many Latin American cities – such as Bogotá, São Paulo and Guadalajara – have been built in illegal subdivisions or illegally on communal land that has been reserved for agricultural use, as on the *ejidos* surrounding Mexico City. In many West African cities, housing is often illegal in the sense that it lacks legal title but the owner has the permission to construct a home on tribal land.<sup>16</sup>

If academics and the authorities have difficulty in making sense of this complicated array of housing forms, the majority of households in developing countries have no such problem. They know whether or not they are owners, even when they may recognize that others will contest that claim. **The key distinction made in this report is between ownership and renting.** Those who pay rent to live in someone else's home are called **tenants**, those who do not pay a regular rent are **sharers** and those who hold some rights to live on a separate plot of land are **owners**. Of course, these distinctions are not watertight. One area of doubt concerns households who own the structure but pay rent for the land, a common situation in some cities in South Asia and parts of the Caribbean. In this case, owners of structures who have occupied the same plot for a substantial period of time and therefore are unlikely to be evicted can be properly considered to be owners. By contrast, the backyard settlers of South Africa, who build their own home in someone else's backyard, are probably best regarded as tenants because it is recognized on both sides that residence is a temporary phenomenon.<sup>17</sup>

The quality of the structure is of no importance to whether or not a property is owned or rented. Owners may live in formally constructed and serviced housing or in flimsy self-help accommodation lacking any kind of services or legal rights. There is a continuum covering the most formal housing through to the least formal, which makes it difficult to draw a dividing line. For example, settlements that begin as flimsy huts gradually obtain services and

may one day obtain full legal title and pay municipal taxes. Despite the transition to fully legal ownership, such self-help settlements will often fail to pass the test of proper homes in most people's eyes. The distinction, frequently drawn in Brazil's cities between the *favela* and the *bairro*, does not disappear once *favelas* are legalized;<sup>18</sup> they are still likely to be denigrated as 'marginal' settlements.<sup>19</sup> The definitional problem is reflected in the fact that some 60 per cent of the homes in Mexico City began life in some kind of illegality but the census authorities now consider only 0.5 per cent of the homes in urban Mexico to be illegal.<sup>20</sup>

In this report, tenants are defined as households paying a prearranged rent for the exclusive occupation of all or part of a house. As with ownership, renting includes both formal and informal situations. That is to say, tenant households include those who pay a regular sum of money to a landlord whether that landlord is a government institution, a cooperative or a private individual and irrespective of whether a formal contract has been issued. A tenant in a self-help settlement who has established a verbal contract with the landlord is still a tenant. So long as the tenant recognizes that there is a contractual relationship with another individual who has ownership rights over the property and a regular payment is being made, the distinction between owners and tenants is a real one.

In this report, therefore, renting – like owning – is recognized as ranging across a continuum of forms (see table 6). While some tenants have wholly legal contracts with the owner and live in formal housing, others have only verbal contracts with the owner in an illegal settlement. Others occupy a more ambiguous legal position somewhere between these extremes.

There are two real problems in defining tenants. The first has already been mentioned, where owners of structures are paying rent for the land or leasehold in the case of apartments. The second is where the payments to the owner are irregular. The latter situation is very common when households occupy part of the space belonging to their relations. Here, the distinction between full tenants, disguised tenants and family members who pay nothing is very difficult to establish. In this report, those who pay very little to the owner to occupy space are considered to be sharers but often the distinction between sharers and tenants is extremely difficult to make. Sometimes the problem of classification is further complicated by the nature of the household; do grown-up children living in the home of their parents form part of the parental household or constitute a separate household sharing with the parents? Official figures naturally have major problems classifying the nature of a household in many societies.

In short, the report builds on the fundamental distinction that the majority of urban dwellers recognize between renting and owning. Ask most households around the world whether they are owners or tenants and the reply will normally be unequivocal. People know which tenure they hold. They know this because it is of fundamental importance to them. Formal title or contract is often irrelevant. The feelings of pride expressed by owners in many developing countries about their self-help home are just as strong, and often stronger, than those expressed by the owners of luxury housing who have unequivocal proof of their ownership status. Similarly, most tenants state that they wish to become owners one day and do not distinguish between formal and informal tenure.

Although the report classifies owners and tenants without regard to the legality of their tenure, it does not ignore this distinction. In chapter II, the diversity of rental forms is demonstrated. In later chapters, the role of the law is addressed and the question raised on whether landlords and tenants would be better off with legally enforceable contracts. Given that legal advice in most countries is very expensive even for the middle class, it is unlikely that most of the poor will ever have recourse to the courts. But, in general, the report distinguishes between formal and informal tenure only when it is necessary to clarify the issue at hand.

The report does distinguish between types of landlord. The meaning of private landlords is self-evident and where governments own accommodation that they rent out, the distinction between public and private is clear-cut. Public landlords are of course generally also social landlords insofar as they offer subsidized accommodation to poor families. However, this report will distinguish between the two and refer to public housing and social housing. The latter is understood to comprise private institutions, operating housing on a non-profit basis. Social housing includes cooperatives and charities and also some universities and schools. It does not include employer-provided housing.<sup>a</sup>

Private landlords are sub-divided into commercial and non-commercial on the basis of the size of their operations. Commercial landlords comprise those who let to ten or more tenant households, non-commercial landlords to less than ten. This somewhat arbitrary distinction is used for convenience and is not intended to suggest that small-scale landlords do not wish to make money but that typically their operations are not based on formal accounting procedures. The major complication in making such a distinction comes when small landlords employ an agent to manage their rental property for them. Then the property of small-scale landlords may be run on a commercial basis.

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a. For a further discussion of the nature of social housing institutions see box 1.

Throughout the report, the term landlord refers to both men and women. This usage is justified in the same way that today the term actor embraces both males and females. If actresses prefer to be known as actors, perhaps landladies prefer to be known as landlords. In any case, in the case of nuclear households with joint homeowners it is often difficult to distinguish the identity of the landlord; sometimes the man will manage the tenants and sometimes the woman. The term landlady is used rarely in this report. It is used occasionally to indicate specifically that the landlord is a woman.

### **I.C. Quantitative importance of renting by country and city**

Despite the years of effort and financial expenditure that so many governments have spent in trying to expand homeownership, rental housing still constitutes a large component of the housing stock in many countries. While the incidence of renting varies considerably across the world, rental housing accommodates a significant share of families in some countries; including two of the world's most developed societies, Switzerland<sup>b</sup> and Germany (see table 1).

Table 1 underplays the importance of rental housing in the sense that several countries with high rates of non-ownership have not recently produced easily available census data. The most notable example is China. The table also plays down the significance of rental housing in the sense that renting is above all an urban tenure. If some of the world's largest cities are considered, the significance of renting rises dramatically (see table 2).

Table 2 shows that tenants and other non-owners outnumber homeowners in some of the world's major cities, including Amsterdam, Berlin, Cairo, Kumasi, Los Angeles, Montreal and New York. If cities for which information comes from the mid-1980s and early 1990s are included, a number of other cities can be added to this list: Brussels, Stockholm, Geneva and Zurich.<sup>21</sup>

In parts of West Africa and South Asia, the incidence of renting is generally extremely high. In Abidjan, Côte d'Ivoire, 80 per cent of households were tenants in the 1980s and, according to Arnaud, "*this percentage does not seem to have diminished*".<sup>22</sup> In Port Harcourt, Nigeria, 88 per cent of households were renting accommodation in 1984.<sup>23</sup> In India, 76 per cent of households in 1981 in Calcutta were non-owners and 68 per cent in Madras.<sup>24</sup>

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b. Due to lack of recent data, Switzerland is not included in table 1. According to UN-HABITAT, only 29 per cent were owner-occupiers in 1980, 67 per cent were tenants, while the last 4 per cent either occupied their units free of charge or were sub-tenants (UNCHS, 1996: 470). More recent data indicate that the rate of home-ownership has since increased to 31 per cent (Harloe, 1993; Ball, 2002).

**Table 1. Housing tenure for selected countries, per cent (1994-2002)**

<b>Country</b>	<b>Year</b>	<b>Ownership</b>	<b>Renting</b>	<b>Other</b>
<b>Africa</b>				
Benin	1994	63	37	-
Egypt	1996	69	31	-
Niger	1998	93	7	-
South Africa	1996	77	22	2
<b>Asia</b>				
India	2001	87	11	3
Iran	1996	81	19	-
Republic of Korea	1995	75	25	-
Singapore	1995	91	10	1
Thailand	1996	87	13	-
<b>Latin America</b>				
Bolivia	1997	60	18	22
Brazil	1998	74	25	1
Chile	2002	73	20	8
Colombia	1997	61	35	5
Mexico	1998	78	22	-
<b>Developed countries</b>				
Austria	1999	50	50	-
Canada	1998	62	33	5
Finland	2000	58	31	11
France	1996	54	38	8
Germany	1998	40	60	-
Ireland	1999	80	20	-
The Netherlands	1999	53	47	-
Norway	2001	77	23	-
Sweden	1998	42	39	19
Spain	1999	83	11	6
United Kingdom	2000	69	31	-
United States of America	1997	66	34	-

Note: Countries have been selected where results look relatively reliable and are for 1994 or later. Informal owners, including squatters have been included as owners. Both tenants with formal contracts and those renting with a verbal contract in informal housing areas have been included as tenants. Many countries have failed to separate out non-rental forms of non-ownership, e.g., sharing. The data have many flaws and this table should not be regarded as much more than an approximation of the tenure mix. Figures may not add to 100 per cent due to rounding.

Source: Bolivia and Colombia, UNECLAC and UNCHS, 2000: 25; France, Finland, Germany, Netherlands, Spain and the United Kingdom – Sak and Raponi, 2002: 34; Norway – Statistics Norway, 2002; Singapore – Doling and others 2003: 4, citing the 1995 household survey; Sweden – Ditch and others 2001 citing SABO; India – Government of India, 2001; others – UNCHS, 2001a: 277; 2003a: 255.

**Table 2. Housing tenure for selected cities, per cent (1994-2001)**

City	Country	Year	Ownership	Renting	Other
<b>Africa</b>					
Alexandria	Egypt	1996	38	62	-
Cairo	Egypt	1996	37	63	-
Addis Ababa	Ethiopia	1998	38	60	2
Kumasi	Ghana	1998	26	57	17
Kisumu	Kenya	1998	14	82	4
Tripoli	Libya	1995	67	34	-
Lagos	Nigeria	1998	49	49	2
Cape Town	South Africa	1996	55	44	1
Johannesburg	South Africa	1996	55	42	3
Pretoria	South Africa	1996	63	35	2
<b>Asia</b>					
Pusan	Rep. of Korea	1995	72	28	-
Seoul	Rep. of Korea	1995	70	30	-
Bangkok	Thailand	1998	54	41	5
Ankara	Turkey	1998	58	33	9
Istanbul	Turkey	1994	68	32	-
<b>Latin America and Caribbean</b>					
Buenos Aires	Argentina	1998	75	23	2
La Paz/El Alto	Bolivia	2001	55	23	22
Santa Cruz	Bolivia	2001	48	27	25
Belo Horizonte	Brazil	2000	76	15	9
Porto Alegre	Brazil	2000	79	13	8
Rio de Janeiro	Brazil	2000	75	17	8
São Paulo	Brazil	2000	70	20	10
Santiago	Chile	2002	73	21	6
Quito	Ecuador	1998	47	46	6
Guadalajara	Mexico	2000	62	23	15
Mexico City	Mexico	2000	76	16	8
Monterrey	Mexico	2000	84	11	5
Port of Spain	Trinidad	1998	38	52	10
<b>Developed countries</b>					
Montreal	Canada	1998	46	54	-
Toronto	Canada	1998	58	42	-
Berlin	Germany	1998	11	89	-
Hamburg	Germany	1998	20	80	-
Amsterdam	Netherlands	1998	16	74	10*
Rotterdam	Netherlands	1998	26	49	25*
Oslo	Norway	2001	70	30	-

Continues...



**Table 2. (continues).**

City	Country	Year	Ownership	Renting	Other
London	UK	2000	58	41	-
New York	USA	1998	45	55	-
Los Angeles	USA	1998	47	53	-
Washington, D.C.	USA	1998	62	38	-

Note: Figures may not add to 100 per cent due to rounding.

\*: Squatting in houses rather than on plots of land; Many sources do not distinguish other categories like ceded tenure, shared housing, etc. These are usually grouped in the rented sector. Owners include those households that lack formal title to their land and in some cases include squatters on land.

*Source: UNCHS, 2001a, for all except national censuses for La Paz, Santiago, Santa Cruz, São Paulo, Belo Horizonte, Guadalajara, Mexico City and Monterrey – Ball, 2002; for Oslo – Statistics Norway, 2002; for Bangkok, Port of Spain, Bangalore, Buenos Aires, Kumasi, Lagos, Quito, Addis Ababa, Kisumu and Ankara – Urban indicators collection for Habitat II+5.*

## I.D. Tenure trends

Most governments across the world have been anxious to encourage homeownership and, over the last twenty or thirty years, owner-occupation has generally increased in most urban areas. This is a fairly consistent tendency across countries whatever their level of development. Nonetheless, there are significant regional differences and a few countries have bucked the trend, sometimes temporarily, occasionally for longer.

In Europe, the most consistent pattern of change has been in the former communist block. With the introduction of market systems the rate of homeownership has risen rapidly, and in some places increased very rapidly. In the Russian Federation, for example, homeownership grew from 33 per cent of the housing stock in 1990 to 59 per cent in 1999.<sup>25</sup> In Slovakia, owner-occupation increased from 65 per cent in 1990 to 88 per cent only four years later.<sup>26</sup> And, “*Bulgaria, Estonia, Hungary, Kyrgyzstan, Romania and Slovenia now have owner-occupation levels in excess of 80 per cent*”.<sup>27</sup> Only Poland and the Czech Republic appear to diverge from this general trend.

In Western Europe, the pioneer of homeownership was the United Kingdom. After the First World War governments deliberately encouraged people to buy their own homes and homeownership increased from 10 per cent in 1914 to 65 per cent in 1986.<sup>28</sup> The change in policy was seemingly motivated by a politically explosive housing situation. Rent controls had been introduced in 1915 and, at the end of the war, the government:

*“was faced with a major political question, of how to bridge the gap between the rents of pre-war and post-war houses, and of how to remove rent controls whilst shortages persisted. Clearly, the controls themselves contributed to the shortage, but could not be removed given the government’s recognition that tenants were a more important political group than the landlords”.*<sup>29</sup>

*“The interesting historical question is why the private landlord in Britain was sacrificed, and why preference was rather given to owner-occupation and council housing. The answer may be found only through an appreciation of the marginal position of the private landlord in the British social and political formation, and by an understanding of the development of the ideology of the major political parties”.*<sup>30</sup>

The same question can clearly be asked of the many governments in other countries that have stimulated the growth of homeownership and sacrificed the private landlord.

Significantly, however, the shift to homeownership has slowed to a crawl in the last decade.<sup>31</sup> Homeownership in Western Europe has expanded most rapidly in so-called ‘liberal’ housing markets, particularly in Austria, Belgium, Greece and Spain.<sup>32</sup> The shift to owner-occupation has been particularly rapid in Spain, where ownership expanded from 46 per cent of the housing stock in 1950<sup>33</sup> to 81 per cent in 1995 (see table 1). In other countries of the European Union, particularly those with more ‘social democratic’ political traditions, the pace of tenure change has generally been slower. During the 1990s, rates of owner-occupation remained steady in Denmark, France and Ireland and were actually reversed in Finland.<sup>34</sup> The major exceptions to this tendency are Belgium and the Netherlands where levels of homeownership rose steeply after 1981, albeit in the Netherlands starting from a low level.<sup>35</sup>

In Northern America, the trends are also variable. Although the Federal government in the United States of America has continued to encourage the growth of homeownership, the rate of change slowed markedly in the 1980s and 1990s.<sup>36</sup> And, in Canada, the incidence of homeownership actually declined; between 1951 and 1991 the number of rental dwellings increased faster than the number of owner-occupied homes.<sup>37</sup> Among other more developed countries, Australia and New Zealand both have high rates of owner-occupation but the pace of change slowed markedly in Australia after the 1960s.<sup>38</sup> Japan has lower rates of owner-occupation, and has actually experienced a decline since a high in 1983 of 62.4 per cent to 59.8 per cent in 1993, affected by the skyrocketing of land prices.<sup>39</sup>

In Singapore and Hong Kong owner-occupation grew very rapidly during the 1970s and 1980s.<sup>40</sup> In Singapore it reached 91 per cent in 1995 – compared to only 29 per cent in 1970, 55 per cent in 1980 and 88 per cent in 1990. This growth was a direct result of Singapore’s “100 per cent home ownership policy”.<sup>41</sup>

In developing countries, the general aim of most governments over the last twenty or thirty years has been to encourage homeownership. Unfortunately, few figures have yet appeared from the 2000 round of housing censuses and in a number of countries the figures have never been very reliable. In Africa, where the figures are often problematic, ownership in Lusaka probably increased from 40 per cent in 1969 to 43 per cent in 1980 and in Rabat, Morocco, rose from 29 per cent in 1971 to 33 per cent in 1982.<sup>42</sup> Rates of homeownership in most South African cities almost certainly increased after 1994 although there are as yet no census figures to confirm that point.<sup>43</sup> Other African cities seem to have experienced little change, for example, owner-occupation in Port Harcourt remained very low: 11 per cent in both 1973 and 1984.<sup>44</sup> Elsewhere there are suggestions that renting may have increased. In Bamako, Mali, “*the share of tenant households was found to have increased over recent decades.*”<sup>45</sup> And, in Kenyan towns:

*“rental accommodation ... has usually been associated with low-income households but it has also become the main form of housing for middle-income households and new urban residents of all income levels. In the 1980s, nearly 90 per cent of annual housing production in Thika, a typical small town, was private rental accommodation.”*<sup>46</sup>

Evidence of renting or sharing increasing during earlier periods exists for Kumasi (Ghana), Cairo (Egypt) and Benin City (Nigeria).<sup>47</sup>

In Asia, the trends are also mixed. Owner-occupation increased in Bangkok during the 1970s, although less rapidly in the 1980s.<sup>48</sup> Ownership certainly rose rapidly in much of South Asia in the 1960s and 1970s. In urban Pakistan, the proportion of owners increased from 48 per cent to 68 per cent between 1961 and 1980<sup>49</sup> and in India the percentage of urban households living in their own home increased from 46 per cent in 1961 to 54 per cent twenty years later.<sup>50</sup> During this period, owner-occupation increased in 112 out of the country’s 140 largest cities.<sup>51</sup> In some cities, the shift was startling: in Bombay from 30 per cent in 1961 to 61 per cent in 1981; in Ahmedabad from 18 per cent to 42 per cent; and in Delhi from 34 per cent to 53 per cent. By 2001, the rate of owner occupancy in urban areas of India had increased to 67 per cent.<sup>52</sup> In the Republic of Korea:

*“during the last 30 years, ownership levels for middle-income groups have increased in most cities. In the past, most urban dwellers were tenants, but today, homeowners are often in the majority”.*<sup>53</sup>

By contrast, the share of owners stayed fairly constant in urban Indonesia during the 1970s and 1980s<sup>54</sup> and fell quite dramatically in Turkish cities, from almost three-quarters of homes in 1955 to little more than half in the 1980s.<sup>55</sup>

In Latin America, there has been a very strong movement towards owner-occupation in most countries since at least the 1950s. Two good examples are Santiago, Chile, where the share of owner households increased from 26 per cent in 1952 to 71 per cent in 1991<sup>56</sup> and São Paulo, where homeownership rose from one-quarter in 1940 to 70 per cent in 2000.<sup>57</sup> But, recently, the pace of change has tended to slow. In Mexico City, for example, while the proportion of homeowners increased from 43 per cent in 1970 to 64 per cent in 1980,<sup>58</sup> in the following twenty years it grew to only 76 per cent.<sup>59</sup> In a handful of cities, the trend towards homeownership has even been reversed. For example:

*“according to government surveys of Quito, rented rooms were already 28 percent of popular housing in 1985, but they grew to 36 percent of the total by 1989”.*<sup>60</sup>

Whether the proportion of owner-occupiers has increased or not, a common feature of housing in most developing countries is that the number of urban families living in rental or shared housing has usually increased. The sheer volume of urban growth, through both migration and natural increase, has encouraged that tendency because the vast majority of migrants and new urban households initially rent or share accommodation (see section III.B). In Delhi, for example, the number of tenant households rose from 324,000 in 1961 to 545,000 twenty years later. In Seoul, there was an incredible rise in the number of tenants, from 883,000 in 1960 to 5.7 million in 1985.<sup>61</sup> Even in cities where the proportion of non-owners has been in rapid decline, the pace of urban expansion has often led to a considerable increase in the absolute numbers of non-owners. In Mexico City, the number of tenant and sharer households increased from 484,000 in 1950 to 3.7 million in 2000.

## **I.E. Explaining local and national variations**

In broad terms, tenure patterns across countries can be explained in terms of the level of urbanization, the level of economic development, the dominant form of economic organization and the ideology of the government. Apart from State policy, within developed countries, the key distinguishing factor tends to be the local supply of housing relative to demand and, in poorer cities, the ease with

which land can be acquired informally. Within countries, the incidence of renting tends to vary considerably between cities.

## I.F. Rich countries versus poor

The statistical link between housing tenure and the level of economic development is less than clear. Homeownership is lower in many developed countries than in most of the developing world. As UN-HABITAT has noted:

*“the fact that many of the world’s richest countries have a large rental sector demonstrates that home-ownership levels cannot be taken as a symbol of national prosperity”.*<sup>62</sup>

Levels of owner-occupation tend to be culturally and historically determined. In fact:

*“home ownership tends to be a preoccupation of formerly frontier societies such as the USA and Australia, and of agricultural societies.”*<sup>63</sup>

In more developed countries, there is actually an inverse relationship between levels of homeownership and GDP per capita, with the richest countries tending to have the lowest levels. Affluent Germany, Sweden and Switzerland have low levels of ownership, in 1990 a mere 40 per cent, 42 per cent and 31 per cent respectively,<sup>64</sup> whereas much poorer Spain reached 81 per cent in 1995 and Ireland 80 per cent in 1999.<sup>65</sup>

*“...any suggestion that home ownership rates are measures of national success, at least in the economic sphere, must confront the fact that there is, over the older industrialised countries, a significant, negative correlation between national rates of home ownership and GDP per capita. Broadly, the lower the proportion of home owners in a country, the higher its GDP per capita.”*<sup>66</sup>

The highest levels of owner occupation are actually to be found in developing countries. For example, owner-occupation in Niger was estimated to be 93 per cent, 87 per cent in Thailand and 81 per cent in Iran (see table 1). Certain transition economies, like Bulgaria, Estonia, Hungary, Kyrgyzstan, Romania and Slovenia, have also developed high rates of homeownership, sometimes above 80 per cent.<sup>67</sup>

The relationship between ownership and income is only partially clearer at the city level mainly because of the impact of self-help housing. Table 3 uses figures that attempt to separate formal from informal ownership. It shows that urban owner-occupation is higher in the transitional countries and in Latin America than in developed countries but is much lower in the cities of Africa and Asia. However, if all of the unauthorized stock is included in the homeownership category, the normal assumption between economic development

**Table 3. Urban housing tenure by region, per cent (1998)**

<b>Region</b>	<b>Owner</b>	<b>Tenant</b>	<b>Squatter</b>	<b>Other</b>
Africa	25	23	38	15
Asia (without China)	29	19	45	7
China	35	50	9	6
Latin America and the Caribbean	48	21	25	6
Eastern Europe and Central Asia	65	34	1	3
Western Europe and other high-income countries	40	57	2	1
<b>World</b>	<b>42</b>	<b>34</b>	<b>19</b>	<b>5</b>

Note: Figures may not add to 100 per cent due to rounding.

Source: UN-HABITAT, 2003a: 107; Flood, 2002: 16.

and homeownership is neatly reversed. The world's richest cities have lower levels of owner-occupation than those of most poor regions, with the sole exception of China.

There is similarly little correlation between the pace of economic growth and growth in national homeownership. The growth in homeownership levelled off in the United Kingdom, the United States of America and most countries of Western Europe despite impressive economic growth rates during the 1990s. By contrast, economic decline does not appear to have made much difference to Japan's rate of homeownership, which has changed little since 1960, through both boom and subsequent bust. Some countries have seen rises in homeownership as they have got richer, others not.

Recent data from the United States of America and some European countries do, however, suggest that there is a significant relationship between unemployment and homeownership:

*"If you plot a graph of unemployment against home ownership in North America and Western Europe in 1960, it shows a clear relationship. If you plot a similar graph for the 1990s, the relationship still exists. More home ownership relates to more unemployment. The relationship still holds if you take into account other possible influences such as the proportion of women working, the age structure of the population and interest rates. Further the relationship remains robust even within nations".<sup>68</sup>*

The study estimated that a 10-percentage points increase in homeownership could be equated with an extra 2.2 percentage points on unemployment. The key to this relationship seems to lay in the connection between tenure and mobility stemming from the transaction costs (both money and time) involved in selling one house and buying another.

## I.F.1. Rural versus urban versus metropolitan patterns of ownership

Table 4 demonstrates why it is sometimes misleading to consider tenure patterns at the national level, particularly in poorer countries. In most developing countries large numbers of rural people own their housing. This is often ownership of an informal kind, and may be held collectively rather than individually. While some farmers rent land, very few rent a home. By contrast, many people in cities lack a home of their own and share or rent accommodation. In developed countries, where the bulk of the population lives in cities, the difference in urban and rural patterns of tenure makes little difference to the national figures. But in countries where a majority live in the rural areas, it does. Table 4 underlines the fact that in every country, whether rich or poor, most rural dwellers have some kind of access to ‘ownership’ and in the cities, many more people rent. Even considering as diverse a range of countries as Benin, Egypt, India, Niger, Thailand and the United States of America, reveals that ownership rates in the urban areas are much lower than in the countryside and the incidence of renting much higher. In several of those cases the difference is very marked. Brazil is the only exception to this general pattern, with

**Table 4. Housing tenure in urban and rural areas for selected countries, per cent**

Country	Year	Owned		Rented		Other*	
		Urban	Rural	Urban	Rural	Urban	Rural
<b>Africa</b>							
Benin	1994	44	75	56	25	-	-
Egypt	1996	49	87	51	13	-	-
Zimbabwe	1997	34	76	53	1	-	-
<b>Asia</b>							
India	2001	67	94	29	4	5	2
Iran	1996	75	91	24	8	-	-
Republic of Korea	1995	71	86	30	14	-	-
Thailand	1996	59	94	41	6	-	-
<b>Latin America</b>							
Brazil	2000	75	73	17	2	7	24
Chile	2001	73	71	20	5	8	25
<b>Developed countries</b>							
Austria	1999	48	89	52	11	-	-
Canada	1998	59	81	38	16	-	-
Finland	1998	60	75	37	21	-	-
Ireland	1999	74	89	26	11	-	-
United States of America	1997	59	82	41	18	-	-

\*: Including ceded or free.

Source: Brazil, Chile, India and Mexico – information from national census web pages; other information drawn from UNCHS, 2001a: 277.

ownership levels being roughly similar in rural and urban areas. Even here, however, the form of tenure in urban and rural areas is different insofar as renting is much more common in the cities and sharing in the countryside.

Even within the same country, different cities reveal significant differences in tenure levels. The differences are explicable in terms of the housing supply or in the case of many poorer cities the supply of land. In general, cities with tight housing or land markets have higher levels of renting because many families who might opt for ownership are not able to. City size certainly contributes to the tightness of the housing market with major cities tending to show higher rates of renting than smaller cities, particularly in more developed countries. In the United States of America, “*home ownership rates range from only 32 per cent in New York City to 72 per cent in Detroit*”.<sup>69</sup> Like New York, Los Angeles also has a very low incidence of ownership. In Belgium, Brussels has a higher rate of rental housing than that in most smaller cities<sup>70</sup> and a similar pattern is found in Switzerland.<sup>71</sup> In Austria:

*“in smaller towns and communities the ownership rate can reach as high as 85% although Vienna is overwhelmingly a city of renters (82%). In other cities, like Graz, Linz and Innsbruck the rental share is up to 50% of the housing market”.*<sup>72</sup>

In Indonesia “*the percentage of households that rent units decreases with city size*”.<sup>73</sup> Table 5 indicates that this same relationship holds in Brazil too with regard to the four largest cities. If the smaller cities are included, however, the relationship appears to be much less significant.

**Table 5. Homeownership and city size, Brazil**

<b>Metropolitan area</b>	<b>Number of households (thousands)</b>	<b>Homeownership (per cent)</b>
São Paulo	5,375	70
Rio de Janeiro	3,444	75
Belo Horizonte	1,490	76
Porto Alegre	1,336	79
Campinas	919	69
Curitiba	864	77
Recife	860	79
Brasília	548	59
Belém	479	83
Goiânia	477	67
Vitória	373	78
Manaus	362	81
Maceió	240	73
Natal	214	95

*Source: IBGE, 2001.*



Despite this proximate relationship between city size and the incidence of renting, the real explanation of why rental levels are high in some cities and lower in others has to do with the supply of land and housing. Where land and property is expensive, it puts ownership beyond the ability of many families and the incidence of ownership generally falls. The level of homeownership seems to be more related to variations in state policy than to the operation of market forces.

### **I.F.2. State policy**

The fact that national policy profoundly affects the incidence of homeownership can be demonstrated by comparing most of the English speaking countries of the world with most of the non-English speaking countries of Northwest Europe. Most governments in the United Kingdom, United States of America, Australia and New Zealand have pushed homeownership very hard since the 1950s and all of these countries had rates of homeownership of at least 60 per cent in the 1990s. Households in these countries were rewarded generously if they moved into homeownership. In the United States of America, a succession of governments have pushed homeownership as part of the “American Dream” (see appendix 7) and “*the US government attaches great importance to edging up ownership levels by even a few percentage points*”.<sup>74</sup>

By contrast, government policy in Denmark, Germany, Sweden and Switzerland has tended to be more tenure neutral and income-tax relief is not confined to those buying with a mortgage. Large subsidies for social and cooperative housing are given in the Netherlands and France, and in Sweden such subsidies amount to an estimated 4.1 per cent of GDP.<sup>75</sup>

In many parts of the world, Northwest Europe, Singapore and Hong Kong and in most communist countries, there was a further reason why renting remained significant; the state constructed large numbers of public housing units for rent. In the former Soviet Union, public housing for rent dominated the housing stock, particularly in the cities. In 1990, public rental housing accounted for 65 per cent of the housing stock in Estonia and 51 per cent in Lithuania.<sup>76</sup>

In developing countries, the construction of public housing tended to be less influential because the amount of public rental housing relative to the total housing stock was much more limited. After the 1970s, indeed, few governments in developing countries ever built for rent (see section II.B), and that which had been was quickly sold to the tenants. Insofar as most governments in poorer countries had explicit housing policies, they sought to encourage homeownership.<sup>77</sup> Such a policy was introduced both formally and informally. Formally, most governments offered tax incentives to the middle classes

buying homes. Informally, and by far, the most significant incentive was that the poor were permitted to buy or invade an unserviced plot of land.

Most variations in homeownership in poorer cities can be explained in terms of access to cheap or free land. In cities, where land invasion or clandestine subdivision has been permitted, thousands and even millions have taken advantage. In Lima (Peru), Caracas (Venezuela) and Cúcuta (Colombia), years of land invasion have pushed up rates of homeownership. By contrast, where the authorities have been stricter, rates of homeownership tend to be lower. Colombian cities, where people have to buy land and the cost of unserviced plots is quite expensive,<sup>c</sup> have a higher incidence of renting than cities where much land has been acquired through invasion.<sup>d</sup> In the latter much higher rates of home 'ownership' are typical.<sup>78</sup> For similar reasons, Indonesian cities tend to have fewer renters than other countries in South East Asia.<sup>79</sup> By contrast:

*"the typical poor family in Calcutta, Nairobi or Cairo is unable to pay for even an illegally subdivided plot and squatting is virtually excluded as an option. Such families rent a room if they do not share a room with others".<sup>80</sup>*

In Chile in the late 1960s, Venezuela after 1958 and South Africa in the early 1990s, the invasion of land formed part of the competition for votes. Even military regimes were often happy to distribute public land as a cheap method of winning popular support.<sup>81</sup> But public policy with respect to self-help housing is liable to change and in many cities of developing countries a change of administration has often transformed the poor's access to land overnight. The military regime that took power in Chile in 1973 immediately prohibited land invasions and over the next few years removed many squatter settlements to peripheral parts of the city.<sup>82</sup> A similar picture is demonstrated in South Africa where *"the period surrounding the 1994 elections was favourable to land invasion."*<sup>83</sup> However, the demolition of 400 shacks at Cato Manor in Durban suggests that the new government, *"fully aware of the legitimacy of its political and moral authority, was prepared to be decisive about invasions"*<sup>84</sup>.

Elsewhere, certain governments never used ways of dispensing patronage and winning elections and many experts have been arguing for some years that the age of free urban land is over.<sup>85</sup> UN-HABITAT argues that:

*"even illegal land markets have become increasingly commercialised and it is rare for low-income households to be able to find sites which they can occupy free of charge."*<sup>86</sup>

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c. Cities such as Bogotá, Medellín, and Manizales.

d. Cities such as Barranquilla, Montería and Sincelejo.

One reason is that the cost of land is rising, another that the supply of public land is exhausted. Perhaps a further reason is that the nature of democratic government has changed. In Argentina, it is argued that:

*“most politicians, within a process of increased democratic control, seem to find it increasingly difficult to support invasions and illegal subdivisions. All this evidence points out that land access for the poor has started to be restricted in Resistencia.”<sup>87</sup>*

That conclusion is likely to prove wrong where shifts in public opinion convince governments that they need to use any weapon at hand to win an election or improve their popular rating. As de Souza points out:

*“At the time the case studies were being conducted, the municipality of Recife had adopted a policy to prevent any new invasion on public land, leaving the private sector to deal with invaders when appropriate. But such a procedure is part of a variable policy which is applied differentially according to electoral needs and political interests.”<sup>88</sup>*

What is certain is that where land is cheap or freely available, rates of ownership will continue to rise. But, where access to land becomes more difficult for the poor, and especially during a period of economic recession, the rate of renting and sharing is bound to rise.<sup>89</sup> The political economy of urban land is absolutely critical in determining the incidence of homeownership. As the rest of the report will elaborate: in housing, people do not always get what they want, and in any case, what they want is largely determined by what they can get. A desire for ownership is not built into people's DNA.

## Notes

1. UNCHS, 1989: 1.
2. UNCHS, 1990: 6.
3. Tarki, 2002.
4. Dubel and others, 1996: 8.
5. See Amis, 1996; Andreasen, 1996; Kumar, 1996 a; 1996b; Rakodi, 1992.
6. Datta, 1996: 245.
7. Flood, 2002: 15.
8. Council of Mortgage Lenders, 2002b.
9. Ball, 2002: 100.
10. Ball, 2002: 76.
11. See Turner, 1968b; Gilbert and Ward, 1985; Razzaz, 1993.
12. UN-HABITAT, 2003b.
13. De Soto, 2000.
14. Durand-Lasserve, 2002; Gilbert, 2002c; Payne, 1989.
15. Gilbert and Gugler, 1992.
16. Tipple, 1987; Peil and Sada, 1984.
17. Crankshaw and others, 2000.
18. Ventura, 1994.
19. Perlman, 1976.
20. Gilbert, 1998: 82; UN-HABITAT, 2003b.
21. Ball, 2002; De Decker, 2001: 20.
22. Arnaud, 1994: 2.
23. Oruwari, 1990: 8.
24. UNCHS, 1989: 2.
25. UNCHS, 2001a: 88.
26. UNCHS, 2001a: 88.
27. Grover and others, 2002: 45.
28. Saunders, 1990: 14.
29. Daunton, 1983: 299.
30. Daunton, 1983: 3.
31. Sak and Raponi, 2002: 34.
32. Ball, 2002; UNCHS, 2001a: 95-96.
33. Pareja and San Martín, 2002: 284.
34. Ball, 2002.
35. Sak and Raponi, 2002: 34.
36. Megbolugbe and Linneman, 1993: 676; UNCHS, 2001a.
37. Miron, 1995: 581.
38. UNCHS, 2001a: 95.
39. IUT, 2003.
40. IYSH, 1987.
41. Doling and others, 2003: 1.
42. Edwards, 1990: 260; Keles and Kano, 1987: 166.
43. Martin and Nell, 2002: 24; Huchzermeyer, 2001.
44. Oruwari, 1990: 40.
45. Van Westen, 1995: 300-301.

46. Mwangi, 1997: 141.
47. Korboe, 1992; Wikan, 1990; Ozo, 1993.
48. Angel and Amtapunth, 1989; IYSH, 1987.
49. Kalim, 1990: 192.
50. Sundaram, 1990: 126.
51. NIUA, 1989a: 7.
52. Government of India, 2001.
53. Ha, 2002: 196.
54. Hoffman and others, 1991.
55. Keles, 1990: 142.
56. Gilbert and others, 1993.
57. IBGE, 2001; Sachs, 1990: 74-75.
58. Coulomb and Sánchez, 1991.
59. IBGE, 2001.
60. Klak and Holtzclaw, 1993: 260.
61. IYSH, 1987: 48-49.
62. UNCHS, 2001a: 96.
63. Flood 2002: 6.
64. Harloe, 1993; Ball, 2002; Doling and others, 2003: 11.
65. UNCHS, 2001a: 96.
66. Doling and others, 2003: 11.
67. Grover and others, 2002.
68. Oswald, 1999: 11, cited in Doling and others, 2003: 16.
69. Megbolugbe and Linneman, 1993: 664.
70. de Decker, 2001: 20.
71. Ball, 2002.
72. Ball, 2002: 12.
73. Hoffman and others, 1991: 184.
74. UNCHS, 2001a: 95.
75. Tulla, 1998.
76. UNCHS, 2001a: 88.
77. Kumar, 2001: 1.
78. Gilbert, 1981; Gilbert and Ward, 1985.
79. Hoffman and others, 1991.
80. Andreasen, 1996: 360.
81. Collier, 1976.
82. Rodríguez, 1989; Rodríguez and Icaza, 1993; Macdonald (ed.), 1993; Paquette-Vassalli, 1998; Kusnetzoff, 1987; 1990.
83. Huchzermeyer, 2002: 183.
84. Gigaba and Maharaj, 1996: 55.
85. Payne, 1989; van der Linden, 1994: 225.
86. UNCHS, 2001a: xxix.
87. Coccato, 1996: 83.
88. De Souza, 1999: 31.
89. Gilbert, 1989.



## II. The nature of the rental housing stock

Chapter I has shown how the relative size of the rental housing stock varies between countries, within countries and between cities. If diversity is the key feature of housing tenure across the world, the same has to be said about the nature of the rental housing stock. In some countries, rental housing is provided mostly by the public sector, in others by private landlords. Not only that, but the forms of rental housing vary considerably. In developed countries, most forms of renting are subject to the legal process, whereas in most developing countries this is not the case. The conclusion of this chapter is that it is extremely difficult, and often impossible, to generalize about the nature of rental housing. This makes it difficult to draw up a simple list of policy recommendations.

### II.A. Diversity is the main feature of rental housing

Although tenure is the subject of this report, tenure alone is a poor descriptor of housing conditions because the variation within tenure categories is often as great as that between them. Owners are as different from one another as they are from tenants. As has been noted for Bangalore and Surat (India):

*“what is evident in both cities is the range of rental housing options available – by location, quality, level of services and rent.”<sup>1</sup>*

Rental housing for poor families differs remarkably both within cities and across countries. UN-HABITAT has earlier identified the following kinds of rental accommodation:

- rooms in subdivided inner-city tenements;
- rooms in custom-built tenements;
- rooms, beds or even beds rented by the hour in boarding or rooming houses, cheap hotels or pensions;
- rooms or beds in illegal settlements;
- shacks on rented plots of land;
- rooms in houses or flats in lower or middle-income areas;
- accommodation provided by employers;
- public housing; and
- space to sleep rented at work, in public places, even in cemeteries.<sup>2</sup>

Table 6 lists some of the many ways in which rental housing may vary within and between cities and countries, in terms of its size, construction, quality, ownership, kind of contract, location, profitability, and so on.

**Table 6. The diversity of rental housing**

<b>Variable</b>	<b>Range of characteristics</b>			
<b>Size</b>	Shared room	Room with access to shared services	Self-contained small	Self-contained large
<b>Construction</b>	None – lot only	Shack/garage	Deteriorating central area tenement	High rise or detached
<b>Ownership</b>	Private	Social	Employer	Public
<b>Private Ownership</b>	Small scale lodging	One or two rental property ownership	Large scale individual	Large scale commercial
<b>Income</b>	Very poor	Poor	Middle income	High income
<b>Rental period</b>	Hours	Monthly	Yearly	Permanent
<b>Rent</b>	Free	Cheap	Moderate	Expensive
<b>Maintenance</b>	Dangerous	Substantial problems	Minor problems	No problems
<b>Landlord-tenant relationship</b>	Familial	Informal	Semi-commercial	Commercial
<b>Profitability</b>	Loss-making or subsidized	Low	Medium	High
<b>Legality</b>	Illegal	Legal contract in illegal dwelling	No contract in a legal dwelling	Fully legal

Note: Table shows range of characteristics for each variable, not relationships between variables.

Government provision used to dominate the rental housing stock in communist countries and still does in China but public housing is largely absent in most developing countries. Within the private sector, landlords operate commercially, ‘domestically’ (that is to say mainly concerned with supplementing their incomes), and sometimes for no profit at all as in the case of many cooperatives and some social housing institutions. Many public sector landlords operate on a large scale in China, France and the United Kingdom although the typical private landlord across the globe operates at a very small scale. The quality of rental housing also ranges in terms of its quality, from luxurious penthouse suites to nothing but a space. *“In Calcutta, the ‘hotbed’ system permits two or three persons to use the same bed over a 24 hour period....”*<sup>3</sup> In South African cities, many tenants build their own accommodation in someone else’s backyard.<sup>4</sup>



In most developed countries, the vast majority of tenants occupy accommodation that is subject to a formal contract and is covered by environmental and safety controls. In many poorer countries, most rental business lies outside the law. In housing located in illegally developed settlements and even in some central city areas, few contracts are issued, the rental housing legislation is mostly ignored and few landlords pay income tax on their rental earnings. Where there is public housing it is often sublet illegally as in Mexico, Chile and Kenya.<sup>5</sup> In Jamaica: “*about one-third of [public] units are illegally sublet by the original mortgagors*”.<sup>6</sup>

Where formal rental contracts are issued, their nature can vary even within the same country. In the Republic of Korea there seem to be at least five kinds of rental agreement varying from renting by the day *jjogbang* to *chonsei*, the arrangement by which tenants put down a large sum of money at the beginning of a contract and are repaid, interest free, at the end.<sup>7</sup> *Chonsei* contracts in the Republic of Korea, *anticresis* in Bolivia, *girvi* in Surat and *bogey* in Bangalore all seem to involve tenants paying nothing in rent for a tenancy of two or three years but providing the landlord with an interest-free loan.<sup>8</sup> Such an arrangement is popular with owners where prices are rising quickly or when they need access to capital. In Bangalore, *bogey* occurs for a number of reasons:

*“to raise finance for house construction or improvement; to raise money for investment in an existing business; to use the money raised in more profitable activities. It is only commonly used in parts of Bangalore and by particular kinds of people”*.<sup>9</sup>

In sum, rental housing takes a wide variety of forms. The precise form is determined according to national and local conditions and any sensible policy towards the sector must recognize that diversity.

## **II.B. The public sector**

Across the globe, most governments have attempted to provide rental accommodation for some section of the society at one time or another. Governments have housed some of their own employees, most often its armed forces. Public servants have often been provided with rental accommodation, particularly when they have been asked to work in cities where there was little appropriate shelter. In Delhi, public rental housing accommodated 6 per cent of all households in the city and 13 per cent of all tenant households in 1981.<sup>10</sup> In Nigeria, the government offers cheap rental accommodation to most professional employees.<sup>11</sup> Parastatal organizations, like the Indian or Kenyan Railways, have also housed their workers.<sup>12</sup> Educational institutions such as universities have frequently provided accommodation for some of their students. Because

of this diversity, this section will concentrate on only one kind of public sector accommodation, the housing intended for lower-income groups.

With varying degrees of enthusiasm, most governments have invested in public housing intended for poor families. It has been claimed that internationally, at the beginning of the 1990s, government public housing accounted for 19.5 per cent of the total housing stock.<sup>13</sup> Given the severity of the housing problem, the political pressures building up and the failure of the private sector to provide either enough, let alone enough adequate, accommodation, direct government involvement was deemed to be essential. The most extreme example of direct government intervention was found in most communist countries. In the former Soviet Union, the state dominated most housing provision, banning legal markets from developing for state housing and almost succeeding in prohibiting market relations in the cooperative and private sectors.<sup>14</sup> However, public housing provision was less dominant in many other parts of the Soviet bloc: the state provided only 37 per cent of the housing stock in Poland in 1988; and 21 per cent in Bulgaria in 1985.

Many social democratic governments also provided public housing on a substantial scale. In many British cities, public housing normally accounts for around 30 per cent of the housing stock and in Scottish cities; higher levels still. In the Netherlands, *“the Dutch government pursued a policy of mass provision of non-profit rental housing, which, in the 1960s and 1970s, made this the largest tenure”*.<sup>15</sup> The contrast with the situation in the United States of America is stark: in the early 1990s, only 4 per cent or so of the housing stock was publicly owned or subsidized, compared with 40 per cent in the Netherlands.<sup>16</sup>

Table 7 shows that the public housing model spreads to most developing countries. However, it was the major tenure only in a few cities in high middle-income countries: Athens, Bratislava, Budapest, Hong Kong, Madrid, Seoul, Singapore and Tel Aviv. These cities are notable for the wide range of ideologies that they espoused.

**Table 7. Housing characteristics in 52 cities, by income group of country (early 1990s)**

<b>Income level of country</b>	<b>Public housing (per cent of total stock)</b>	<b>Number of cities</b>
Low income	13	10
Low-middle	11	10
Middle income	14	10
Mid-high income	53	10
High income	13	12

*Source: UNCHS, 1996: 200.*



**Photograph 1: Council housing in Cape Town, South Africa**

Many poorer countries might have followed the example but few developing countries had the resources to build on a massive scale. Only petrol-rich nations such as Saudi Arabia, socialist regimes such as China and Egypt (under Nasser), the apartheid regime in South Africa, and certain countries facing massive influxes of refugees, such as Hong Kong and Singapore managed to build public housing in quantity.<sup>17</sup> Some Latin American governments did build the equivalent of 15 per cent of the housing stock in their capital cities, for example, in Bogotá, Caracas, Mexico City and Santiago, and even larger proportions in new cities such as Brasília and Ciudad Guayana.<sup>18</sup> However, little of that housing was rented and most was sold to the occupants. By contrast, the apartheid regime in South Africa built large numbers of public housing units for rent, both as single-family residences and as hostels.<sup>19</sup> In Kenya, too, the *“local authorities built a good number of rental housing schemes to provide subsidized accommodation within local authority jurisdictions”*.<sup>20</sup> Elsewhere in Africa government rhetoric greatly outweighed any achievement on the ground; in Nigeria, for example, although public housing was warmly embraced by official rhetoric very few housing units were produced even during the height of the oil boom.<sup>21</sup>

The fundamental problem facing public housing in developing countries was that supply never matched demand. Given the imbalance between the

numbers of families wanting accommodation and the relatively limited numbers of public housing units being constructed, there was bound to be an allocation problem. Frequently, the poor were excluded because even though public agencies usually provided generous subsidies the rents were still too high for the poorest families. Even when rents were heavily subsidized, governments often found ways to exclude the most deserving. In certain parts of India, houses sometimes “*changed hands and ended up with income groups higher than the target groups*”.<sup>22</sup> In Venezuela, housing queues were managed according to political criteria, and party membership determined access to public housing.<sup>23</sup> Elsewhere other forms of political control or even corruption took over. In Egypt “*nepotism, clientelism and the formal selection criteria used mean that these dwellings rarely go to those really in need*”.<sup>24</sup> In the Republic of Korea, public rental housing often went to “*those who can afford the deposit and rent to cover, at least, the cost*”.<sup>25</sup>

Many government agencies also proved to be rather inefficient landlords. Many quickly ran into financial difficulties because rents were often set too low and seldom rose as rapidly as prices.<sup>26</sup> In India, Mexico, South Africa and Venezuela, financial viability was not helped by the fact that many tenants failed to pay the rent; political patrons protecting them from eviction.<sup>27</sup> In Nairobi, it has been claimed that:

*“there is a high rate of rent defaulting in council housing and the number of cases of rent arrears is increasing due to diminished household incomes, political favours by councillors and tenant negligence. Rent officers rarely take action against defaulters without direct political support from councillors.”*<sup>28</sup>

In South Africa, it has been estimated that non-payment levels reached 70 per cent in public housing in the provinces of Gauteng and Western Cape, a level greatly influenced by the rent boycott encouraged as part of the campaign against apartheid.<sup>29</sup>

Under such circumstances, public housing agencies were unable to build more homes or even maintain the existing housing stock satisfactorily. Once conditions on the estates began to deteriorate tenants were even more reluctant to pay the rent. The famous downward cycle of decay in the public housing sector has been documented for most countries in the world. Only a few governments in developing countries are entitled to look back with pride at their record. Even in Hong Kong, the Republic of Korea and Singapore, almost certainly the most successful countries, public housing faced many problems.<sup>30</sup>

Given the overall record it was not wholly surprising that housing wisdom changed:



**Photograph 2: Public rental housing in Buenos Aires, Argentina**

*“During the 1980s, the scale of support for public-housing programmes diminished in most countries with market or mixed economies – and in East and Central Europe and the Russian Federation, after their political realignments during the late 1980s or early 1990s”.*<sup>31</sup>

In many communist countries, the fall of communist rule produced an astonishing transformation in housing tenure. The combination of privatization and restitution of property to their former owners has totally changed the tenure mix. By 1998, 49 per cent of flats in Moscow had been privatized, and in Bulgaria perhaps half of all rental units were sold in the larger towns and cities in 1990 and 1991.<sup>32</sup>

*“In Estonia, the public sector housing stock declined from 51 per cent of the total in 1995 to just 7 per cent in 1999”.*<sup>33</sup>

By the end of the 1980s, few governments believed that they could be good landlords and, even in social democratic Europe, many governments tried to sell off much of their housing stock. The United Kingdom’s Conservative Government sold off 2.1 million units of its council housing stock between 1979 and 1996 and encouraged the transfer of much of the rest to housing associations.<sup>34</sup> Confidence in council housing in the United Kingdom reached an all time low in the 1980s. Few planners believed that they could *“create healthy and attractive living conditions”* and *“vandalised, decaying and abandoned ‘hard-to-let’ estates”*, offered *“a gaunt symbol”* of a set of planning ideals that had failed.<sup>35</sup>

In Mexico, the failure of public rental housing in the 1950s and the subsequent financial collapse of the government agency in charge seem to have dissuaded every government housing official in that country from ever following a similar path again.<sup>36</sup> And, if they had been tempted to change their minds, the condition of the state-subsidized housing developments in the late 1980s would have convinced them otherwise. Other governments drew similar conclusions from their own experiences. In India, the Federal Government resolved to convert public housing tenants into owner-occupiers in 1978 and offered the property for sale to the occupants.<sup>37</sup> In South Africa, the government initiated *“the Great Sales Campaign”* in 1983, *“aimed at selling, at discounted prices, approximately 750,000 state owned houses to the occupants”*.<sup>38</sup>

The growing need for governments to be ‘financially responsible’ quickly discouraged further rental housing developments. In Kenya, *“from the middle 1980s, local authorities stopped investing in rental housing”* and, during the 1990s, almost all government and corporation houses were sold.<sup>39</sup> Hong Kong and Singapore both joined the privatization trail, and so, less consistently, did Algeria.<sup>40</sup> By this time, the advantages of homeownership and privatization of government housing were being encouraged by the World Bank. The World Bank and USAID were anxious to discredit public rental housing by arguing that governments were inherently inefficient landlords.

*“Unlike the private sector, where market forces bring about an efficient provision of new housing, publicly supported housing has no explicit mechanism for ensuring efficiency. In the private market the profit motive provides a strong incentive for efficiency; the public sector lacks this discipline. As a result, the public sector may build in locations where no one wants to live or produce units costing more than people are willing to pay”.*<sup>41</sup>

In the early 1990s, USAID denounced the activities of “*centralised bureaucracies*” and praising the virtues of the market.<sup>42</sup>

These ‘lessons’ had already been absorbed in most developing countries, in the sense that few governments were building public housing for sale, let alone for rent. The debt crisis of 1982 and the subsequent need for economic restructuring meant that few governments in Africa or Latin America had money for housing programmes.<sup>43</sup> When some kind of recovery began in the 1990s, the new received wisdom was that governments should stay out of the housing arena. If they wished to help poor people obtain housing, the only suitable way was through providing up-front capital subsidies for the purchase of social housing in the market.<sup>44</sup> This remains recommended best practice today.<sup>45</sup>

There are few signs of a countervailing trend. In the Republic of Korea, where the long-term policy of the Korean National Housing Corporation was to produce “*state-developed housing for sale*”,<sup>46</sup> “*a new public sector housing program (short-term rental housing) was launched*” in 1993, albeit one that “*has not been successful*”.<sup>47</sup> In Malaysia, some public housing units have been rented out on a subsidized basis<sup>48</sup> and the State of São Paulo has also been operating a rental-housing programme, although it is the only one in Brazil.<sup>a</sup>

## II.C. Social housing

Definitions of what constitutes social housing vary greatly from one country to another. Some countries consider that it includes housing produced by non-profit private companies while others think that it also embraces parts of the public housing stock. Box 1 shows how countries of the European Union use very different definitions of social housing.

**This report limits the term social housing to the non-profit making private sector.** Most of this housing is intended for, although it does not always reach, the poor and deprived minority groups like immigrants and the elderly. The sector also includes housing provided by institutions like universities for students and accommodation provided by social institutions like the YMCA and NGOs. To be considered as an institution, at least 100 homes/rooms must be provided although it excludes special institutions like hospitals. Social housing also includes housing provided by cooperatives, by charities and by housing associations.

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a. See Auréjéc, 1994; Bireaud, 1995. The Housing Development Company (CDHU) led this approach in Cubatão, Diadema and Santos. French aid advised the Brazilian government in a programme that began in 1992.

## Box 1. Definitions of social housing in selected countries of the European Union

**Austria:** Social housing associations are cooperative societies or societies that benefit from favourable tax treatment. They are non-profit organizations who use their capital to finance a continuous construction activity. Social rental dwellings are the rental dwellings that are constructed by communities or by non-profit housing associations.

**Belgium:** Social rental dwellings are dwellings that are constructed or owned by public institutions, which rent these dwellings to persons with modest incomes (and who are eligible for social assistance).

**Denmark:** A social (non-profit) housing organization has to be approved by the local authority district in which they are situated. The social rental dwelling receives public grants and is subjected to inspection by the local authorities. The sum of the rent and the public grants must balance the costs on the accounts.

**Finland:** A social rental dwelling is financed with a state-subsidized housing loan. It concerns public communities and non-profit housing societies. Residents are selected on social grounds, e.g., means-tested.

**France:** Subsidized rented accommodations take two forms. Within the public sphere, there are the public *Habitations à loyer modéré* (HLM) offices and the public development and construction offices (OPAC: *Office public d'aménagement et de construction*). The public offices of the HLM are administrative public establishments which are created as an initiative of local authorities (*communes, départements*). The second group consists of private companies (*sociétés anonymes d'HLM*) which are non-profit organizations, although being able to distribute dividends. They are created at the initiative of private companies, Chambers of Commerce, institutions collecting employers' contributions for the construction effort, mutualist organizations, etc.

**Germany:** Social housing associations consist of housing associations and rural community undertakings that are non-profit-making. The state also operates social housing agencies, such as the 'Homestead Associations'. Social rental dwellings are rental dwellings for which financial aid is received.

**Italy:** Social rental dwellings are owned by public corporations and select their tenants on the basis of social criteria by means of lists.

**The Netherlands:** Social rental dwellings are subsidized, relatively cheap rental dwellings, built and rented out by a housing association or municipality. In 1998 *woningcorporaties*<sup>x</sup> owned "around 2.4 million homes, representing 38 per cent of the total housing stock. Rent increases are regulated and a decision on the maximum percentage rise is taken every year in Parliament" (Ball, 2002: 88). Local authorities manage the rest.

**Portugal:** Social rental dwellings are dwellings promoted and managed by central and local administrations or by non-profit associations, with rents fixed according to the size and the income of the household, and below market prices.

**Spain:** Subsidized housing bodies are organizations that provide housing at state, autonomous community or municipal level on the basis of special rules and under

(continues...)



### Box 1. (continued).

obligation to use their budgetary resources in specific ways. In social rental (sponsored) housing the amount of rent is set administratively (a certain percentage is applied to the price of the dwelling) and is updated every year by applying the consumer price index.

**Sweden:** Sweden has no social housing. Public housing is present in the sense that multi-family rental buildings are owned by municipal non-profit housing organizations but the rent is the same as for privately owned flats of equal standard. There are no restrictions on which households can rent such flats. In Sweden housing allowances are used to help families that are less well off to pay the rent or housing costs irrespective of tenure form. Sweden also has a special form of cooperatively owned housing. The cooperative owns the building and the initial members pay a share of the building costs for the right to occupy a certain dwelling in the building. This share is thereafter passed on to the following occupants, each time at a market fixed price.

**United Kingdom:** Housing associations are societies, bodies of trustees or companies established for the purpose of providing housing accommodation on a non-profit making basis. The division between social and private rental dwellings no longer gives two mutually exclusive categories, as housing associations provide accommodation on both a social rent and private rent basis. Social rental dwellings also include those owned and managed by local government.

\*: Private non-profit institutions in the Netherlands whose sole stated aim is that of providing good and affordable housing.

Source: Adapted from Sak and Raponi, 2002: 64-67.

In many European countries, the public sector has sought increasingly to transfer the responsibility for looking after lower income groups to the social sector. In the United Kingdom, much of the responsibility for accommodating poorer households has been passed from the local authorities to housing associations.<sup>49</sup> In 2001, social housing institutions accounted for one fifth of the total housing stock and more than two-thirds of the rental stock.<sup>50</sup>

*“These new social landlords now own 1.45 [million] homes in England. At the rate they are now buying, they could own more than councils will do by 2004”.*<sup>51</sup>

In Denmark, social rental housing contributed to half of the new housing stock during much of the 1990s and accounted for 43 per cent of all rental housing in 2001.<sup>52</sup> In Ireland, the social rental sector accounts for half of the rental housing stock.<sup>53</sup> In the Netherlands, social housing institutions have become the main providers of rental housing and in 2001 contributed three-quarters of the total rental stock.<sup>54</sup>

In developing countries, of course, the transition to market forces was less traumatic because subsidized public housing was much less common. In practice, few countries have much in the way of social housing for rent. Only South

Africa seems intent on developing a social housing sector with a capacity for producing housing for rent at affordable prices (see appendix 1). Yet, despite explicit government encouragement, progress is slow. Institutional rental accommodation is generally more expensive than ownership, both from a capital investment and operating cost point of view. As a result, social housing has been very slow to develop. The numbers are less than clear but the best estimate is that since 1994 the average actual delivery is only 2,800 units per annum.<sup>55</sup>

Another form of social housing, based on cooperative principles, is important in some countries, particularly in Europe. In Germany, for example:

*“co-operatives manage 2.1 million housing units, which means 10 per cent of the rental housing units in Germany. In the big cities and in Eastern Germany the percentage is significantly higher”*.<sup>56</sup>

In Norway, around 15 per cent of families live in cooperative housing, but in the main cities like Oslo and Bergen, this ratio goes up to 30-40 per cent.<sup>57</sup> However, in both Norway and Sweden, as in most other countries in Western Europe, the majority of cooperatives build for ownership.

In Communist Europe, cooperatives used to play an important role. However:

*“the rapid change from a centrally planned economy to a liberal market economy created serious problems for all, but particularly for co-operatives, which were perceived by the State and by citizens as remnants of the past – which therefore had to be destroyed. ... In some transition countries housing co-operatives are now used as ‘transmission-belts’ for transforming state and collective property into private group or individual property”*.<sup>58</sup>

However, this attitude has begun to change in some of those countries. In Poland, after initial efforts to ‘liquidate’ the cooperative model, it was ‘re-discovered’ as a means of enabling lower-income families to become homeowners and is now being supported by the government.<sup>59</sup> In Estonia, the fledgling cooperative movement now manages 45 per cent of the housing stock.<sup>60</sup> Similarly, some observers see a useful role for the cooperative movement in the future of Russia:

*“as a large corporate developer and owner of the housing stock that provides its stakeholders with dwellings for rent. A stake does not reflect the price of a unit but it ‘works’ like deposit or investment in the development of the co-operative. If a stakeholder leaves a co-operative he or she gets the stake back, perhaps, with some return. The cost of maintenance, repairs and utility services should be covered by rent”*.<sup>61</sup>

It is most unlikely that these cooperatives will receive any help from the state. In the transition states generally:

*the role of co-operatives is to mobilise their members' own resources rather than benefiting from direct financial assistance and subsidies provided by governments".<sup>62</sup>*

In some developing countries, cooperatives and NGOs play a significant role in improving the quality of housing. Indeed, UN-HABITAT, long ago, praised NGOs for their “*proven ability to work together with the poor*”, for operating “*as effective intermediaries between governments and popular organisations*”, and for “*their ability to manage the highly participatory projects to which governments have found their agencies unsuited*”.<sup>63</sup>

But, despite the optimism emanating from the cooperative movement itself, cooperative housing is still limited in most parts of the developing world. The exceptions are few. In Turkey, where there is a long history of cooperative effort,<sup>64</sup> a further boost was given in the 1980s. In 1984, the Mass Housing Law created a Housing Fund which led to:

*“unprecedented increases ... both in the amount of finance provided to housing co-operatives and in the number of co-operatives established. ...The contribution of co-operatives to national housing completions has increased to 20-30 per cent, since 1984”<sup>b</sup>*

In Egypt, many trade unions established housing cooperatives and the government supported these organizations through subsidized loans.<sup>65</sup> However, the vast expansion in these cooperative housing societies – from 154 to 1,720 between 1960 and 1989 – was more a way of avoiding the legal obligation of employers to building rental housing than a real boom in cooperative activity.

Elsewhere, cooperatives seem still to be fledglings in a rather hostile world. In Zimbabwe, “*the most successful in Eastern and Southern Africa in terms of delivering units*”, total national output in 1999 was only 3,200 units, the great bulk of which was built in the capital:

*“The contributions of co-operatives to total housing supply amounted to 5.8 per cent in Harare, compared to 1.6 per cent for the country as a whole”<sup>66</sup>*

Even where cooperatives have been relatively successful, however, few have created much housing for rent. In India, institutions like the Muslim Waqf

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b. Turel, 2002. Other authors have provided a different slant to this. Despite the long history of the cooperative movement, in the late 1980s the central government discouraged action in order “*to promote individualism and private enterprise in housing, as opposed to collective methods*” (Keles, 1990: 166).

Boards and the All India Women's Conference for Working Women used to build hostels offering subsidized accommodation. A few workers cooperatives claimed subsidies under the 'Subsidised Housing for Industrial Workers' Scheme' and some tenant co-partnership housing societies bought land and buildings and allotted them to share-holding members who paid rent to the society.<sup>67</sup> And, in South Africa, one of the principal companies developing social rental housing is based on cooperative principles. The COPE Housing Association, whose operations are based on the Scandinavian model of housing cooperatives, acts as a 'mother' cooperative forming 'daughter' cooperatives for each project.<sup>68</sup>

The future for cooperatives and social housing institutions generally is uncertain in many places because governments seem to be as likely to discourage cooperatives as to help them. In the Netherlands, a country with an excellent social housing record, the playing field has recently been reshaped. In 1995, the government effectively abolished its previously generous subsidy to social housing institutions. *"To balance their books and finance new building and stock improvements, social housing organisations now have to rely more directly on rental income"*: leading to rising rents.<sup>69</sup> In India, NGOs no longer have access to cheap land and even the YWCA has transformed its rental hostels for commercial use.<sup>70</sup> In Delhi, the future for cooperative rental housing is hampered by the fact that the byelaws bar cooperative housing societies from renting out flats.<sup>71</sup>

If they build little social housing for rent, cooperatives do seem to be effective in helping to resuscitate decaying housing areas. In the United Kingdom, cooperative efforts seem to have been responsible for improving conditions in some inner city areas. According to Baker:

*"although co-operatives per se own less than 2 per cent of the nation's housing stock. The co-operative model has proved to be the most effective in tackling the underlying causes of urban decline. ... After 1994, tenants gained a statutory right to manage their estates through democratic tenant management organisations. Independent research shows that co-operatives provide more effective housing management services with usually better value for money, and deliver wider non-quantifiable social and community benefits."*<sup>72</sup>

A similar kind of conclusion can be drawn from the experiences of the successful activity of tenant cooperatives in Bombay and Delhi in terms of resuscitating decaying housing stock.<sup>73</sup>



**Photograph 3: Renovated hostel accommodation in Cape Town, South Africa**

In most developing countries, however, few cooperatives seem to be very interested in developing rental housing. Indeed, most cooperatives seem to be most interested in improving deteriorated rental housing only to turn the tenants into homeowners. Cooperatives in Bolivia, Brazil, Peru and South Africa have all improved properties which they plan to sell to former tenants.<sup>74</sup> In central Johannesburg, 435 former tenants founded the Seven Buildings Company to buy out their common landlord and improve their squalid living conditions.<sup>c</sup>

## **II.D. The private sector**

The vast bulk of rental housing across the world has been provided by the private sector, and increasingly by small investors. It seems as if the large operator has generally forsaken the once vibrant business of renting.<sup>75</sup> The exceptions are mainly found in Western Europe. In Denmark, Finland, Germany and Switzerland, some companies continue to put money into rental housing<sup>76</sup> and, in France, banks, insurance companies, pension funds and real-estate companies rent out one eighth of the total housing stock.<sup>77</sup> In Denmark, however, although:

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c. Rust, 2001: box 9. Although it should be noted that rent arrears soon mounted putting the initiative at risk.

*“pension funds and life insurance companies have been the main investors in private renting over the past decade or so because of their privileged tax positions. ... their involvement has been small because of the generally unattractive investment returns in rental housing. Recent changes in the tax laws, moreover, have weakened those tax privileges.”*<sup>78</sup>

In most developing countries the picture is not dissimilar, and even where companies used to invest in rental housing, they have ceased to do so. Few governments now insist that large private companies should provide housing for their employees. In India, the government no longer requires private employers to build homes for their workers.<sup>79</sup>

Across the globe, it is the small landlord who has generally taken over. In the United Kingdom, *“the landlords of most dwellings had less than 10 lettings altogether”*.<sup>80</sup> In France, 2 million landlords own 4.2 million dwellings, although private sector companies still control 1.1 million units.<sup>81</sup> In Canada, it has been noted that: *“the small investor has always been important in the supply of rental housing.”*<sup>82</sup> And, in the new market based Russia, small-scale landlords seem to be on the increase, particularly at the quality end of the market.<sup>83</sup>

In Latin America, the situation has changed since the nineteenth and early twentieth centuries when many landlords operated at scale. Today, all the evidence suggests that the typical landlord has very few properties.<sup>84</sup> In the consolidated periphery of Santiago, seven out of ten landlords have only one tenant, in Mexico City three-quarters, and in Caracas two-thirds.<sup>85</sup> Even in the central areas of these cities, most landlords operate on a small-scale. In Mexico City, subdivision of property through inheritance has gradually reduced the level of property concentration.

In Asia, the vast majority of landlords also seem to operate on a small scale. In Bangalore, Kumar confirms the earlier conclusions by Malpezzi and Tewari that *“most landlords were found to be operating at the individual or household level”*.<sup>86</sup> In Delhi, it seems that the average landlord has only 2.5 tenants and few landlords are ‘professional’ operators.<sup>87</sup> Similarly in the self-help areas of Pakistan, most landlords operate on a small scale<sup>88</sup> and, in Karachi, *“large scale landlordism of build structures is almost non-existent”*.<sup>89</sup> In Indonesia and Turkey as well, most landlords are former self-help consolidators.<sup>90</sup>

A similar pattern of small-scale ownership seems to hold for most African cities.<sup>91</sup> In Mali:



**Photograph 4: Rental housing in one of Brasília's satellite cities**

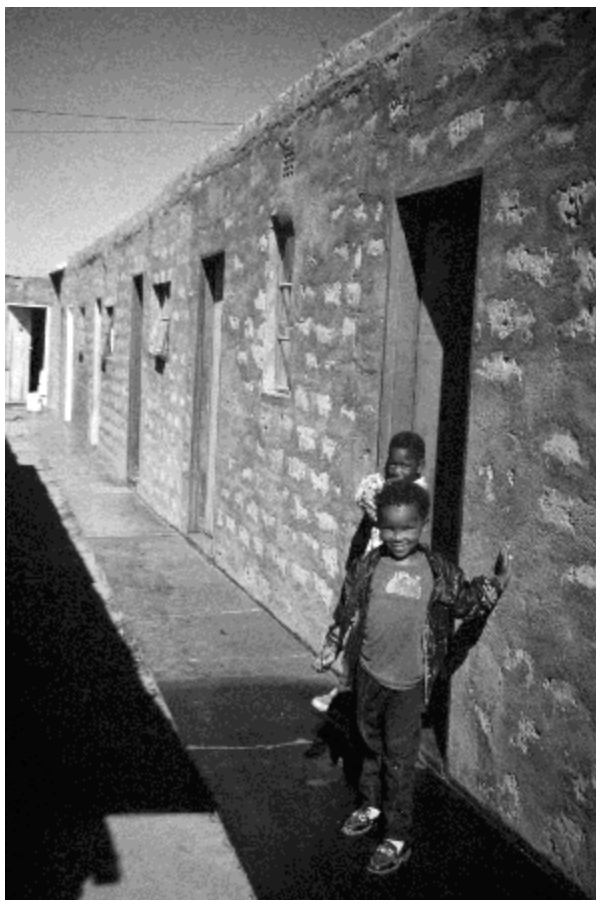
*“large scale rental housing and institutional landlords are uncommon, although a few Bamako landlords are in the process of accumulating sizeable assets in urban real estate, as yet virtually all in the form of urban compounds”.*<sup>92</sup>

In South Africa, small landlords dominate the market because commercial landlords have not found it very profitable in recent years and *“during the 1990s more new tenancies were created in the informal than in the formal rental sector”*.<sup>93</sup> In Soweto, most rental accommodation is found in the backyards of council housing where:

*“one-third of stands with backyard tenants have only one additional dwelling, 31 per cent have two and 24 per cent have three. ... Less than one per cent of stands had ten or more structures (and) together these ‘large-scale’ landlords accommodated only 6.6 per cent of all the ‘tenants’”.*<sup>94</sup>

Indeed, when attempting to generalize across Africa, Lloyd argues that almost everywhere *“the rental market has been dominated by the small landlord”*.<sup>95</sup>

Large-scale landlordism seems to have developed only in a handful of Asian cities. In Bangkok, it has been noted that, until recently, ‘houselords’ operated *“in a business like way”* in certain slums.<sup>96</sup> They built *“clusters of wooden barrack-type housing, small detached houses or a big house with room*



**Photograph 5: Rental housing in Mafekeng, South Africa**

*subdivision for rent by low-income people*” although this business “*is no longer profitable*”.<sup>97</sup> In Kathmandu, Nepal, civil servants, businessmen, industrialists and large farmers have become landlords.<sup>98</sup> And, in Bombay it has been observed that large-scale landlordism is widespread.<sup>99</sup>

In North Africa certain private investors have “*built large block of tenements for the relatively poor*”<sup>100</sup> and in Nigeria, “*in city after city there are a few ... wealthy businessmen and retired top civil servants, who own dozens of rental units*”.<sup>101</sup> In Alexandra, Johannesburg, too, some gang-linked landlords developed shacks that accommodated on average ten tenant households, although these have now been eliminated through removal programmes.



But the real exception is Kenya where renting seems to be dominated by larger, absentee landlords.<sup>102</sup> In Nairobi:

*“most landlords in informal settlements located on public land are absentee landlords. They are basically only interested in optimising the income from ‘their’ land and hence construct as many rooms for rent as possible”*<sup>103</sup> (see also appendix 5).

If most landlords, both formal and informal, operate on a small scale, that says little about the quality of the rental housing they provide. Small landlords provide accommodation for all kinds of tenants, for rich and poor, for migrants and non-migrants. They provide both good quality accommodation and bad. Small landlords provide both legal and illegal shelter, operate both within the law and outside it, and create both serviced and un-serviced accommodation.

In most countries, there is a healthy formal private sector that provides accommodation for the better off. This includes migrants and foreign visitors on temporary stays. Rents are often paid in dollars and this business appears to be very profitable. It is usually operated by rental agencies and sometimes by international companies although the rental literature says very little about it. There is also a formal market for middle-income housing although even less is known about this sector. Its presence is clear from the many adverts that appear in most national newspapers and the many notices that appear in the windows of homes located in middle-class areas.<sup>104</sup> In Kenya, rental housing has *“become the main form of housing for middle-income households and new urban residents of all income levels”*.<sup>105</sup> In the 1980s, nearly 90 per cent of annual housing production in Thika, a typical small town, was private rental accommodation.<sup>106</sup>

Yet, the bulk of private rental accommodation accommodates low-income families and most is informal to one degree or another. Some of this accommodation is found in the traditional rental housing areas near the city centres and close to the industrial estates. Increasingly, however, it has been created in the informal settlements (see section II.F). The form of this housing varies from solid accommodation in many Latin American and Middle Eastern cities (frequently in two or three-storey dwellings) to flimsy accommodation in the backyard.<sup>107</sup> Accommodation is typically a single room although many apartments are also rented out. Servicing levels are generally better than in the newest self-help neighbourhoods but the quality is highly variable. Generally, the whole rental process is informal. Contracts are rare, owners often lack formal title to their property and if rental legislation exists, it is typically ignored. More will be said about each of these characteristics in the following chapters.

## II.E. Informal renting of lots

Most tenants rent a room, an apartment or a house. However, many cases have been documented over the years where tenants (and ‘owners’) pay rent for space on which they construct their own, usually rudimentary, dwelling. Such a pattern has been observed in the ‘rentyards’ of the Caribbean,<sup>108</sup> in the ‘lost cities’ of Mexico<sup>109</sup> and their equivalents in Lima,<sup>110</sup> in the *bustees* of Calcutta,<sup>111</sup> in the land rental slum settlements of Bangkok,<sup>112</sup> and in the settlements in Papua New Guinea where households are permitted residential use of land based on monthly payment of rent and subsequent bestowal of leasehold rights.<sup>113</sup> Arguably, the rooftop shelters found in Cairo and other cities of developing countries constitute a similar kind of rental land space.<sup>114</sup>

In South African cities, backyard shelter accommodates a large number of tenants who generally share the plot with the owners living in the main structure.<sup>115</sup> The rationale behind rental housing of this kind is not wholly clear, particularly as rents appear to be very low. In Durban, where this kind of shelter continued until the early 1990s, backyard:

*“tenants were responsible for putting up their own shelter, and for removing it when they left. Candidate tenants were usually introduced by contacts to the landlord, who would then screen the candidate”.*<sup>116</sup>

This is suggested as a customary procedure in rural areas, which has been transferred to urban areas. If that is the case, it seems to have been modified insofar as people who are not known to the community are also allowed to rent space. In Johannesburg, many of the tenants are actually foreigners, many originating in Mozambique.<sup>117</sup>

A rather different pattern of backyard accommodation is found in Santiago, Chile.<sup>118</sup> Here the backyard dwellers rarely pay a formal rent to the owners, although they may contribute to the costs. The difference is because they are nearly all related to the owners. Indeed, the local name for these ‘tenants’, the *allegados*, is best translated as those who are near, close or related. The ‘*allegados*’ became a significant feature of the Chilean housing scene under the military regime of the 1970s and 1980s. No longer permitted to invade land and with little in the way of affordable rental housing available, most young adults set up homes in their relations’ backyards.<sup>119</sup> In 1990, it was estimated that 292,000 Chilean households were living in backyards, some 8 per cent of all households.<sup>120</sup>



**Photograph 6: Backyard accommodation near Pretoria, South Africa**

Chilean and South African cities have more backyard accommodation than most other cities in developing countries, principally because it is relatively difficult to obtain a cheap lot on which to construct one's own house. Recent governments have all opposed land invasions preferring to offer subsidies with which poor families could buy conventional homes. But in Bogotá and Quito, there is little renting of plots even though invasions are not permitted there either. Perhaps a key difference is that in Santiago and most South African cities there is much less extension and improvement of the self-help housing stock than is customary in most parts of Latin America. As there is a limited amount of cheap rental accommodation available, building one's own shack in someone else's backyard appears to be the next best option.

The situation in Chile and South Africa is arguably rather different from an apparently similar and much older form of tenure, that of the *thika* tenants. In nineteenth century metropolitan Calcutta:

*“a complex arrangement developed that eventually led to a unique three-tier tenurial structure. A landlord would typically rent out vacant plots under his own ownership to members of his retinue (‘intermediate agents’ who became known as thika tenants) who, in turn, would build a large number of small huts on the plot. Rooms within the huts were then rented out to labourers”*.<sup>121</sup>

With partition in 1948, hundreds of thousands of refugees flooded into the city and many moved into the *thika* settlements. Although the quality of the accommodation is perhaps worse even than that in the backyards of South Africa, the shelter is not actually produced by the occupants.

In Mumbai, a different form of tenure developed in a resettlement area where the authorities rented out 15 x 20 feet plots to settlers who were prepared to build their own *chawls*.<sup>122</sup> Breaking the rules, the tenants took in sub-tenants even though they were not allowed to charge rent when they themselves were living on government land. Although the courts intervened, sub-tenants who did not pay were evicted and relations between *chawl* owners and their tenants broke down.

## II.F. The location of rental housing

Most rental accommodation has traditionally been concentrated in the inner city. In Victorian London, rental housing for the rich was found close to the fashionable parts of town and, at a time when transport was expensive, low-income rental housing was created close to the main sources of work.<sup>123</sup> In many European cities, traditional patterns remain strong. In France, for example, *“the fifth of households who rent privately are generally located in the inner city areas of the large cities”*.<sup>124</sup>

But, many of the old constraints on location have changed. The pull of the centre is often still strong but modern transport, particularly the bus and the train, now allows many to travel much longer distances. Subsidies often reduce the frictional effect of distance for the poor. In addition, work places tend to be more widely distributed with industrial estates often located far from the central areas and retail work spread widely across the city.

The availability of rental accommodation in the central areas also affects the numbers of tenants living there. In Argentina, the supply of rental housing in the centre of the large cities *“is very limited and caters basically for the middle and high-income sectors”*.<sup>125</sup> Poor tenants are confined mainly to *“tene-*

ments, hotels and pensions". Similarly, the amount of rental accommodation near the centre of Mexico City has declined as a result of the devastation wrought by the 1985 earthquake and by years of devastation by urban renewal projects.<sup>126</sup> In any case, the huge growth of most cities in Africa, Asia and Latin America was bound to lead to a shortage of central accommodation; so today more and more tenants tend to live in the periphery.<sup>127</sup>

In poorer cities, the main source of new rental accommodation is in the self-help suburbs. Indeed, any self-help neighbourhood with moderate services and with reasonable communication links is likely to attract tenants. Table 8 shows how tenants now outnumber owners in four older self-help settlements in Bogotá, none of which are closer than six kilometres from the city centre.

**Table 8. Proportion of tenants in four consolidated self-help settlements in Bogotá, 1997**

<i>Barrio</i>	Age of settlement (years)	Per cent houses with tenants	Average number of tenants in houses containing tenants
Atenas	39	62.4	2.2
Britalia	22	68.9	2.3
Casablanca	35	68.4	1.4
Olarte	21	64.4	1.6

*Source: Gilbert, 1999.*

A similar process has occurred in Mexico City, and table 9 shows how the spatial distribution of tenants has changed over the last decade. The incidence of renting, and indeed sharing, remains highest in the central areas but tenants are now to be found in most neighbourhoods throughout the vast metropolitan area (see also figure 1). If the numbers of tenants are calculated by distance from the centre, then today, the majority of tenants no longer live in the four most central districts but in the surrounding area. But the expansion in rental housing is also occurring even further out in the second and third rings.

**Table 9. Spatial distribution of tenant households in Mexico City, 1990-2000**

<b>Zone</b>	<b>1990</b>		<b>2000</b>	
	<b>Thousands</b>	<b>Per cent</b>	<b>Thousands</b>	<b>Per cent</b>
Centre	732	26.8	495	20.0
First ring	1,123	41.2	1,016	41.0
Second ring	760	27.9	803	32.4
Third ring	113	4.1	163	6.6
<b>Metropolitan area</b>	<b>2,728</b>	<b>100.0</b>	<b>2,477</b>	<b>100.0</b>

*Source: Coulomb and Sánchez, 1991, updated from the Mexican census of 2000.*



A similar pattern is found in other Mexican cities and even in African cities (see table 10). In Bamako, Mali, for example, many migrants now move into the ‘former periphery’, the cheap accommodation available in the “*newly added rooms in consolidating self-help housing*”.<sup>128</sup>

**Table 10. Tenants and sharers by zone in selected cities, per cent (1980s)**

City		Centre		Former periphery		Recent periphery	
		Tenants	Sharers	Tenants	Sharers	Tenants	Sharers
Bamako	Mali	52	9	67	5	46	7
La Paz	Bolivia	79	8	38	21	27	20
Ciudad Juárez	Mexico	62	7	23	13	8	8

*Source: Adapted from Van Westen, 1995: 144.*

Of course, other cities show certain important differences. In central Johannesburg, the incidence of renting has been increasing in recent years as desegregation of rental households in the inner city has allowed black people to live there in increasing numbers. Unusually, the re-conquest of the central area was not led by poor black people but:

*“by a young, urban-based, relatively educated, employed and well-paid section of the black population which was not representative of the ghetto poor”.*<sup>129</sup>

The explanation is simple:

*“... unlike North American cities, the cheapest accommodation in Johannesburg is not found in the inner city. Much cheaper housing, albeit of an inferior standard, can be found in the informal settlement and site-and-service schemes on the periphery of the city.”*<sup>130</sup>

## Notes

1. Kumar, 2001: 97.
2. UNCHS, 1996: 216-217.
3. UNCHS, 1996: 217.
4. Gilbert and others, 1997; Martin and Nell, 2002.
5. Gilbert and Varley, 1991; Gilbert and others, 1993; Mwangi, 1997: 145.
6. Klak, 1992: 338.
7. Ha, 2002: 197.
8. Beijgaard, 1992; Green, 1988; Ha, 2002; Kumar, 2001.
9. Kumar, 2001: 45-46.
10. NIUA, 1989b: 176.
11. Ozo, 1993: 44.
12. Mwangi, 1997.
13. Kentridge, 1996: 165.
14. Grover and others, 2002: 42.
15. Clark and Dieleman, 1996: 6.
16. Clark and Dieleman, 1996: 7.
17. Fong, 1990; Grimes, 1976; UNCHS, 1989.
18. Gilbert, 2001.
19. Bond, 2000a; de Loor, 1992; Dewar, 1992; Hendler, 1988; Hart, 1990; Lemon, 1991; Parnell, 1992.
20. Mwangi, 1997: 145.
21. Okoye, 1990; Onibokun, 1985; Ozo, 1993.
22. Wadhva, 1993: 4.
23. Gilbert and Healey, 1985.
24. El Kadi, 1988: 24.
25. Ha, 2002:201.
26. UNCHS, 1989; Gilbert and Varley, 1991.
27. Emdon, 1993; Gilbert and Varley, 1991; Gilbert, 2000; Wadhva, 1993.
28. Mwangi, 1997: 146.
29. Dubel and others, 1996: 21.
30. Drakakis-Smith, 1979; Fong, 1990; Li and Yu, 1990; Tung, 1983; Ha, 1994; Yoon, 1994; Field, 1987; Pugh, 1987; Wee, 1972.
31. UNCHS, 1996: 219.
32. Grover and others, 2002: 43-44.
33. Grover and others, 2002: 44.
34. Economist, 2001: 33.
35. Garside, 1988: 24.
36. Gilbert and Varley, 1991.
37. Wadhva, 1993.
38. Emdon, 1993: 2.
39. Mwangi, 1997: 146.
40. Boudebaba, 1992: 124; UNCHS, 1996: 219.
41. World Bank, 1993: 90.
42. Kimm, 1993: 49.
43. Stren, 1990: 49.



44. Almarza, 1997; Chiappe de Villa, 1999; Pérez-Iñigo González, 1999; Majo, 1999; Rojas, 2001.
45. Bond, 2000a; Gilbert, 2001; Held, 2000; Mayo, 1999.
46. Ha, 1994: 109.
47. Ha, 2002: 201.
48. UNCHS, 1999.
49. Malpass, 2001.
50. Sak and Raponi, 2002: 35.
51. Economist, 2001: 33.
52. Sak and Raponi, 2002: 31 and 35.
53. Sak and Raponi, 2002: 20.
54. Ball, 2002: 88; Sak and Raponi, 2002: 35.
55. Martin and Nell, 2002: 35.
56. Hachmann, 2002.
57. Pedersen, 2002.
58. Münkner, 2002.
59. Jankowsky, 2002.
60. Jaadla, 2002.
61. Lykova, 2002.
62. Münkner, 2002.
63. UNCHS, 1988: 11.
64. Keles, 1990.
65. Serageldin, 1993: 31.
66. UNCHS and ICA, 2001; See also Kamete, 2001.
67. Wadhva, 1993: 63.
68. Rust, 2001: box 15.
69. Ball, 2002: 89.
70. Wadhva, 1993.
71. Wadhva, 1993: 16.
72. Baker, 2002.
73. UNCHS, 1993: paragraph 8.9.3.
74. Barbosa and others, 1997; de los Rios, 1997; Richmond, 1997; Thurman, 1997.
75. UNCHS and ILO, 1995.
76. Ball, 2002.
77. Horenfeld, 1994: 2.
78. Ball, 2002: 41.
79. Wadhva, 1993: 61; NIUA, 1989b: 174-5.
80. DETR, 1998a: 2.
81. Horenfeld, 1994.
82. Miron, 1995: 602.
83. Grover and others, 2002: 43-44.
84. Barbosa, 1997; Beijaard, 1992; Coulomb, 1985; Edwards, 1982; Gilbert, 1983; 1993; 1999; Gilbert and Varley, 1991; Green, 1988; Jaramillo and Ibañez, 2002; Rodas and Sugranyes, 1988; van Lindert, 1991.
85. Gilbert and others, 1993.
86. Kumar, 2001: 97; Malpezzi and Tewari, 1990.
87. Wadhva, 1993: 45-46.

88. Wahab, 1984.
89. Kalim, 1990: 189.
90. Hoffman and others, 1991; Turan, 1987.
91. Barnes, 1987; Pennant, 1990; Rakodi, 1987; El Kadi, 1988; Tipple and Willis, 1991; UNCHS and ILO, 1995.
92. Van Westen, 1995: 211.
93. Dubel and Pfeifer, 1996: 9.
94. Crankshaw and others, 2000: 848.
95. Lloyd, 1990: 294.
96. Pornchokchai, 1992: 152.
97. Pornchokchai, 1992: 55.
98. Karki, 2002.
99. Kalim, 1990: 189.
100. Lloyd, 1990.
101. Ozo, 1993: 33.
102. Amis, 1984; 1988; Andreasen, 1996; Mwangi, 1997; Syagga and others, 2002.
103. Wegelin-Schuringa and Kodo, 1997: 182.
104. Jaramillo and Ibañez, 2002.
105. Mwangi, 1997: 141.
106. Andreasen, 1989.
107. UNCHS and ILO, 1995.
108. Fass, 1987; Clarke and Ward, 1978; Potter, 1995.
109. Ward, 1976.
110. Dietz, 1981.
111. Roy, 1983.
112. Angel and Pornchokchai, 1989; Pornchokchai, 1992: 59; Yap and de Wandeler, 1990.
113. Kundu, 2002: 140.
114. Abu-Lughod, 1971.
115. Crankshaw and others, 2000; Watson and others, 1994; Gilbert and others, 1997.
116. Cross, 2002: 203.
117. Gilbert and others, 1997; Crankshaw and others, 2000.
118. Necochea, 1987; MacDonald (ed.), 1983; Mercado, 1992.
119. Nieto, 2000; MacDonald (ed.), 1983; Mercado, 1992.
120. Nieto, 2000.
121. Ramaswamy and Charavarti, 1997: 64.
122. Pimple and John, 2002: 80-81.
123. Stedman-Jones, 1971.
124. Ball, 2002: 48.
125. Gazzoli and others, 1989: 1.
126. Coulomb and Sánchez, 1991; Ward, 1997.
127. UNCHS and ILO, 1995.
128. Van Westen, 1995: 299.
129. Morris, 1999b: 332.
130. Morris, 1999b: 332.

### III. Landlords, tenants and sharers

The previous chapter emphasized the diversity of the rental sector. However, given that most rental accommodation in developing countries is provided by the private sector, this chapter will concentrate on that sector. Discussion of private sector accommodation in developed countries will be inserted occasionally where it helps to show that particular characteristics of rental housing are not peculiar to poorer cities. But the chapter will mainly concentrate on private accommodation and particularly on that provided by the 'informal' sector. Emphasis on the latter is justified in the sense that today it provides the vast bulk of rental accommodation. It is also an unfortunate fact that rather little is known about formal private rental accommodation in developing countries.

The chapter contains four sections. The first three discuss the socio-economic characteristics of landlords, tenants and sharers. The last section examines the motives of landlords, particularly those operating in self-help settlements.

#### III.A. Who are the landlords?

The negative image of landlords derives mainly from the past and has been embellished by unfavourable comments from politicians and tenant activists. In the United States of America, the picture is based on the nineteenth-century tenements of Eastside New York that were portrayed by the social reformer, photographer and novelist, Jacob Riis. According to Barrows:

*"The most familiar picture of American urban housing during the late nineteenth and early twentieth centuries is one painted with broad strokes and drab colors. It is not a pretty picture. The most prominent feature of this cityscape is a block of dumbbell tenements: massive piles of masonry, devoid of ornamentation and somehow reminiscent of military or penal structures."*<sup>1</sup>

The reason why the textbooks give this one-sided picture is that

*"much of the most valuable, and certainly most graphic and moving, literature dealing with urban America during these years, comes from social reformers. These men and women were concerned with the 'city as problem' rather than the 'city as process'"*.<sup>2</sup>

It has been noted that one of the problems involved in describing landlords in developing countries is that they are 'invisible'.<sup>3</sup> Some landlords choose to disappear, because they fear taxation or visits from health and fire officers, but most are invisible because no one talks about them. Kumar, for example, remarks on *"the little attention paid to low-income landlords in Third World cities"*.<sup>4</sup> Policy makers tend to be mute on the issue of renting and, com-

pared with the vast amount of research that has been conducted into self-help housing, studies of landlords are still sparse.

But, perhaps, invisibility is also a commentary on the fact that few landlords have many outstanding or interesting features. The research published over the last twenty years shows that most operate on a small-scale, are rather like their tenants, don't make much money and seem to be no more callous or calculating than anyone else. In short, they are invisible because in most respects they are very like most other people. Perhaps, this is why the landlords of Nairobi tend to stand out (see appendix 5). They have even appeared in the international press, presumably because they seem to be less scrupulous than the vast majority of 'normal' landlords.<sup>5</sup>

Perhaps landlords do not have a single mindset, and differences in their strategies and attitudes depend upon the nature of their business. As such, it is important to examine landlords "*in terms of the amount of capital at their disposal, the number of dwellings owned, their legal status, and their different reasons for owning residential property*".<sup>6</sup> If this interpretation is correct then the evidence from chapter II is critical. If most landlords in poor cities operate informally and have at most a handful of properties, it is this feature that most influences the nature of their 'business'.

### III.A.1. Rich or poor?

Across the globe, private landlords include both rich and poor, individuals and companies. In Belgium, "*landlords are drawn from all income categories*" although there is a higher proportion of landlords in higher income groups.<sup>7</sup> But most evidence suggests that the vast majority of landlords operate on a small scale and few are rich.

In Latin American cities, although there is often a substantial middle-class rental market where the landlords are themselves middle class, the typical landlord is now a former self-help builder.<sup>8</sup> More and more landlords are now to be found in the self-help settlements renting out rooms in their modest homes. As self-help settlers, they tend to have similar backgrounds and incomes to their tenants. In Bogotá, tenants and owners living in the same building tend to share very similar economic and social characteristics.<sup>9</sup> In Caracas, Mexico City and Santiago "*they have similar per capita incomes to their tenants*".<sup>10</sup>

In Africa, most landlords have similar kinds of backgrounds to that of their tenants except that they tend to have lived in the city longer and are a little better off. In Mali, homeowners tend to be "*significantly wealthier than tenant households*" although they are rather similar in many other respects.<sup>11</sup> How-

ever, in Soweto, Johannesburg, landlords are among the poorest residents in the township. The more affluent households are either those with no backyard residents or those who accommodate only relatives or friends.<sup>12</sup> In Kumasi, resident landlords tend not to be better off than their tenants and poorer than owners who do not let out rooms.<sup>13</sup> Admittedly in other parts of Africa, the landlord is sometimes drawn from a different more affluent class than the tenants. In Nairobi, for example:

*“out of a sample of 120 landlords interviewed 57 per cent were public officials (government officers and politicians).”<sup>14</sup>*

### **III.A.2. Age**

The most consistent factor to distinguish landlords from the rest of the population is their age. Landlords tend to be older than other owners and much older than most tenants.<sup>a</sup> In Cairo, almost half of the landlords interviewed in a survey had been renting for more than thirty years.<sup>15</sup> Because of their age, landlords are much more likely to be retired, live in larger properties than other families and have lived longer in their current home. In La Paz, Bolivia, owner households are older than those that rent or borrow accommodation, have more rooms at their disposal and have lived longest in the city.<sup>16</sup> In Soweto, most rental accommodation is created in the backyards of council houses. Most of the landlords have lived a long time in the city and indeed only live in council housing because they arrived when the government was producing this kind of accommodation.<sup>17</sup> However, even among council house dwellers, those who create space in their backyards are somewhat older and have lived on the present site for longer. Compared with the heads of backyard accommodation, landlords are ten times more likely to be retired.<sup>18</sup>

### **III.A.3. Male and female landlords**

Both men and women act as landlords, sometimes in partnership and sometimes on their own. Not infrequently, a woman may handle the tenants even when a man lives on the premises; what Kumar calls a ‘woman-managed’ household.<sup>19</sup> Most male landlords have a female partner but many widows and separated women rent out property.<sup>20</sup> Whether men or women dominate the business depends greatly on local custom and on the demography of the city.

Inheritance is certainly important because if men inherit property then they will tend to be the landlords. Thus in Nigeria, although the particular custom varies, it is always the male offspring who inherit.

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a. This may be related to the role of renting as an income-earning strategy. The letting of rooms may be seen as a rational choice for utilising space when age limits the practicality of other home-based enterprises (see UNCHS and ILO, 1995).

*“In Benin, customarily, the eldest son inherits the house on the death of the family head, after performing family, street and palace death rites for the late Okaigbe. This differs from the custom in Ibadan, where a house is divided into sections among the sons of a deceased head of family”.*<sup>21</sup>

In India, *“landlordism is predominantly a male dominated occupation”*.<sup>22</sup> Male landlordism is encouraged by the fact that inheritance is patriarchal and also by the fact that migrant streams to the city are predominantly male. In Nairobi, more men are landlords than women, probably because many more men are found among the political and administrative class that control landlordism in that city.<sup>23</sup> However, it should be noted that: *“slum landladies”* are *“a common phenomenon”*.<sup>24</sup>

Elsewhere, there are often more landladies than landlords. In Botswana, there are more female than male landlords in official projects<sup>25</sup> and, in South Africa, more women rent out accommodation in the backyards of council houses, mainly because so many men have died or forsaken their families.<sup>26</sup> In Mexico, landlordism is often described as a widow’s business, a comment both on the numbers of women involved and on their suspect business judgement.<sup>27</sup> But age is also a factor; because most women live longer than men, women often inherit property which they then rent out. In Santiago, it has been noted that many landlords are single women who are *“rather old”*.<sup>28</sup>

#### **III.A.4. Resident or absentee landlords**

Most landlords operate on a small scale and tend to live on the premises. This is nothing new in the history of landlordism for it has long been a feature of British landlords as the taking in of ‘lodgers’. In North America, during the recession of the 1930s:

*“working-class home owners were also quite frequently landlords, living in the basement of the tenement building they were in the process of buying, or occupying one half of a duplex. Likewise, farther up-market, many apartment-house owners occupied one of their own apartments. Technically they were owner occupiers; but they were also landlords”.*<sup>29</sup>

Indeed, the pattern of ownership in the United States of America only changed during the 1970s:

*“Until then, the vast majority of apartment owners were relatively amateur landlords who owned one, or just a few, small apartment buildings. ... Many lived in their own apartment buildings, knew the tenants on a first-name basis, and might even peg rent levels to their tenants’ ability to pay”.*<sup>30</sup>

Contemporary landlords in most poor cities are very similar.<sup>31</sup> In Cairo, 91 per cent of the landlords interviewed in a survey lived in the same building as the tenants.<sup>32</sup> In Bamako, Mali, “*fully two-thirds of compounds are in fact occupied by their owners*”.<sup>33</sup> Evidence from the low-income suburbs of South Africa and Latin America is very similar.<sup>34</sup>

The main exceptions tend to be in those cities where more large landlords operate. For example, in Nairobi (Kenya) “*most landlords in informal settlements located on public land are absentee landlords*”<sup>35</sup> and in another Kenyan town, Thika, there are “*extremely few resident owners*”.<sup>36</sup>

However, there are also some small-scale landlords who rent out their only property and live somewhere else. In Kingston, Jamaica, for example, “*about one-third of NHT units are illegally sublet by the original mortgagors*.”<sup>37</sup> A similar pattern has been found in the subsidized private housing units in Santiago,<sup>38</sup> in public housing units in Mexico<sup>39</sup> and in the rental apartments of central Johannesburg.<sup>40</sup>

### **III.B. Who are the tenants?**

The characteristics of the tenant population depend fundamentally upon the nature of the local housing market. In certain cities one kind of household may own whereas in others the same kind of household may rent. A household’s decision rests on the relative costs of renting versus owning and upon the relative size of the rental housing stock. Most households choose their tenure only within the range of supply options available.<sup>41</sup> In some places, certain options are unavailable or are available only at unaffordable prices.

The combination of demand and supply factors produces distinctive tenant profiles in different countries. In the United States of America, Varady and Lipman have identified six renter ‘clusters’: families moving up the housing ladder (17 per cent), lifestyle renters (21 per cent), college graduates starting out (26 per cent), black renters (15 per cent), elderly lifestyle renters (10 per cent), and struggling blue-collar workers (11 per cent).<sup>42</sup> In Belgium, de Decker identifies three categories of private tenants: 10 per cent who decline “*to purchase for reasons such as the need to be mobile or because renting is a conscious choice*”; 42 per cent who are “*new entrants to the housing market*”, who aspire to homeownership; and 48 per cent who have no choice because their income is too low or too insecure to enter owner-occupation or because they cannot enter the social housing sector.<sup>43</sup> In short, while there are similarities between tenant cohorts across cities, there are also important differences.

The following sections outline the characteristics of tenants with regard to income levels, age, household structure, gender, natives contra migrants and the life cycle.<sup>b</sup>

### III.B.1. Income

In some developed countries the poorest households tend to rent, and the richest tend to own. In the United States, despite significant differences in the role of public housing, numerous surveys have demonstrated that incomes of homeowners are on average much higher than those of tenants.<sup>44</sup> In modern Spain, the same pattern is evident because “rental demand ... is mainly a captive demand, formed by collectives in a precarious labour situation or with not enough income to access ownership”.<sup>45</sup> In the United Kingdom, and increasingly other parts of Europe, many researchers have observed that the housing market has become polarized between those who can afford to own, and those who are too poor to do so.<sup>46</sup>

In other parts of Europe, the difference in wealth between owners and tenants is much less clear-cut. In Belgium:

*“Despite the growing differences between tenures, the degree of social separation between them is still far less than in many other EU countries. Low income home owners are commonly older households or those living in the poorer parts of the existing stock, but there also is a significant high income rental sector”.*<sup>47</sup>

In Germany, Sweden and Switzerland, where the incidence of renting is very high, many higher income groups rent accommodation.

In poorer societies, nearly all high and middle-income families own their homes and relatively few rent, except at an early stage in their housing career. However, most poor cities differ from those in developed countries insofar as many poor families are *de facto* homeowners. The difference, of course, is explained by the existence of the informal, irregular, self-help sector. Many poor families obtain ‘ownership’ through building their own home. This complicates comparisons between the incomes of homeowners and those of tenants and for this purpose it is sensible to conduct separate analyses of the formal and the informal markets. If this is done, then in most cities of developing countries, owners are more affluent than tenants both within the formal and informal sectors. However, when comparisons are made across the two sectors, most tenants renting in the formal sector will be better off than most owners in the informal sector.

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b. For details on the mobility required by labour markets see chapter IV.F.



Table 11 provides some support for that contention. It shows that, in South Africa, households renting accommodation in the formal rental sector have much higher incomes than those living in informal rental accommodation.

**Table 11. Income variation among tenant households in South Africa**

	Formal rental	Household (informal) rental	All rental households
Mean monthly household income [rand]	3,166	1,468	2,265

Source: Martin and Nell, 2002: 30.

Those who rent in the formal sector are much more likely to be employed and have higher levels of education than those in the informal sector.<sup>48</sup> A similar pattern has been found in Cairo, Cochabamba (Bolivia), Delhi and Benin City where some affluent households rent accommodation in the formal sector even though they have enough money to own their some kind of property.<sup>49</sup>

*“In Bangalore, the bulk of migrant young educated professionals employed in the computer and software industries are initially dependent on rental accommodation”.*<sup>50</sup>

Within the informal sector it is also true that owners tend to be more affluent than tenants. In Indonesia, *“over 75 per cent of renter households have incomes... less than the average household income.”*<sup>51</sup> Similarly, in Santiago and Mexico City, the incomes of owner households are higher than those of non-owners<sup>52</sup> and in Quito *“occupant income increases from rented rooms, to shanties, to houses”.*<sup>53</sup> Similar kinds of evidence have been collected in Ahmedabad and Delhi (India), Cairo (Egypt) and Kumasi (Ghana).<sup>54</sup>

However, if *per capita* incomes are considered rather than household incomes, the differences are much less clear and are sometimes reversed. Because tenant families are much smaller, they often have higher *per capita* incomes. This is certainly the case in Caracas, Mexico City and Santiago.<sup>55</sup> A similar pattern is also true in Kumasi insofar as the extended family system means that owners have large households, thus reducing their *per capita* incomes.<sup>56</sup> In Bamako, Mali, owner households spend more than tenants but *“their budget ranges overlap”* and there is very little difference in *per capita* expenditure.<sup>57</sup>

In this sense, therefore, Durand-Lasserve and Royston are wrong when they assert that tenants are always *“the poorest among the urban poor”*.<sup>58</sup> Indeed, in many cities, the very poor cannot afford to rent and if they have no

one with whom they can share accommodation, they tend to build their own shelter. Many of the very poorest families live in *de facto* ownership in shantytowns. Of course, this is only possible when land can be obtained very cheaply. Where this has been possible, as in Caracas and Mexico City, both household and *per capita* incomes of poor owner families living in invasion settlements are far below those of most tenants.<sup>59</sup>

Similar experiences have been recorded in other parts of the world. In the Republic of Korea, many poor households live in houses built with thin wood board layers and vinyl covering on the outside. Most of the occupants “*do not have enough money to rent even a room in the low-income residential areas*”.<sup>60</sup> In Indonesia, there seems to be relatively few poor tenants, because of “*the greater prevalence of squatting and other irregular tenures in Jakarta*”.<sup>61</sup> In Bangkok, “*house renters ... are not the lowest group of low-income people*” for similar reasons.<sup>62</sup> In Recife, Brazil, “*among the reasons for invading land, avoidance of paying rents was most often mentioned, with 31 or 49.3 per cent of households stating this reason*”.<sup>63</sup> And, in Bamako, Mali, “*really poor households may be found as ... early settlers in rural style and little-commercialized spontaneous settlement*”.<sup>64</sup>

Of course, when free or very cheap land is unavailable, the very poorest families will sometimes be forced into renting:

*“The typical poor family in Calcutta, Nairobi or Cairo is unable to pay for even an illegally subdivided plot and squatting is virtually excluded as an option. Such families rent a room if they do not share a room with others.”*<sup>65</sup>

In sum, the cities of developing countries have very different kinds of housing and land systems. Where it is possible to obtain land cheaply the poorest of the poor often build their own accommodation. In other cities, they do not have this choice and, if they are unable to share, they rent accommodation. Consequently, in some cities, when differences in age, family structure, etc. are discounted, tenants tend to be among the poorest families. In other places, there is a more complicated pattern; some informal settlement owners may be quite affluent and others very poor, with tenants somewhere between the two.

### **III.B.2. Age**

In many cities, tenants tend to cluster at opposite ends of the age range. In most cities, renting tends to be a young person’s tenure, particularly prevalent among students, those entering the housing market for the first time and migrants. But, in some places, it is sometimes also an old people’s tenure.

In the United Kingdom:

*“private renting is on the way to becoming predominantly a young person’s tenure, the place where people start or move in and out as relationships change. Last year, four out of 10 newly forming households (people getting together – and falling apart) became private tenants”*.<sup>66</sup>

In the United States of America, young people are among two of Varady and Lipman’s six renter clusters: families moving up the housing ladder (17 per cent) and college graduates starting out (26 per cent).

In poorer cities, there is a lot of evidence that most tenants are younger than most owners. In Latin America, tenant household heads are younger on average than owner-occupiers in Bogotá, Caracas, La Paz, Santiago, Mexico City, Guadalajara and Puebla (Mexico).<sup>67</sup> In Africa, a similar pattern has been observed in Kumasi (Ghana), and Blantyre and Lilongwe (Malawi).<sup>68</sup> In Soweto (South Africa), backyard tenants are on average twenty years younger than their landlords.<sup>c</sup>

There is less evidence in poorer cities about the old tending to rent. Most studies have demonstrated that the old are more likely to own, a strategy intended to guard against the difficulties of old age<sup>69</sup> (see also section III.D) Nonetheless, many tenants can also be old, particularly in those cities where there is no ‘easy’ self-help route into owner-occupation, as in Bucaramanga (Colombia), Buenos Aires and La Paz.<sup>70</sup>

However, it is important to recall once again how diverse the rental sector actually is. In South Africa, the average age of heads of tenant households varies considerably: from 48 years in government accommodation, 41 years in hostels, 35 years in social housing, 37 years in household rental and 31 years in private formal renting.<sup>71</sup>

### **III.B.3. Household structure**

In most countries, certain kinds of households always tend to rent: recent migrants, foreigners, young and mobile households, single people, and couples without children. In the United States of America, *“one in three renter households consist of one person”*<sup>72</sup> and, in Canada, *“throughout the prime home-buying years (early adulthood through age 50), the majority of singles are renters”*.<sup>73</sup> A similar pattern appears to be true in the Republic of Korea; in the *jjogbang* rental sector, *“half of all residents are single”*.<sup>74</sup>

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c. Crankshaw and others, 2000. Although many of the landlords are technically tenants because they have not yet bought their council house.

Even tenant families are usually smaller than those of owners. In Bogotá, Caracas, Guadalajara, Mexico City and Santiago, owners certainly have larger households than non-owners.<sup>75</sup> In Delhi, on average tenant households contain three persons, owner households five.<sup>76</sup> In Malawi's two major cities, owner households contain an average of 6.6 persons whereas those of tenants contain only 3.7.<sup>77</sup> In Bamako, the difference is much starker; tenant households have 3.5 members compared to 11 among owners in formal settlements and 7.3 among those in unauthorized areas.<sup>78</sup> In Manila, larger households are much more likely to opt for *de facto* homeownership:

*“Apparently, large families are unable to obtain or afford rental housing as easily as comparable smaller households and are, therefore, much more likely to end up in a squatter settlement”.*<sup>79</sup>

Tenant households also tend to be smaller because renters are younger and therefore have fewer children. However, even this factor can vary, as in West Africa where kin expect to be accommodated by their urban relations when they migrate to the city<sup>80</sup> (see also appendix 6).

### **III.B.4. Male or female?**

More tenant households have female heads than owner households in Cochabamba (Bolivia) and in several Mexico cities.<sup>81</sup> The situation in West Africa is very similar.<sup>82</sup> In both cases, the explanation is the same; women find it harder to accede to homeownership. Women are often excluded from inheritance<sup>83</sup> and also from official housing programmes offering owner-occupation.<sup>84</sup> And, because female-headed households tend to be poorer, they find it difficult to enter any other kind of homeownership. Even self-help ownership is more difficult insofar as many women lack the skills required in self-help construction.<sup>85</sup>

However, where migration to a city is particularly rapid, the sexual composition of the migrant flows may well determine the dominant sex of the tenants. Thus in India, where men dominate migration flows; more men are tenants than women.<sup>86</sup> In many parts of Latin America or the Philippines, however, the dominance of women in migration flows, usually transforms the picture.<sup>87</sup>

### **III.B.5. Natives or migrants**

Early thinking about residential behaviour in Latin American cities stressed the close relationship between tenure and migrant status.<sup>88</sup> The bridgeheader/consolidator model, devised more than two decades ago, argued that new arrivals to the city sought temporary rental accommodation in the central city.

In Bamako, Mali, 25 per cent of natives rent accommodation, compared with only 64 per cent of migrants.<sup>89</sup> And in India:

*“a substantial majority of migrants from Orissa and Andhra Pradesh and a lesser proportion from Uttar Pradesh choose to rent in Surat. These individuals were certain that their stay in the city was temporary”*<sup>90</sup> (for a more detailed discussion, see chapter V).

The ‘Turner model’ suggested that such migrants would rent shelter close to areas of work in the central city and over the years, a mountain of evidence has accumulated to support that argument. In Abidjan (Côte d’Ivoire), many migrants moved to the central area because it is *“the only way to settle near a vast conurbation’s centres of employment and economic activity”*.<sup>91</sup> Similarly, migrants dominate the migrant households living near the centre of Arequipa (Peru)<sup>92</sup> and many foreigners have moved into the centre of Johannesburg.<sup>93</sup> Of course, as the previous chapter has shown, the main source of rental housing is no longer in the centre but has moved out to the consolidated periphery. As a result, the location choices of migrants have become more varied and much more difficult to describe.<sup>94</sup>

Once migrants achieve a regular source of income and/or establish a family, however, they try to move into homeownership, usually in the peripheral self-help suburbs.<sup>95</sup> In Bamako, *“long-term urbanites tend to favour home ownership”*.<sup>96</sup>

### III.B.6. The life cycle

Much of the housing literature has attempted to explain tenure choice in terms of an individual’s life cycle.<sup>97</sup> Young people tend to avoid the responsibilities of homeownership whereas families are often obliged to take them on. In central Arequipa (Peru), tenants include both migrants and natives but all tend to be *“at an early stage of the life or family cycle”*.<sup>98</sup> But the demand for rental housing also depends on local cultural traditions. In the United Kingdom, young people tend to leave the parental home at relatively early age, often to go to university. In Chile, Italy or Spain, young men tend to stay at home until they marry. Hence there tends to be a greater proportion of young people in rental housing in British cities and fewer in those of Chile, Italy or Spain.

The size of the family appears to be particularly important in determining when people move into owner occupation and when they move house. The birth of children is often an important trigger for residential moves. In Bamako, it appears that:

*“overall ... life-cycle factors (namely, the expansion of the household) appeared the most conclusive factor behind the move into self-help owner-occupation.”*<sup>99</sup>

But, the birth of children does not always prompt a move in Guadalajara and Puebla (Mexico), where in self-help housing areas most people tend to respond by constructing extra rooms to accommodate their growing families.<sup>100</sup>

Of course, as times change details of the life-cycle model have had to be modified. Many, perhaps most, people no longer get married and live happily ever after with the same partner. Rates of divorce and separation appear to be rising rapidly in many countries and the number of single-person households is growing in many cities. Since single people tend to rent their accommodation, any growth in the number of single-headed households will tend to increase the incidence of renting. In the Republic of Korea:

*“family breakdown has triggered the housing problem. One in five (tenants) had been asked or told to leave by their family and one in three became jjogbang tenants because of divorce, arguments, rows, and domestic violence within the family”.*<sup>101</sup>

### **III.C. Who are the sharers?**

In most societies, many people share their homes with others and particularly with adult members of their family. This arrangement may be temporary, brought about by long visits from distant relatives, financial difficulties or marital problems. It may be welcome to both parties, to one side but not the other, or to neither. Whatever its cause, it is a necessary part of many families' coping strategies and is fundamentally important in putting a roof over people's heads.<sup>102</sup> In fact, the housing problem in urban Ghana would be:

*“decidedly more acute without the contribution which family-housing continues to make. Given the harsh economic climate, this form of housing is too important to be ignored by researchers and policy-makers”*<sup>103</sup> (see also appendix 6).

The advantages of sharing for those being accommodated are fairly obvious. They do not have to pay rent and therefore can save money to buy later or to set up a business.<sup>104</sup> Sharing may provide more space than rental accommodation and sometimes more privacy. Not surprisingly, therefore, many sharer households in Mexico City are generally content to do so. While sharing sometimes constitutes a 'tenure of last resort', chosen by those without the resources, 54 per cent of sharers say that there are no disadvantages to this form of tenure.<sup>105</sup> They do not have to pay rent, they have access to the consumer durables belonging to their parents, and they have as much or more space than most tenants. Their only real complaint is about their lack of independence.

Even the hosts may derive benefits from sharing, particularly when parents accommodate their children. As Chant puts it:

*“longer-term sharing can also have immense benefits for hosts in that it provides parents with access to support from their offspring in later life, thus acting as a form of intergenerational family survival strategy”.*<sup>106</sup>

Of course, there are disadvantages and sometimes lots. Sharing raises room densities and sometimes produces overcrowded living conditions.<sup>107</sup> In Kumasi, most sharers live in so-called ‘family homes’ which include *“some of the most neglected housing”*,<sup>108</sup> although some observers warn that, *“there is no conclusive evidence to confirm that their condition is worse than other houses in multiple occupation”*.<sup>109</sup>

Servicing can also be a problem when sharing increases the number of people living on a property. It may increase pressure on the water supply or lead to electricity cuts. But again, this is also a problem caused by renting as in the case of the backyards of South African cities. Sharing may also cause friction within the family when sharing goes on for too long or when the parties simply don’t get on. In Gweru (Zimbabwe), it has been observed that family life often *“suffered due to overcrowding and spatial confinement”*.<sup>110</sup>

Even in Mexico City, where most sharers said that they were content with their situation, some tenants said that they valued their independence too much to share.<sup>111</sup> Many tenants in Gaborone (Botswana) expressed similar sentiments:

*“In the majority these were households which had recently moved out of shared accommodation and for them renting was definitely an improvement as it gave them a measure of independence. The implication here was that they enjoyed the flexibility that renting gave them”.*<sup>112</sup>

So far no mention has been made of the substantial problem of defining the nature of sharers. One problem is that sharing is often very similar to renting insofar as those who share contribute to the living costs of the owners. When adult children make a regular contribution to the household pot, they are effectively disguised tenants. In most poor cities, where few people have rental contracts or even receive receipts for the rent they pay, it is often difficult to distinguish relatives from *bona fide* tenants. Sometimes, indeed, landlords deliberately claim that their tenants are actually relations:

*“Landlords and those who let people share is not a clear cut distinction. Landlords can also be sharers and sharers can become landlords”.*<sup>113</sup>

Another real problem with defining sharers comes from the nature of the family relationship and the physical arrangements. In Santiago, a distinction is

drawn between internal and external sharing.<sup>114</sup> When an adult son lives with his wife in the backyard of his parents' home, the two households are relatively easy to identify. But when they live inside the same house, the picture is very much less clear. Defining households is never all that easy but it becomes particularly difficult in the case of sharers. It is a particular problem for governments trying to target poor non-owners in housing or subsidy programmes.

Insofar as it is possible to identify sharers accurately, various surveys suggest that they have several clear distinguishing features. **First**, the great majority are related to the owners. In Karachi, "*an estimated 200,000 migrants arrive every year. They usually stay with friends or relatives until they find a job*".<sup>115</sup> In Mexico City, every sharer is a member of the family: "*children (63 per cent), siblings (16 per cent) or parents (8 per cent) of the owners*". It seems that Mexicans do not share accommodation with friends.<sup>116</sup> Elsewhere, the pattern seems to be broadly similar although the range of family members who are accommodated varies considerably.<sup>117</sup>

**Secondly**, most sharers tend to be younger than tenants or owners,<sup>118</sup> although they can also be quite old. In Resistencia (Argentina), "*sharers were either in their twenties, often in their first union, or in their seventies*".<sup>119</sup>

**Thirdly**, sharers tend to be quite poor. In Santiago, where as many as one-fifth of households were sharing in the 1980s, most sharers were poorer than either tenants or owners.<sup>120</sup>

**Finally**, while many are only sharing for a time, some are more permanent residents than most tenants.<sup>121</sup> New migrants to the city may often stay for a few weeks until they are settled but some family members never move out. Elsewhere, sharers may be waiting for the opportunity to move into owner occupation and the length of their stay depends on when that is feasible. In Santiago, where poor households expect to receive a subsidy from the state, but where the average wait may now have risen to 15 years, sharing may be a long-term experience.<sup>122</sup>

Sharing appears to be much more common in some cities than in others. In Delhi, for example, 37 per cent of households accommodate sharers<sup>123</sup> and, in La Paz, one-fifth of all households live rent free or share with their families.<sup>124</sup> In Kumasi, 25 per cent of households live in family houses.<sup>125</sup> In other places, however, sharing is far less common. In Bogotá, for example, many more non-owners rent accommodation than in Mexico City, La Paz or Santiago.<sup>126</sup> Even in West Africa, the situation varies, and "*free accommodation would appear less common in Bamako than in a city such as Kumasi*".<sup>127</sup>



Differences in the incidence of sharing may be a cultural feature of the society concerned. In Delhi, for example, less than one per cent of tenants are less than 25 years old because young people stay in their parents' home until they establish their own family.<sup>128</sup> In West Africa, it is not just children but the whole extended family that tends to share accommodation; "*the very fact of even remote kinship has proved able to invoke free accommodation for the poor*".<sup>129</sup> They are accommodated in 'family houses', which:

*"is, to some extent, collectively owned by descendants of a common ancestor. Precise arrangements vary, but the point is that members of the same lineage may take up residence there, usually free of charge"*.<sup>130</sup>

In other societies, cultural norms are different and many families increasingly prefer to live in nuclear units. Even in West Africa, changing attitudes are beginning to increase tensions within extended families. In Kumasi, one survey found that 45 per cent of owners believed the extended family to be parasitic.<sup>131</sup> Even where sharing continues to be popular, only some of the family may be accommodated. In Mexico, for example:

*"single daughters with children are more often in the position of having to rent or live within their parents' households, whereas married sons are usually given their own piece of land on plots big enough to accommodate two or more dwellings"*.<sup>132</sup>

Sometimes it is the size of the house or plot that may be the determining factor.<sup>133</sup> In Bogotá, where plots are relatively small, there seems to be less sharing than on the large plots of Mexico City.<sup>134</sup>

But the key factor is probably the nature of the demography of the city. Since most sharers are related to their hosts, a minimum requirement to share accommodation is that a household has relations willing to put them up. In those cities with a long history of migration and where most residents have been born in the city, sharing is likely to be more common than in those cities where migration is a recent phenomenon. In Santiago for example, most people are increasingly natives of the city and all of the *allegados* have been born in the city.<sup>135</sup> Significantly, most *allegados* are found in the residential areas old enough to have reared a second generation of adult age. In cities with a more recent migration history, the higher proportion of migrants means that fewer of the new arrivals have people with whom they can stay. In Gweru (Zimbabwe) "*those who were fortunate were able to stay with relatives until they found work*",<sup>136</sup> but many could not and were forced to rent. In Johannesburg, sharing accommodation is out of the question for the rising numbers of foreign immigrants.<sup>137</sup>

The incidence of sharing is also likely to rise when economic conditions deteriorate. When unemployment rises or real incomes fall, both renting and owning a home can become more difficult. During the 1930s, Canadian families “*evicted for non-payment of rent necessarily sought shelter with friends and relatives*”.<sup>138</sup> In Resistencia (Argentina), “*for most households, sharing is a way of helping their relatives.... a way of alleviating the suffering of extreme poverty*”.<sup>139</sup> Given current economic conditions in Africa and many cities of Latin America, sharing may be on the increase.

But sharing should not be thought of only as a temporary phenomenon. It is here to stay in most cities because the numbers of households are increasing more rapidly than the numbers of homes. In addition, the supply of housing is often ill suited to the nature of the demand. But, in developing countries, it is the structure of the housing market that is critical. The incidence of sharing in Santiago is high because there are few cheap housing alternatives, irregular forms of land tenure are prohibited and rents are high.<sup>140</sup> In Kumasi (Ghana) however, low rents, because of the strict rent control legislation of the 1980s, encouraged sharing. Since potential landlords would receive virtually nothing from rent, they might as well accommodate their kin.<sup>141</sup>

### **III.D. Understanding the motives of landlords**

All landlords let property to obtain an income but the reasons they do so and the strategies that they follow in generating that income are highly diverse. Clearly, for some landlords renting is a commercial exercise.<sup>142</sup> They calculate the return on their capital, take any incentives that may be on offer from the government, minimize their taxable income and employ professional accountants and agents. Such landlords are mainly concentrated in the high- or middle-income sectors. However, it is clear that there are a few places where the creation of rental accommodation in low-income areas has also been perceived to be highly profitable. Such landlords may not follow every facet of real professional practice, but there is no denying their commercial acumen. Landlords in the slums of Nairobi, Bangkok, Benin City, and Bombay have all been reported to operate in a business-like way.<sup>143</sup>

However, in most of the consolidated self-help areas of cities in developing countries, the typical landlord seems much less commercially oriented. Some are undoubtedly serious landlords because they are dependent on their rents in order to live, but they are, most certainly, not ‘professional’ in their behaviour. They will certainly not be able to say whether their housing investment matches the potential returns from other activities.<sup>144</sup> Insofar as they do well from their ‘business’, it is from shrewdness and opportunism rather than professionalism.<sup>145</sup> There are exceptions but most of these small landlords

are unschooled in accounting practices, the law or even the building trade. Some even have trouble reading and writing.<sup>d</sup>

This is not to deny that the rents derived from letting rooms are not welcome. Poor families need any income supplement that they can get. In Santiago it has been observed that rents are used “*essentially to cover basic needs*”.<sup>146</sup> Few landlords anywhere are going to get very rich on the proceeds. Estimates of what landlords in Soweto earn from backyard accommodation, for example, suggest that rents will supplement regular incomes by approximately 22 per cent.<sup>147</sup>

The lack of commercialism has something to do with the fact that many know no other way to make money. Being a landlord means investing in something that they broadly understand, bricks and mortar.<sup>148</sup> Rents are an income that is more tangible than putting money into a bank or other kind of financial institution. In Côte d’Ivoire:

*“for people who have funds to invest, be they urban operators or coffee and cocoa ‘planters’, there is no substitute for rental housing. Housing remains a safe investment”*.<sup>149</sup>

Landlords rent for a range of reasons. Renting serves as:

*“a safety net against precarious employment, meeting household expenditure, housing improvements, a regular source of income when moving from waged employment to own account forms of employment, capital investment and rotation in business, as a form of pension after retirement and old age and as investment for the next generation.”*<sup>150</sup>

It is this multiple rationale that probably explains why many landlords are not greatly concerned about the low rents they receive. As observed in Resistencia (Argentina):

*“sometimes, room letting provides more than a basic subsistence. For some landlords rentals represent a way of financing the completion of the main house, for others they provide a means to pay taxes and fees to get property rights.”*<sup>151</sup>

The rents may be low but they still have the house. Investing in property is vital in providing parents with something to leave the children; something that many owners in Bogotá claim to be one of the key virtues of ownership.<sup>152</sup> Under such circumstances, rents may be a lesser consideration.

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d. Of course, some landlords begin in a highly informal way and become more professional over time. Coccato (1996: 53) describes how larger scale ‘rooming houses’ generally begin as small rentals; “*they demand steady investment, and re-investment of landlords’ limited resources in the span of two or three decades*”.

Many landlords would argue that the real virtue of owning property and renting it out is the security it offers for the future. After all, large numbers of landlords are old and are living either on their pension or entirely from the proceeds of the rents. As observed in Bamako:

*“many widows or elderly persons depend on letting part of their compound for their living. Thus, home ownership is especially significant as a strategy for old age, cutting expenses as well as adding income.”*<sup>153</sup>

In Abuja, *“in the absence of any reliable and affordable social insurance schemes to fall back on in times of difficulty”*, some larger landlords have invested for precisely this reason.<sup>154</sup> Similar statements have been documented in Bangalore and Surat (India), Bogotá and Lagos.<sup>155</sup> In Resistencia (Argentina), *“Señor Smith considers his rented rooms the ‘pension’ he does not get from the government”*.<sup>156</sup>

Of course, the financial problems of old age are predictable. But renting out property also helps guard against sudden, unexpected financial difficulties. Unemployment and economic recession are likely to increase potential landlords’ willingness to rent.<sup>157</sup> Such a strategy is hardly new. During the 1930s recession in Canada, *“families hard-pressed to keep up their own rent or mortgage payments took in lodgers to help meet the bills”*.<sup>158</sup> Today, families suffering from economic problems respond in similar ways. In the central area of Rio de Janeiro there is:

*“a ‘hidden market’ which consists of sub-letting independent rooms in different building types (including apartment buildings) by middle-class owners affected by the economic crisis.”*<sup>159</sup>

In the Republic of Korea:

*“in large cities, decline in the purchasing power of many lower-income households has encouraged them to rent out rooms in their own houses to supplement their incomes and to help them pay off loans on their own homes”*.<sup>160</sup>

Similar experiences have been documented in Chile and South Africa.<sup>161</sup>

What, therefore, differentiates the landlords from the ordinary owner-occupier? Why do some owners rent out property and others not? In Resistencia (Argentina), it has been argued that, *“small rentals are generally circumstantial.”*<sup>162</sup> Renting often begins when a household finds it has extra space.

*“Frequently, rentals derive from shared accommodation. For example, when a household builds an extra room or small apartment (usually in the back of the plot), to share with relatives, and then after they leave, he or she decides to rent the empty space to secure an extra income”*.<sup>163</sup>

Often renting is only a temporary arrangement, continued until older children want to return to the family fold. In Caracas and Mexico, landlords tend to enter and leave the activity according to need. They are not investing in housing mainly to rent it out and the use made of the accommodation may change frequently. It may have been built to accommodate the family, be let when the children leave home, and later used to put up members of the extended family.<sup>164</sup>

Letting property also provides a partial solution to the problem of what to do with a house if it cannot be sold. Some people inherit homes that they do not wish to live in. Others need to move house but are unable to sell their existing home in order to buy another. Many property owners have been forced to become landlords under such circumstances. In the United Kingdom, *“one in ten landlords are letting property because of being unable to sell”*.<sup>165</sup> In Johannesburg, as crime and civil violence increased, many former white tenants who had bought their homes in the central areas fled to the safer northern suburbs.<sup>166</sup> When financial institutions redlined large parts of the inner city, they were unable to sell and became *“reluctant absentee landlords”*.

Similar problems confront many owners in the consolidated self-help periphery of several Latin American cities, which suggests that few lower-income owners ever move house.<sup>167</sup> In Bogotá, the worry is that homes may be owned forever.<sup>168</sup> One of the big problems in most cities in developing countries is that it is difficult to obtain credit with which to buy a property. Buying plots or shacks is affordable but not a two-storey brick built house. In Abuja, it is argued that, *“the lack of credit impacts adversely on the buying and selling of houses”*.<sup>169</sup> But even if credit were available it might make little difference in many parts of West Africa, as:

*“there are cultural factors in West African societies which make the sale of personal houses a taboo. ... if there is a market for ‘ready-made’ houses, the size of such a market is immeasurably small.”*<sup>170</sup>

If some property owners become reluctant landlords, pushed into it by financial imperative or the inability to sell their home, other owners would like to rent out property but cannot. Some owners do not become landlords because they do not have room. In India, some potential landlords lack the *“resources to buy a piece of land large enough to build a room for rent.”*<sup>171</sup> Some lack the resources to expand their homes even when they have the space. Others have a large home but it is full with their children or extended family. To an extent, sharing prevents renting. Of course, the line between sharers and tenants is somewhat tenuous because many sharers contribute to the cost of services and even food. But in many cases, property owners with a large family are effectively acting as landlords except in the important sense that they are not receiving a proper rent.

## Notes

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2. Barrows, 1983: 396.
3. Krueckeberg, 1999: 26.
4. Kumar, 1996a: 772.
5. Economist, 2002a.
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7. De Decker, 2001: 23.
8. Beijjaard, 1992; Coccato, 1996: 80; Coulomb, 1985; Edwards, 1982, 1990; Gilbert, 1983; 1993; 1999; Gilbert and Varley, 1991; Green, 1988; Rodas and Sugranyes, 1988; van Lindert, 1991.
9. Jaramillo and Ibáñez, 2002: 3.
10. Gilbert and others, 1993.
11. Van Westen, 1995: 213.
12. Crankshaw and others, 2000.
13. Tipple and Willis, 1991.
14. Mugo, 2000.
15. Serageldin, 1993.
16. Beijjaard, 1992: 71.
17. Crankshaw and Gilbert, 1999.
18. Crankshaw and others, 2000.
19. Kumar, 2001.
20. Gilbert and Varley, 1991.
21. Ogu, 1999: 321.
22. Kumar, 2001: 101.
23. Amis, 1988.
24. Yahya, 2002a: 235.
25. Yahya, 2002b.
26. Emdon, 1993; Crankshaw and others, 2000; Martin and Nell, 2002.
27. Gilbert and Varley, 1991.
28. Paquette-Vassalli, 1998: 135.
29. Dennis, 1995: 306.
30. Dreier, 1984: 262.
31. UNCHS, 1989; UNCHS and ILO, 1995.
32. Serageldin, 1993.
33. Van Westen, 1995: 133.
34. Crankshaw and others, 2000; Edwards, 1990; Gilbert and others, 1993; Jaramillo and Ibáñez, 2002; Gilbert and Varley, 1991
35. Wegelin-Schuringa and Kodo, 1997: 182.
36. Andreasen, 1996: 362.
37. Klak, 1992: 338.
38. Paquette-Vassalli, 1998; Rodríguez, 2000.
39. Coulomb and Sánchez, 1991; Connolly, 1987.
40. Morris, 1999b.
41. Edwards, 1982; Gilbert, 1983.
42. Varady and Lipman, 1994.

43. De Decker, 2001: 27.
44. Varady and Lipman, 1994; Megbolugbe and Linneman, 1993; Clark and Dieleman, 1996.
45. Pareja and San Martín, 2002: 283.
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47. Ball, 2002: 22.
48. Martin and Nell, 2002: 29.
49. Abt Associates, 1982; Ozo, 1993; Richmond, 1997; Wadhva, 1993.
50. Kumar, 2001: 4.
51. Hoffman and others, 1991:185.
52. Gilbert and others, 1993.
53. Klak and Holtzclaw, 1993: 270.
54. NIUA, 1989a; Tipple and Willis, 1991; Wadhva, 1993; Serageldin, 1993.
55. Gilbert and others, 1993.
56. Tipple and Willis, 1989.
57. Van Westen, 1995: 233.
58. Durand-Lasserve and Royston, 2002: 7.
59. Gilbert and others, 1993.
60. Ha, 2002: 197.
61. Hoffman and others, 1991: 184.
62. Pornchokchai, 1992: 150.
63. De Souza, 1999: 23.
64. Van Westen, 1995: 302.
65. Andreasen, 1996: 360.
66. Walker, 2002.
67. Beijaard, 1992: 71; Gilbert and Ward, 1985; Gilbert and Varley, 1991; Camacho and Terán, 1991.
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69. Lloyd-Sherlock, 1998.
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71. Martin and Nell, 2002: 24.
72. Varady and Lipman, 1994: 497.
73. Miron, 1995: 585.
74. Ha, 2002:200.
75. Gilbert and Ward, 1985; Gilbert and Varley, 1991; Gilbert, 1993.
76. Wadhva, 1993: 98.
77. Pennant, 1990: 194.
78. Van Westen, 1995: 231.
79. Daniere, 1992: 177.
80. Korboe, 1992; Peil and Sada, 1984; Tipple and Willis, 1991; Van Westen, 1995.
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84. Emdon, 1993; Klak and Hey, 1992; Moser and Peake, 1987.
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103. Korboe, 1992: 1169.
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106. Chant, 1996: 33.
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108. Korboe, 1992: 1168.
109. Amole and others, 1993: 369.
110. Grant, 1995: 367.
111. Coulomb and Sánchez, 1991.
112. Datta, 1996: 244.
113. Coccato, 1996: 66.
114. Mercado, 1992; Necochea, 1987; Ogrodnik, 1984.
115. Hasan, 2000: 50.
116. Coulomb and Sánchez, 1991.
117. Korboe, 1992; Necochea, 1987; Tipple and Willis, 1991; Wadhva, 1993.
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120. Necochea, 1987; Gilbert, 1993.
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125. Tipple and Willis, 1991: 30.
126. Gilbert and Ward, 1985; Gilbert and Varley, 1991; Gilbert, 1993; van Lindert, 1991.
127. Van Westen, 1995: 192.
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130. Van Westen, 1995: 35.
131. Korboe, 1992: 1162.
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134. Gilbert and Ward, 1985.
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137. McDonald, 1998.
138. Dennis, 1995: 314.
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143. Ozo, 1993: 33; Pornchokchai, 1992: 152; Amis, 1984; Kalim, 1990.
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146. Paquette-Vassalli, 1998: 140.
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148. Wadhva, 1993: 40.
149. Arnaud, 1994: 3.
150. Kumar, 2002: 1.
151. Coccato, 1996: 81.
152. Gilbert, 1999.
153. van Westen, 1995: 212.
154. Ikejiofor, 1997: 416-417.
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161. Paquette-Vassalli, 1998: 137; Zillman, 2000: 196.
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170. Arimah, 1997: 110.
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## IV. Problematic issues in rental housing

The main difficulties facing the rental sector in Belgium have been summarized as:

*“the marked increases in prices for rented accommodation, the poor quality of rented housing and the role of temporary contracts, combined with the lack of security of tenure. In the circumstances of a tight housing market, it is the combination of these three phenomena which creates the core problem.”<sup>1</sup>*

While all of those problems appear in different poor cities, only one, the low quality of rented accommodation, appears everywhere. In very poor cities, the major problems are the high degree of over-crowding and the lack of sufficient services. The main difference between rental housing in Belgium and that in most cities in developing countries is that the bulk of the housing stock is relatively new. Whereas most rental accommodation in cities in developed countries is found in the older housing stock, in developing countries it is now increasingly found in the consolidated self-help settlements. This difference in the age of the housing frequently changes the nature of the problems facing rental housing.

This chapter considers some of the principal problems often associated with rental housing. These include discrimination against some kinds of potential tenant, excessive rent levels, the poor quality of the rental housing stock, the problem of the inner cities, the illegality of much rental housing, ‘excessive’ mobility and the eviction of tenants, and the whole issue of landlord-tenant relations. Many of these issues will be shown to be of much less concern to tenants than many experts contend and, when they do constitute a problem, they are usually confined to particular cities. The chapter concentrates on the properties owned by small landlords. Frequently, no distinction is made between the formal and informal owner because the motivations and behaviour of most small landlords appear to be remarkably similar across time and space.

### IV.A. Discrimination against some categories of tenants

Discrimination permeates many aspects of housing markets throughout the world. Women and migrants tend to have less access to ownership than other groups, those with political contacts gain easier access to public housing, etc. Not surprisingly, there is plenty of evidence of discrimination within the rental housing market.

Race and ethnicity have long been a source of discrimination. When large numbers of immigrants from the Caribbean first began to arrive in the United

Kingdom in the mid-1950s, they faced such severe problems in renting accommodation that many were forced to buy in cheap housing areas.<sup>2</sup> Something similar occurred with Turkish migrants to Belgium where, in the middle 1980s, 90 per cent of landlords refused to rent to them.<sup>3</sup> Today, landlords in Surat (India) are reluctant to accept migrants from Orissa: they have a reputation for drunkenness and for being ‘difficult’.<sup>4</sup>

Other vulnerable groups in the population also suffer from discrimination. In Ghent, Belgium, landlords do not like letting to ‘risky’ groups like “*single persons, single mothers, asylum seekers and people living on social allowances.*” In the United States of America, families with numerous children find it very hard to rent<sup>5</sup> and landlords in Santa Cruz (Bolivia) and Guadalajara and Puebla (Mexico) also admit to a firm dislike of large families.<sup>6</sup> Having numerous children was also a major problem for families in nineteenth century Britain, where children were considered the “*worst despoilers of property*”.<sup>7</sup>

Age, sex and marital status also influence landlords. In Kenya, it has been noted that landlords are reluctant to rent to single women, although they like widows with children who “*pay rent in time and take good care of the structures*”.<sup>8</sup> In Surat (India), and in Guadalajara and Puebla (Mexico), landlords do not much like single men; in Bangalore (India), it is women-headed households, whether widows or single women, who are less welcome.<sup>9</sup> In Mexico, and no doubt in many other places, pets are also likely to discourage a landlord from accepting a tenant.

The only resort that tenants have to avoid some of these problems is to be economical with the truth. If they do not tell the landlord they have five children and a dog, he may not bother to evict them when he finds out. On the other hand, many landlords avoid this kind of difficulty by only accepting tenants who have been recommended to them by people they know. Under such circumstances, it is very difficult to hide the children.

Occasionally, landlords welcome strangers and outsiders as tenants because they are perceived to be less troublesome. In Mushin, Lagos:

*“private owners prefer to rent to members of ethnic groups other than their own because, as they report, it is easier to collect rents from those to whom one is not close”.*<sup>10</sup>

Outsiders are also more likely to leave the premises when asked, unlike certain members of the family. Many of the backyard tenants in Johannesburg come from Mozambique, and many migrants from Nigeria and francophone Africa live in the run-down Hillbrow area of inner-city Johannesburg.<sup>11</sup>

## IV.B. Rent levels

Landlords, and particularly their representatives, always tend to argue that rents are too low, tenants, and their associations, that they are too high. Both sides are likely to abuse the statistics. As such, it is rarely easy to establish the truth.

Part of the problem about rent levels relates to what is meant by rents being 'too high'. Sometimes, rents make up a very high proportion of the tenant's income but are nonetheless still too low for landlords to make a profit or even pay for maintenance of the property. This is a major problem in some of the former communist states of Europe where:

*"The raising of rents even to the level of costs has proved impossible in the short and medium term. An increase of rents to a – by Western standards – 'reasonable' level, i.e. 20-30 per cent of disposable family income, would not even be sufficient to pay for heating and maintenance of the buildings, let alone capital costs. Further, the raising of rents even to such a 'reasonable' level has led to protests, particularly in view of the simultaneous increase of prices of other consumer goods, the combined effect of which leaves the citizens very little room for consumption, even of the bare necessities of life. In some countries the attempts to increase rents have even led to mass refusal to pay rents at all. The result of these developments may well still be a rapid deterioration of housing and in consequence a risk of ultimate loss of great amounts of capital invested in housing".<sup>12</sup>*

If a tenant household cannot pay the rent being charged, the market would suggest that either the rent must fall or the household must leave, voluntarily or through eviction. If the rent falls, and landlords receive a smaller income, the danger is that the quality of the housing supply will decline. A further problem is that when there is a substantial difference between the level of rent that will encourage landlords to rent out property and the ability of rental households to pay that level of rent, landlords will stop investing in rental housing. Similarly, if landlords measure rent levels against what is required to match the returns from other kinds of investment opportunity and poor tenants measure the rents against what they are able to pay, there will often be a mismatch.

Economists would argue that an efficient rental housing market is one that encourages better-off tenants to pay more for better located and better equipped accommodation and relegates poorer tenants to less salubrious and worse located shelter. Many would argue that this kind of trade-off is just what the market normally achieves. On the other hand, those wholly concerned with the living conditions of the poor would argue that rental housing should always be provided with a minimum of properly maintained services and that accommo-

dation should be available in good locations even for poor people. Both points of view are wholly defensible; the difficulty lies in knowing quite what governments should do about resolving any difference between what landlords and tenants think reasonable.

Governments may increase the rental housing supply either through building public housing or by offering some sort of incentive to private or social landlords. Alternatively, they can increase the ability of poor households to pay for rental housing by offering them subsidies or housing allowances. A third way is to intervene in the setting of rents, through rent control (see section VI.F.). A fourth is to encourage tenants to move into owner-occupation. Each of these methods is fraught with difficulties and few governments have got the answer right even in rich countries. In most cities, any of the above approaches tend to break down given the low-incomes of so many of the population and the high price of homes.

#### **IV.B.1. Housing affordability**

A regular rule of thumb used by many landlords and property managers in the United Kingdom is that gross monthly rents should average one per cent of the market price of the property. Only at this level, they claim, can landlords obtain a reasonable return on their capital and be able to maintain the property in a decent condition. On the demand side, another commonly used criterion of affordability is that housing expenses should not exceed 25 per cent of household income. In the United States of America, the figure is a little higher, “*HUD defines ‘affordable housing’ as a home which costs less than 30 per cent of a family’s income, in either rent or a monthly mortgage*”.<sup>13</sup> Problems arise when the criteria cannot be met simultaneously.

This is not an uncommon situation. Currently, for example, rents for ‘modest two bedroom apartments’ in the United States of America vary from US\$1,362 in San Francisco to US\$762 in Chicago. Even in comparatively cheap Chicago, however, 38 per cent of renters and 25 per cent of owners pay more than 30 per cent of their income.<sup>14</sup> In London, more than a century ago – “*over 85 per cent of the working classes spent over one fifth of their income in rent and almost one-half paid between one quarter and one half. After 1885 rents rose even more steeply than before*”.<sup>15</sup>

In Latin America, many tenants complain about the high rents and most landlords complain how little they receive. But the important point is that there is a great deal of variation in rent levels for comparable kinds of property between cities. In the late 1980s, rental payments in low-income areas of Santiago accounted for 30 per cent of average household income compared to only 10 per cent in Mexico City.<sup>16</sup> By contrast, households in Bogotá spent 21

per cent of their income on rent, well below the international maximum norm, but very much higher than the average spent in South African cities.

At the low end of the market, the explanation for such marked variation is related to the cost of acquiring a plot of land. In some cities, purchasing a plot is expensive; elsewhere land can be invaded or bought cheaply. In Santiago, invading land has long been precluded, in Mexico City cheap plots are still available because of the presence of community (*ejido*) land, and in many Venezuelan cities land invasions are still permitted (see section I.E). Rent levels are closely linked to the cost of ownership options. And, where rents are low relative to incomes many tenants are content to remain in rental accommodation. In Santiago, where rents are very high, tenants cannot wait to escape.<sup>17</sup> Bogotá is in an intermediate position. Land invasions are not permitted but 'pirate' urbanizers provide a supply of un-serviced land at a price. Rent levels are partially set by this alternative self-help housing market.

In some African cities, rent levels appear to be extremely low. In parts of West Africa it was an outcome of very cheap accommodation in family houses.<sup>18</sup> In South Africa, where the option of invading land became a feasible option in many cities between 1985 and 1994, the cost of renting backyard rents was very low.<sup>19</sup> The rents were low in part because landlords were providing very little. Nonetheless, it has been argued that Africans "*could afford to spend more on rent than they currently do.*"<sup>20</sup>

Another reason why rent/income ratios differ so much between cities is that rent levels are often distorted. Sometimes governments intervene to control rent levels and in places like Ghana manage to completely distort the rental housing market. In Kumasi, Ghana, rent control meant that rents averaged less than one per cent of average incomes in the 1980s.<sup>21</sup> Elsewhere inflation affects rents and incomes differentially, modifying rent/income ratios in either direction.

## **IV.B.2. Landlord profits**

Landlords are often accused of making excessive profits and no doubt some do. But, when attempts have been made to estimate profit levels, they have often produced surprisingly low figures. In the United Kingdom, "*average net returns were 5 per cent per annum*" (seven per cent gross) compared to the gross 12 per cent that "*landlords who regarded their dwellings as investments thought to be sufficient*".<sup>a</sup>

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a. Although the figures exclude capital appreciation which, at various times, has been considerable (DETR, 1998a: 5).

In Mexico, landlords in self-help settlements certainly did not make much money in the 1980s<sup>22</sup> and it does not seem as if the situation is very different in South Africa. Ownership of property in inner Johannesburg was certainly unprofitable for all except the most exploitative landlords.<sup>23</sup> And, few landlords renting out backyard accommodation are going to get very rich because the average rent in places like Soweto is extremely low.<sup>24</sup>

A major exception is represented by the slums of Nairobi where it is argued that renting out unauthorized housing is extremely lucrative.<sup>25</sup> Annual capital returns on one 10-room structure were as high as 131 per cent, implying that the cost of building a room for rental purposes can be recuperated in nine months.<sup>26</sup> Admittedly, profits are reduced by high transaction costs:

*“Each time new construction or improvements to existing structures are being carried out, the local administrator in charge of allocation, usually the Chief of the area, must receive payment, otherwise the construction or improvements will not be sanctioned”.*<sup>27</sup>

But, nonetheless, these are spectacularly high profit rates, achieved only by supplying appallingly poor shelter on land for which they have paid very little (if anything at all) and tolerated only because powerful public officials and politicians are among the principal landlords (see appendix 5). Many landlords in Nairobi are in fact capitalizing on substantial Government subsidies, in the form of free public land. The high profit rates enjoyed by landlords indicate that only a minor part of these subsidies, if anything at all, trickles down to the tenants.

However, there is a limit to the degree to which poor people can be exploited, even in Nairobi. Faced by falling incomes landlords cannot keep raising rents. It has been noted that:

*“the evidence is clear that over the period (1980-92) there was a decline in real terms in both wages and rent levels.”*<sup>28</sup>

The explanation is simple:

*“rents may be constrained by the sheer poverty of the inhabitants. In a nutshell, it is simply not possible to extract higher rents. There does appear to be something like a ‘subsistence’ rent theory in operation”.*<sup>29</sup>

Such an interpretation is certainly compatible with experiences elsewhere. In the City of Buenos Aires, average rents decreased in real terms by 44 per cent between 1980 and 1999 and by 20 per cent during the recession that occurred between 1995 and 1999.<sup>30</sup> In Mexican cities rent levels in poor areas in the 1970s and 1980s rose and fell in line with incomes.<sup>31</sup> Landlords charged poor families only what they could afford because landlords had no alternative use for the property. When real incomes fell, rents tended to fall with them. No



doubt the poor Mexican landlord was faced by the same dilemma as the Canadian landlord during the 1930s recession.

*“In practice, even reduced rents were unaffordable by many families. This presented landlords with a dilemma. Should they tolerate arrears, in the hope of keeping tenants who would eventually repay what they owed? Or should they evict defaulters?”*<sup>32</sup>

But economic analysis is in some respects an inappropriate tool to analyse the behaviour of small-scale landlords. For the evidence is that few seem to operate on a commercial basis (see section III.D). Most are merely trying to obtain an income from their property and few are like accountants, calculating the rate of return on their investment. Hence, in Gaborone:

*“the actual setting of rents is quite arbitrary. Landlords felt that the deciding factor was ... the size of the room while others felt that they took the ability of the tenant to pay the rent into account.”*<sup>33</sup>

Landlord behaviour in Guadalajara and Puebla (Mexico), and Bogotá is rather similar.<sup>34</sup>

#### **IV.C. Quality of the rental housing stock**

There can be little doubt that in most poor societies, and indeed in many developed countries as well, large numbers of tenants live in very poor housing conditions. Indeed, many would argue that it is an inherent feature of this kind of tenure; homeowners look after their property whereas landlords and tenants do not:

*“homeowners, unlike renters and landlords, have both an economic and a use interest in their properties. This combination of interests seems to provide powerful incentives for owner-occupants to maintain their properties at a higher standard and to join organizations that protect the collective interests of homeowners in the area.”*<sup>35</sup>

Support for such a view might be drawn from the finding that in the United Kingdom, “successive house condition surveys have shown that the private rented sector has a disproportionate share of the properties in the worst condition.”<sup>36</sup> Equally in Belgium: “the housing quality of rented dwellings is poorer in comparison with owner-occupied dwellings.”<sup>37</sup>

In poorer countries, the criticisms levelled against housing conditions in many rental areas are damning. In Kenya for example:

*“the living conditions in much of the informal, rented shacks in Thika, as well as in Nairobi, are revolting. Few households have more than a single room and sanitary facilities are, in many cases, completely absent. Maintenance is non-existent.”*<sup>38</sup>

More recent Kenyan evidence suggests that the situation has not improved: 90 per cent of households in the informal settlements of Nairobi occupy single rooms of between 9 and 14 square metres and each household has between three and five persons.<sup>39</sup>

If living conditions in rental housing can be extremely poor, they are not uniformly bad. Much depends on the general state of the housing stock and the nature of a country's housing policy. In the Netherlands, for example, the quality is related to who owns the rental stock:

*"Institutionally owned rental housing is in marked contrast to the small landlord sector. Most of it has been built over the past thirty years, predominantly in good city locations. The units are generally spacious, well equipped and maintained, and the rents are high".*<sup>40</sup>

Even in South Africa, where much rental housing is in very bad condition, a recent survey of tenants found that substantial numbers in every kind of rental situation felt that the quality of their accommodation was adequate:

*"About half the households in the government rental sector (44 per cent) and hostels (53 per cent) feel that maintenance is adequate, two thirds in social housing (61 per cent) and one third in private rental (35 per cent) (where another third (31 per cent) also feel that maintenance is excellent). Over one third (38 per cent) of households in the household sector feel that maintenance is adequate, an equal percentage feel however that it is poor".*<sup>41</sup>

The variability of the quality of the rental housing stock suggests that it may not be the nature of the tenure itself so much as other factors that explain the poor living conditions. After all, most of the German or Swiss rental housing stock is in excellent condition and rich Egyptians do not rent poor quality apartments. Most likely, therefore, rental housing is inadequate because it houses the poor. In the United Kingdom, conditions tend to be bad in:

*"dwellings let on regulated tenancies. Unemployed tenants and those in receipt of Housing Benefit are more likely than others to occupy dwellings in the worse condition".*<sup>42</sup>

And in Kenya, it is arguably bad because "... most poor households cannot afford to pay for decent rental shelter".<sup>43</sup> However, as warned in an analysis of housing conditions in the United States of America:

*"great caution should be exercised in assuming that units owned by persons in all income categories are in better condition than those of comparable renters."*<sup>44</sup>

Poor owners cannot afford to look after their property any better than landlords accommodating poor tenants.

In Latin American cities, many poor tenants are actually better housed than poor owners living in new self-help settlements. While tenants generally occupy less space than owners, the quality of that accommodation is superior. The reason is simple; poor owners live in new settlements on the periphery and know that they are likely to suffer from poor living conditions for a number of years. Many young families are forced to live in settlements with inadequate water, electricity and education services. Transport can also be problematic. By contrast, tenants gather in accommodation that is more established and the proportion of tenants rises with the age of a self-help settlement.<sup>45</sup> At the very least, most rental housing in Latin American cities at least comes with services.

In Mexico City, there is a broadly positive correlation between the proportion of tenants living in each municipal area and the provision of water and electricity.<sup>b</sup> Figure 2 shows that most tenants live in the inner city or in areas relatively close to the city centre, the areas that are generally the best serviced.

Of course, maintenance is critical and one of the major complaints from tenants across the globe is that landlords tend to be remiss in responding to their problems. The attitude of the landlord is critical. In developed countries, ineffective public management has been blamed for the poor conditions in many low-income housing estates. In the United Kingdom, more commercially-minded landlords seem to do a worse job of maintaining their property than resident landlords:

*“the dwellings in the best condition are more likely to be owned by sideline investors and by institutional landlords while the worst lettings are more likely to be owned by investment oriented landlords, both business and sideline investor landlords”.*<sup>46</sup>

A similar argument is often made in the cities of developing countries. In Lagos:

*“a predominant proportion of the tenants believe that their landlords, particularly the non-resident ones, do not care much for the houses. This is often reflected in the extent of deterioration, breakdown, or non-availability of facilities in the houses.... With resident landlords, it was generally felt that services tended to be more available and repairs carried out more promptly”.*<sup>47</sup>

But even when owners live on the same site, conditions can be terrible. For example, the neglected family houses in Ghana are usually badly maintained:

*“not only because the occupants are typically poor, but also because – being jointly-owned – family housing tends to behave as a public*

---

b. Pearson correlation coefficient of 0.6.

*good, with each title-holder leaving the responsibility for improvement to others.*<sup>48</sup>

Of course, the quality of housing conditions varies considerably between cities. Compared with backyards of Soweto, for example (see box 2), the accommodation on offer in the backyards of Santiago seems almost commodious. Very few families suffer from serious overcrowding, only 7 per cent of *allegado* families live in houses built of poor quality materials and most have easy access to running water and sanitation.<sup>49</sup> One reason why physical conditions are better in Santiago is that many have used prefabricated kits to construct their homes. The Home of Christ programme make prefabricated wooden shacks, 3 x 6 metres, available to any family with written permission from the owner to stay on the plot for at least four years. These wooden structures enable many families with limited skills to build a home that is at least waterproof.

## **Box 2. Living conditions in the backyards of South African cities**

Living conditions are often rudimentary in the backyard shelter in South African cities, although servicing levels are perhaps better than might be expected. A recent survey found that 87 per cent of tenants have access to a water tap at all times and 95 per cent to a toilet at all times (Martin and Nell, 2002: 42). In Soweto, the great majority of backyard tenants have access to electricity. Although very few households have a legal connection to an electricity meter, most get electricity through an extension cable from the main house. *“Similarly, because backyard taps were originally fixed to the outside wall of all council houses next to the kitchen, the vast majority of backyard dwellers have access to water. Neither residents of the main structure nor backyard tenants have water in the house unless they have had it piped in at their own expense. In addition, because all council stands were provided with outside toilets, most backyard tenants have access to a flush toilet”* (Crankshaw and others, 2000: 852).

But, much of the backyard accommodation also tends to be poorly constructed: some of the shacks are built with old and rusty corrugated iron sheets (with many holes from previous constructions), some do not have windows, and all lack any form of insulation because it is considered a fire hazard and ants soon make nests in the gap between the outer wall and the insulation.

Given that virtually all backyard accommodation consists of a single room, it is not surprising that there is a great deal of overcrowding. Although most (55 per cent) backyard structures house only one or two people, 22 per cent have three occupants, and 23 per cent four or more. If the individual houses are overcrowded, there are even more people living on the stand. The average number of occupants on each council house stand is 7.4, and almost one in five council house stands contains more than ten people. Where backyard accommodation exists, the stand accommodates an average of 3.7 backyard residents.

*Source: White and others, 1996; Crankshaw and others 2000.*



#### IV.D. Inner-city problems

In many cities around the world, the bulk of poor quality formal sector rental housing has always been located relatively close to the city centre. Sometimes the accommodation was purpose built for the poor while often it was housing that was located in areas that had been vacated by the better off.<sup>50</sup> Not infrequently, housing that was developed to accommodate the needs of one age deteriorated into slums at a later date.



**Photograph 7: Deteriorating rental housing in inner-city Puebla, Mexico**

Inner-city rental accommodation faces a variety of problems. The first is that much of the accommodation is very expensive and is therefore out of reach of the poor. Secondly, when the poor do live in central areas they can only do this through overcrowding, a frequent complaint about the Africanization of central Johannesburg.<sup>51</sup> A third problem is that much central accommodation has been allowed to deteriorate. Indeed, in many central areas, many landlords want to sell out, a situation that is very common in cities subject to hard rent-control regimes. Some even allow the property to deteriorate because rising land values offer a higher return than renting out the property.<sup>52</sup> A fourth problem is that central areas gain the reputation of being dangerous and occupied only by the socially dysfunctional, marginal and downright criminal. Parts of the central areas of Rio de Janeiro, Bogotá and Johannesburg are

regarded by many of the people in those cities as constituting ‘no-go areas’ after a certain hour.<sup>53</sup>

#### IV.E. Legal issues

In developed countries, the vast majority of tenants and landlords sign written contracts that conform to rules laid down in the rental legislation. In theory, this gives both landlords and tenants the right to go to court in order to seek redress against wrongdoing by the other side. Unfortunately, a great deal of evidence is now accumulating that many contracts in the cities of the developing world are informal and that both landlords and tenants sometimes flout the law because of the inadequacies of the judicial system.

Examples of how the legal system fails landlords and tenants even in developed countries, is easy to find. In the United Kingdom, a survey carried out in the early 1990s found that:

*“the landlords of 20 per cent of all lettings have a tenancy that does not exist in law, and for a further 5 per cent of lettings the landlord did not know what sort of agreement they had”.*<sup>54</sup>

In Belgium, the “rent legislation attributes enforcement to the judge” but many tenants find it difficult to go to court because of the cost and complexity. In any case, people are only likely to go to court if they are aware of their rights but in Belgium “the Rent Act is not well known to the tenants”.<sup>55</sup> In Spain, the main problem is the tardiness of the judicial process; it takes from six to eight months for a landlord to gain repossession in the case of non-payment.<sup>56</sup> The legal system in the United States is also deficient in securing timely evictions whether for non-payment of rent or for other reasons.

*“The causes of such eviction delays include a litigious environment, particularly involving activist legal services attorneys representing low-income families; court backlogs; and availability of procedural delay. The time needed to evict a tenant has been variously estimated from a few weeks to a few months, though in extreme cases it can run beyond that”.*<sup>57</sup>

If the legal system often works unsatisfactorily in the rental arena in developed countries, it works even less well in most developing countries. For a start, the majority of landlords and tenants fail to sign contracts. In Kenya:

*“the rental housing market rarely operates according to the law” [and] “most tenancies in low-income private rental units and squatter settlements are ... oral agreements between landlords and tenants”.*<sup>58</sup>

In Gaborone, Botswana, there is “a dearth of written agreements with 97 per cent of the tenant households reporting that they had oral agreements”.<sup>59</sup> In

South Africa: “*informal landlord-tenant relations are unregulated*”,<sup>60</sup> and a recent survey found only 4 per cent of tenants in the informal sector with written leases.<sup>61</sup>

In Latin America, the situation is little different. In Caracas: “*the renting out of rooms or apartments in the informal settlements is quite common, but illegal, so tenants do not have legal security or protection*”.<sup>62</sup> In Resistencia (Argentina), “*landlords rarely sign contracts with tenants*”.<sup>63</sup> In Mexico City, only one in six tenants in peripheral settlements had a written contract<sup>64</sup> and even higher rates of non-issuance have been found in other Latin American cities.<sup>65</sup>

Sometimes landlord-tenant relations obey certain parts of the law but not others.<sup>66</sup> But even if every landlord and tenant signed a written contract it would help little because of the slowness and expense of the judicial system. At present, courts in most countries serve landlords and tenants badly. In Colombia, new legislation to speed up the recovery of property in the case of non-payment was approved in 2003 but it only promises to cut the rate of recovery from a maximum of three years to eight months. In Mexico, court procedures in the 1980s were equally slow. In Guadalajara and Puebla, it took at least two years, and could take up to six years, to get a judgement.<sup>67</sup> Even if landlords can normally expect to win a court case, it will do them little good if they have to wait so long.

In many parts of Asia, the situation seems to be little different. In Pakistan, rent controllers take two to three years to take a decision, the High Court a further five years in the case of an appeal, and a further three years should the case be taken to the Supreme Court.<sup>68</sup> In India:

*“an enormous amount of landlord-tenant litigation has accumulated in the courts, enabling tenants to resort to courts as a means of indefinitely stalling any action by landlords”.*<sup>69</sup>

In Delhi, 22,000 cases were pending in the lower courts in the late 1980s.<sup>70</sup> The shortest period taken to resolve a rental case in the lowest level courts in any state of India was 214 days (Tamil Nadu), the longest 2,355 days (Calcutta).

The general situation does not seem to be improving. After all, almost one quarter of a century has passed since the United Nations commented that:

*“the settlement of landlord-tenant disputes and the enforcement of rent legislation should be entrusted as much as possible to rent controllers and similar local authorities in order to reduce the workload of the overburdened court systems of most developing countries.”*<sup>71</sup>



## IV.F. Mobility and eviction

Tenant families are often portrayed as living on a knife-edge because they are constantly threatened by eviction. With the danger of losing their home constantly on their minds, they have no ontological or any other kind of security. If this is a problem in stable housing markets, it is even worse in many cities in developing countries. It has often been argued that—

*“tenants and sub-tenants, whether in unauthorized settlements, squatter settlements, dilapidated buildings in city centres or formal settlements ... are the most vulnerable groups.”*<sup>72</sup>

Without denying that many tenants have very limited tenure rights and that some are evicted by their landlords on the most spurious of grounds, many governments have legislated to protect tenants against eviction.<sup>73</sup> In places, this intervention has been so effective that tenants almost never move. In the council housing of Soweto (South Africa), once families move in, they rarely move out. Only the children are likely to move on, typically into other kinds of accommodation.<sup>74</sup> Rent control can also protect tenants so well that they have as much security as owners. In Cairo, tenants appear to be secure wherever they live because:

*“the vast majority ... – those renting before 1996 – enjoy extremely secure tenancies.... There is no time limit to the rental period (and contracts pass to off-spring on the death of the tenant), rents cannot be raised and grounds for eviction are very few”.*<sup>75</sup>

Elsewhere, tenure is less secure but in the central areas of cities like Caracas, Guadalajara (Mexico) or Santiago, most households stay in the same house for a very long time. A survey conducted near the centre of Mexico City, showed that tenancies in the last two homes averaged 17 years and 8 years respectively with 73 per cent having lived ten years or more in the previous house.<sup>76</sup>

In certain places, tenants are protected either by the ambiguity of the legal situation or by weaknesses of the legal system. In one settlement in Calcutta, the uncertain validity of claims to ownership or *thika* title means that, “[i]t is the tenant dwellers who have the strongest legal rights”.<sup>77</sup> In many parts of Latin America, the legal system is so slow that recalcitrant tenants can stay for years without paying their rent (see section IV.E). Tenants do not always have to have legal protection to retain their home. In poorer areas of Cairo:

*“even if a renter cannot show a written document, his tenancy is sanctioned by community pressure, and local police stations, who rely on the testimony of neighbours, inevitably favour the tenant over the landlord in disputes”.*<sup>78</sup>

Whether or not evictions are common, few tenants seem to move very frequently. In Bogotá, the average tenant moves every two years.<sup>79</sup> In Mexico City and Santiago, the average tenure in the late 1980s was three years, and in Caracas seven years.<sup>80</sup> In Kathmandu, although mobility is reputed to be high, one-third of the renters stay for one year and two-thirds for up to three years.<sup>81</sup> In South Africa, tenants in government housing and hostels tend to stay a long time, 11 and 13 years respectively, but the average in the household rental sector is six years and three years in private rental.<sup>82</sup>

Conventional wisdom about the insecurity of tenants is contradicted even in the highly unstable environment of upgrading programmes. A review revealed that:

*“The much-feared side-effect of displacement, while occurring here and there, did not assume serious proportions in many cases, and in quite a few cases there has been absolutely no question of displacement.”*<sup>83</sup>

In short, if security of tenure is supposedly one of the main advantages of ownership, many families seem to achieve this goal perfectly satisfactorily through renting.

Even when mobility is high, it is not necessarily a sign that tenants are being evicted because some tenants actually choose to move. For as has been observed in the United States of America:

*“when housing choices are abundant and vacancy rates are high tenants who do not like their apartments vote with their feet: they move.”*<sup>84</sup>

Indeed, many tenants are renting because of the flexibility it brings to their lives. In the central slums of Arequipa (Peru), it has been noted that:

*“half of the heads of household want to move, and this forms an explanation for both the low level of organization and the meagre enthusiasm of tenants to improve the housing conditions within their tugurio.”*<sup>85</sup>

In Alexandra (Johannesburg) many tenants leave on a seasonal basis in order to return to the countryside.

When tenant ‘instability’ is compared unfavourably against the ‘stability’ of owner households the comparison is often too judgemental. For, if some tenants suffer from a genuine lack of security, so do some owners. Ownership is often less safe than portrayed. In formal housing markets unemployment does not just threaten tenants who cannot afford to pay their rent; it also threatens homeowners buying their property on a mortgage:

*“If the mortgaged homeowner doesn’t pay the mortgage, he’s out. And if the renter doesn’t pay the rent, she’s out. When the crunch*

*comes, owning and renting are not so different. The number of Americans who own their homes free and clear is only about 25 percent.*'<sup>86</sup>

In times of economic stress, the loss of one's home is more common than is often supposed. In the United States of America, *"the proportion of loans in foreclosure ... rose from 0.68 per cent in 1984 to around 1 per cent in 1987"*.<sup>87</sup> In the United Kingdom, *"over a quarter of a million homes were repossessed because of mortgage default"* in the first half of the 1990s<sup>88</sup> and 481,660 homes were repossessed between 1991 and 2001.<sup>89</sup> As 10.5 million United Kingdom houses had a mortgage during an average year, almost five per cent of homebuyers lost their home during this period. In Scotland, a recent survey found that many homeowners were more worried about losing their homes than the tenants living in social housing.<sup>90</sup>

In Colombia, the combination of rising unemployment, sudden hikes in interest rates and falling real incomes had a devastating effect on homebuyers at the end of the 1990s. Some 600,000 homebuyers fell behind with their payments and most only retained their homes because they were bailed out at vast expense by the government. Even so, up to 100,000 families may have lost their homes and in August 2002, 10,251 houses were still being held by lending agencies because of repossessions.<sup>91</sup>

Even homeowners without mortgages can be forced out of their homes because of financial pressures. In South Africa there is increasing evidence of families trading in their new subsidized homes for a fraction of the value of the subsidy.<sup>92</sup> As stated by one author:

*"land under private tenure is a dangerously slippery asset for people with inadequate income levels. .... Title protects owners from outside attack, but not from poverty and distress sales."*<sup>93</sup>

Owners can also lose their property for other reasons. In India, it has been noted that:

*"There are instances in both Bangalore and Surat where individuals or households have had to sell their properties at very low prices as a result of communal tensions (Hindu-Muslim riots in Surat or Kannada-Tamil animosities in Bangalore)... . Well functioning rental housing markets have the potential to reduce vulnerabilities arising from such communal tensions as they allow persecuted individuals and households to move quickly and thereby limit their losses".*<sup>94</sup>

But, perhaps the main threat to homeowners and tenants alike comes from state action. Those without a legal title or other contract are under particular

threat and the Centre on Housing Rights and Evictions found that in 60 countries 6.7 million people were evicted from their homes during the 2001-2002 period, a rise from 4.3 million during the period 1998-2000.<sup>c</sup> In addition, 6.3 million people in 38 countries were currently under threat of eviction compared to 3.6 million people in the previous two years.<sup>95</sup> Tenants who are affected by such evictions tend not to get any compensation.<sup>96</sup> But, according to much of the literature, that is the inevitable fate of tenants, while owners are supposedly safe from eviction!

## IV.G. Landlord-tenant conflict

Landlords in the 1930s were “*one of the least loved economic classes in America*”.<sup>97</sup> A similar sentiment is frequently expressed in many other countries today. Every tenant has a bad story about a landlord. Landlords do not maintain the property, fail to return deposits, are unsympathetic to temporary economic setbacks, discriminate against certain kinds of family and generally complicate tenants’ lives.

Landlords are also criticized widely for evicting tenants from their property. In the United Kingdom the tactics of unscrupulous landlords like Rachman<sup>d</sup> became engrained in folk law in the 1960s and accusations of unethical landlord behaviour are still frequent.<sup>98</sup> In the United States of America, at times some landlords have set fire to their properties in order to claim on the insurance. In Nairobi, there are several reports of:

*“cases where landlords have sent gangs to forcibly evict tenants who are considered troublesome or capable of exposing landlords to the authorities.”*<sup>99</sup>

In Gaborone (Botswana), 20 per cent of tenants reported that they had been evicted from their last residence, while a further 4 per cent said that they had

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c. COHRE, 2002; 2003. The data on actual evictions during 2001-2002 refer to 60 countries only, while data for 1998-2000 refer to 63 countries. “*This report records instances of forced eviction on the basis of information COHRE has received directly from affected persons and groups and where the cases at hand are particularly noteworthy. As such, this study does not purport to be comprehensive in terms of representing the universal scale of the practice of forced eviction. Without a doubt, the actual number of forced evictions occurring during 2001 and 2002 is bound to be considerably higher than the nearly seven million reported here.*” (COHRE, 2002: 13)

d. “*Rachman’s name is so synonymous with bad housing that is included in English dictionaries: Rachmanism: ‘Landlords buying up slums to fill with immigrants at extortionate rents; named after Peter Rachman, a notorious racketeering landlord in Notting Hill in the 1950s and 1960s’.*” (<<http://www.portowebbo.co.uk/nottinghilltv/revealed7rachman.htm>>, 17 September 2003).

moved due to strained relations with the landlord. In addition to this, 7 per cent were asked to leave by the landlord because they needed the room for their own use.<sup>100</sup>

Sometimes it is not the landlord, but intermediaries who are responsible for negotiating with the tenants. For in some places, agents or ‘factors’ have always operated between the landlord and the tenant:

*“In Glasgow, the factor was interposed between the landlord and tenant. In Paris, the concierge was legally a domestic servant employed by the landlord, and was responsible for letting rooms, receiving rents, imposing regulations and cleaning communal areas. In Berlin, the Verwalter received rents and selected tenants, usually as a part-time occupation in return for a free dwelling or a reduction in rent. These international variations in the property market demand further attention”.*<sup>101</sup>

In Cape Town and Johannesburg, these intermediaries have sometimes become truly exploitative and, in places, gangs have taken over public housing and collect the rents. The price the tenants pay is that the council then lacks the resources to maintain the quality of the accommodation. In central Johannesburg, some small landlords made the mistake of contracting an intermediary to look after their property and:

*“some of the most dramatic slides in the fortunes of the buildings in Johannesburg’s inner city occurred in instances where owners handed over control to middlemen rather than managing agents”.*<sup>102</sup>

Of course, even when landlords handle matters themselves they can also be difficult. But for every vindictive landlord, there are several who are better described as benign. In Guadalajara and Puebla (Mexico), while landlords did sometimes resort to physical threats to evict tenants because the court system was so slow, many landlords took little action about non-payment of rent, at least for a few months.<sup>103</sup> In Indonesia, it has been reported that:

*“when owners were asked what they did if a tenant could not pay, approximately 80 per cent indicated that they simply waited. ...when asked about evictions, 10 per cent indicated that they had evicted a tenant; on the average three months of non-payment preceded this action”.*<sup>104</sup>

Many benign landlords were also operating in the 1930s recession in the United States of America. Although many landlords were:

*“unable to collect rents from unemployed tenants or from relief agencies ... [they] ... postponed evictions until taxes, mortgage payments, or both were long delinquent. Many saw their properties sold because of these delinquencies. Cynics may say that early evictions*

*would have been of no advantage to landlords; they could not have rented their properties to anyone else. But whatever their motives, tolerant landlords saved thousands upon thousands of families from becoming homeless”.*<sup>105</sup>

Perhaps the key issue is that so many of these tolerant landlords lived on the premises. Indeed, until recently in the United States of America, most landlords lived in their own apartment buildings and knew the tenants on a first-name basis:

*“Such personal, paternalistic relationships between tenants and landlords, although often strained, tended to inhibit tenant activism. It is difficult, in this sort of situation, to see the landlord as [an] ‘enemy’; he/she may not have much more money than the tenant”.*<sup>106</sup>

If landlords vary in nature from the benign to the vicious, tenants are not dissimilar. Some tenants exploit small-scale landlords by refusing to pay the rent and resort to delaying action in the courts to retain their right to residence, sometimes for years. Some tenants move house without paying the rent. In the Mathare valley of Nairobi, for example, when tenants *“cannot pay the rent they shift at night to another part of the settlement”*.<sup>107</sup> Flitting, as it used to be known in British cities, constituted *“the most common form of rent evasion”* and *“was a necessarily permanent feature of the economy of the poor”*.<sup>108</sup>

If there have always been awful landlords and terrible tenants, surveys carried out in many cities around the world have generally found that relations between landlords and tenants are far more benign than they have usually been portrayed. In Santiago, *“landlord-tenant relations seem to be generally peaceful”*<sup>109</sup> and the overall situation is similar in Caracas and Mexico City.<sup>110</sup> In Delhi, a survey of 201 tenants<sup>111</sup> found 90 per cent saying that they had good relations with the landlord, although 30 per cent of the latter said that they had bad relations with their tenants. In Cairo, it has been claimed that *“on the whole, relations between owner and tenant are calm, even amiable, especially in the old established quarters.”*<sup>112</sup>

In Indonesia, the relationship seems to be more complicated:

*“While it seems fair to state that owners do not fit the picture of heavy-handed exploiters of the poor, it seems equally fair to state that they try to receive a reasonable return from their investment. While there are family-like aspects to the relationship, they are not a substitute for the economic realities”.*<sup>113</sup>

In South Africa, the record seems to be equally mixed. Half of all tenants in the private sector describe their relationship with landlords as ‘business-like’ whereas three-quarters of those in the household sector described it as being

**Table 12. Landlord-tenant relationships in different kinds of rental housing in South Africa**

	<b>Government</b>	<b>Social</b>	<b>Private</b>	<b>Hostel</b>	<b>Household</b>
What would landlord do if you did not pay rent	Stop access to services: 36%	Evict: 47%	Lock me out: 30%	Reschedule payments: 48%	Evict: 30%
With written lease agreement	48%	92%	60%	38%	4%
Relationship with landlord	Friendly: 55%	Business-like: 66%	Business-like: 53%	Business-like: 48%	Friendly: 74%

Source: Martin and Nell, 2002: 16.

‘friendly’<sup>114</sup> (see table 12). In Cape Town, it has been argued that while conflict between landlords and their tenants:

*“is always a potential problem, it did not appear to be a major issue for the households interviewed in this survey.”<sup>115</sup>*

However, other authors view the landlord-tenant relationship differently. It has been claimed that the relationship between landlords and most of their tenants in the Ivory Park neighbourhood of Johannesburg:

*“was never good. Most landlords expected their tenants to perform tasks they (the landlords) were not prepared to perform, such as cleaning the toilets, even if the tenants were not using them. Some landlords did not want tenants to bring their friends or children on to the premises. Tenants’ sense of grievance was also increase by the fact that most tenants had to pay rent to their landlords despite the general rent boycott of the 1980s, and would be evicted if they did not. In other instances, tenants felt that they were being overcharged by their landlords.”<sup>116</sup>*

Relations between landlords and tenants in central Durban are also claimed to be rather poor.<sup>117</sup>

Most of the problems between landlords and tenants are fairly predictable. Landlords complain regularly about the non-payment of rent, misuse of the premises and unruly behaviour; tenants about rent rises and the threat of eviction. But relations are often better when landlords and tenants live in the same premises or plot. When they have lived on the same property for some time they get to know one another and sometimes develop friendships and a level of mutual dependence.<sup>118</sup> A similar kind of social background or residential experience also helps. In Argentina:

*“when landlords have previously been tenants they seem to be more contemplative. As a woman landlord put it: ‘I’ve been in their*

*situation. If they can't pay, I still let them stay. I have one owing me five months''*.<sup>119</sup>

No doubt, the fact that housing tends to be better serviced and maintained when the owner lives on the premises also helps to reduce tension.<sup>120</sup>

Racial differences between landlord and tenant sometimes aggravate conflict particularly when racial tension generally is rising. In Kenya, towards the end of 2001, when an electioneering President Moi advised tenants in Kibera not to pay such high rents, *“the immediate result was that tenants (mainly from the Luo tribe)”* started *“fighting landlords (mainly Nubians)”*.<sup>121</sup> Something similar occurred in the inner-city Johannesburg neighbourhood of Hillbrow during the apartheid period:

*“The fragility of the landlord-tenant relationship was accentuated by the prevailing political context and racial dynamic. The 1980s, especially, was a period of mass revolt against apartheid and some of the tenants regarded their clashes with the landlords as an extension of the struggle against apartheid. Invariably, the landlords involved in these conflicts were white and the tenants were almost always black”*.<sup>122</sup>

But it was also true in the informal settlements in the north of Durban (South Africa) where Indian landowners were driven out by the general violence of 1985 and, during the next 7-8 years, *“the ANC-aligned youth movement supported a general boycott of rent payments as a civil disobedience strategy”*.<sup>123</sup>



## Notes

1. De Decker, 2001: 35.
2. Davis, 2001.
3. De Decker, 2001: 33.
4. Kumar, 2001: 102.
5. Abravanel, 2002: 501.
6. Gilbert and Varley, 1991: 169; Green, 1988.
7. Englander, 1983: 10.
8. Syagga and others, 2002: 33.
9. Kumar, 2001: 102.
10. Barnes, 1982: 16.
11. Morris, 1999b.
12. Gundersen, 2002.
13. Economist, 2002b: 58.
14. Economist, 2002b: 58.
15. Wohl, 1971: 26.
16. Gilbert and others, 1993.
17. Gilbert and others, 1993.
18. Amole and others, 1993; Tipple and Willis, 1991.
19. Gilbert and others, 1997.
20. Kentridge, 1996: 165.
21. Tipple, 1988.
22. Gilbert and Varley, 1991.
23. Morris, 1999b.
24. Crankshaw and others, 2000.
25. Amis, 1984; Mugo, 2000; Syagga and others, 2002.
26. Amis, 1984: 91.
27. Syagga and others, 2002: 17-18.
28. Amis, 1996: 277.
29. Amis, 1996: 282.
30. Angel, 2000.
31. Gilbert and Varley, 1991.
32. Dennis, 1995: 314.
33. Datta, 1996: 243.
34. Gilbert, 1999; Gilbert and Varley, 1991.
35. Rohe and Stewart, 1996: 71.
36. DETR, 2000: 1.
37. De Decker, 2001: 23.
38. Andreasen, 1996: 362.
39. Syagga and others, 2002: 9.
40. Ball, 2002: 90.
41. Martin and Nell, 2002: 44.
42. DETR, 2000: 2.
43. Mwangi, 1997: 143.
44. Rohe and Stewart, 1996: 53.
45. Gilbert and Ward, 1985; van Lindert, 1991

46. DETR, 2000: 2.
47. Aika, 1990: 96.
48. Korboe, 1992: 1168.
49. Nieto, 2000.
50. Amato, 1970; Lewis, 2002: 124.
51. Crankshaw and White, 1995; Morris, 1999a; 1999b.
52. Coulomb and Sánchez, 1991; Gilbert and Varley, 1991; Harms and others, 1996; Pastrana and others, 1995.
53. Veeduría Distrital, 2002.
54. DETR, 1996: 3.
55. De Decker, 2001: 33.
56. Prado, 2003.
57. Kenison, 2002.
58. Mwangi, 1997: 148-149.
59. Datta, 1996: 243.
60. Cross, 2002: 196.
61. Martin and Nell, 2002: 42.
62. Zillman, 2000: 199.
63. Coccato, 1996: 68.
64. Coulomb and Sánchez, 1991.
65. Camacho and Terán, 1991; Edwards, 1982; Gilbert, 1983; Green, 1988.
66. Gilbert and Varley, 1991.
67. Gilbert and Varley, 1991: 164.
68. Kalim, 1990: 189.
69. Ramaswamy and Charavarti, 1997: 65.
70. Wadhva, 1993: 85.
71. United Nations, 1979.
72. Durand-Lasserve and Royston, 2002: 7.
73. UN-HABITAT and OHCHR, 2002; UN-HABITAT, 2002c.
74. Crankshaw and others, 2000.
75. Sims, 2002: 81.
76. Coulomb and Sánchez, 1991.
77. Ramaswamy and Charavarti, 1997: 78.
78. Sims, 2002: 81.
79. Gilbert, 1983; Mohan, 1994; Jaramillo and Parias, 1995.
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81. Tarki, 2002.
82. Martin and Nell, 2002: 16.
83. Van der Linden, 1994: 223.
84. Dreier, 1984: 262.
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87. UNCHS, 2001a: 102.
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90. Hiscock and others, 2001: 50.
91. El Tiempo, 2002.

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93. Cross, 2002: 207.
94. Kumar, 2001: 103.
95. COHRE, 2003.
96. UNCHS, 1996: 247.
97. Chandler, 1970: 52.
98. Davis, 2001; O'Hara, 2002.
99. Mwangi, 1997: 148.
100. Datta, 1996: 243.
101. Morgan and Daunton, 1983: 281.
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104. Hoffman and others, 1991: 196.
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108. Englander, 1983: 9-10.
109. Paquette-Vassalli, 1998: 134.
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113. Hoffman and others, 1991: 196.
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116. Tomlinson, 1995: 17.
117. Mohamed, 1997.
118. Green, 1988.
119. Coccato, 1996: 78.
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121. Economist, 2002a.
122. Morris, 1999b: 333.
123. Cross, 2002: 203.



## **V. Public policy: Debunking the myths**

Over the years, rental housing has gained a bad image in many countries. Much of its reputation has been undeserved and is based on arguments that at best have been only partially true. The aim of this chapter is to confront some of the most common criticisms of rental housing and discuss the supposed advantages of homeownership. Without wishing to dispute that homeownership has many merits, the following discussion will show how one-sided the tenure argument has been. The chapter will focus on eight major myths: that everyone owns in affluent countries; that every household wishes to be a homeowner; that ownership offers people a better life and always produces capital gains; that no one invests in rental housing; that renting is inequitable; that poor quality accommodation should be removed; that mobility is dangerous for tenants; and that tenants are politically dangerous.

### **V.A. Myth 1: ‘Everyone owns in affluent countries’**

The idea that homeownership is an integral, even natural, desire of every family and that this goal is being achieved successfully in every rich country is one of the most dangerous myths about housing tenure. As the next section argues, homeownership is a created desire, a product of particular forms of economic production, government intervention and ideology. It is not integral to the highest stage of capitalism. If it were then the vast majority of people in every highly developed country would live in their own home. In practice, as section I.C shows, there is no consistent relationship between the rate of homeownership and level of economic development. While many rich countries do have high levels of homeownership, some have very low levels. Homeownership is actually lower in parts of Western Europe than in most developing countries. Several countries in Western Europe – such as France, Germany and Switzerland – have well functioning rental housing sectors catering for the needs of all income groups.

The reason why the ideal of universal homeownership has gained a grip is largely related to the experience in the United Kingdom and the United States of America. After 1918, governments in both countries strongly encouraged owner-occupation and during the 1950s both achieved unprecedented levels of homeownership. As these two societies were widely perceived to be highly successful, the world at large looked to them for inspiration. Between the wars, the expansion of suburban railways around British cities permitted the growth of vast areas of owner-occupied suburbia. After the Second World War, governments in both countries further encouraged homeownership by offering very generous subsidies to those in a position to buy homes.

Yet, neither the United Kingdom nor the United States of America has ever got close to the goal of universal homeownership. Despite the granting of huge amounts of tax relief on mortgage payments, and in the British case, the selling off of much of the public housing stock, neither country has managed to get beyond a peak of 70 per cent. The “American Dream” has always embraced homeownership but (as appendix 7 demonstrates) that part of the dream has remained out of the reach of the majority of poorer households.<sup>1</sup> Even affluent households have struggled to buy homes in the largest cities and, in 1998, less than half of all households in New York and Los Angeles owned their own homes (see table 2). It is clear that unless there is a substantial shift in the distribution of income and wealth in that country, large numbers of young families and many older and poorer families will continue to rent.

In the United Kingdom, the ideological drive towards homeownership has stalled and in the process it has created an increasingly polarized society.<sup>2</sup> Those who have managed to buy have often made money, cashing in on rising house prices and, for many years, generous tax relief from the government. But many Britons have been too poor to buy a home and have therefore been excluded from the main source of capital accumulation in the United Kingdom today. It may be true that house price inflation has sustained the United Kingdom economy during the recent downturn in the world economy.<sup>3</sup> But, it is equally true that the absurdly high cost of buying a home in London is preventing an increasing number of households, particularly those in critical public sector jobs, from joining the party.

If neither the United Kingdom nor the United States of America will ever achieve the goal of universal homeownership, this truth has been accepted more readily in the former than in the latter. Indeed, even the champion of homeownership, Margaret Thatcher, recognized that many families in the United Kingdom would always need to rent in the larger cities. She then set up programmes like ‘Buy to Let’ to tempt potential investors into the rental housing market. Eventually, tax relief on mortgage interest repayments was removed. However, in the United States of America, both Democratic and Republican administrations have continued to push homeownership hard, and tax relief has offered the more affluent undeserved opportunities for capital gain. Despite the excessively generous benefits on offer, homeownership has risen very slowly. It seems that it is getting harder to buy a house. This is demonstrated by the fact that:

*“...the average age of first-time homeowners is rising - meaning people are staying renters longer - and the proportion of renters in traditional home owning age categories, such as those 40 to 44 years old, is also on the increase”.*<sup>4</sup>

It is particularly difficult to buy property in the largest cities.<sup>5</sup>

Other developed countries have actually got closer to universal homeownership than either the United States of America or the United Kingdom. In Spain, 83 per cent of households now own their own home, in Ireland 79 per cent, in Norway 77 per cent, and in Belgium 74 per cent.<sup>6</sup> But even in these ‘successful’ countries, it is difficult to conceive that rates of homeownership can increase very much further. In Spain, it appears that the difficulties of buying a house are currently creating a demand for renting<sup>7</sup> and, in Belgium, buying is difficult unless a household contains two earners.<sup>8</sup>

If it is difficult for homeownership to rise beyond a certain level even in the most affluent countries, some rich countries show that excellent housing conditions can be achieved with less than half of the population owning their home. The experience of several high-income countries of Western Europe shows that the creation of decent housing is not contingent on high rates of homeownership. Germany, Sweden and Switzerland all have homeownership rates of less than 50 per cent (40, 42 and 31 per cent respectively), while Austria, France and the Netherlands all have rates of about 50 per cent (see table 1). As noted in section I.C, rental housing is in fact the predominant form of tenure in many major high-income cities: Berlin (89 per cent), Geneva (85 per cent),<sup>9</sup> Hamburg (80 per cent), Vienna (75 per cent),<sup>10</sup> Amsterdam (74 per cent) and Paris (54 per cent).<sup>11</sup> Indeed, it could be argued that many of the countries and cities of Western Europe have avoided many of the housing problems of the United States of America, precisely because they have adopted a more tenure-neutral housing policy. The lower incidence of ghettos in these countries has been achieved despite lower levels of ownership. The idea that housing conditions are better in societies with high rates of homeownership seems to be a myth.

Nevertheless, the United States of America continues to strive for higher levels of homeownership and to diffuse the supposed benefits of its experience around the world. For years, the government of the United States of America has encouraged homeownership in Latin American countries through its aid programmes.<sup>12</sup> It has also worked through the multinational development banks to influence governments in a similar direction. Hopefully, the failings of such a policy at home (see appendix 7) will soon persuade governments in poorer countries of the disadvantages of this approach.

## **V.B. Myth 2: ‘Everyone wants to be a homeowner’**

In many, perhaps most, parts of the world, households are coming under increasing pressure to conform to the ideal of homeownership. Governments, the media and members of their own family tell them that homeownership is both normal and natural. In Scotland, one young interviewee asserts that: “*Its*

*everyone's little vision isn't it, own a nice house, a nice car, family, isn't it?'*<sup>13</sup> In Brazil, it has been declared that, *"the dream of every Brazilian family is to have their own house"*.<sup>14</sup> In South Africa, *"home ownership, and all the pride and family stability it engenders, is one of the cornerstones of a stable society"*.<sup>15</sup> Belgians, it is said, are born 'with a brick in their bellies'.<sup>16</sup> It has been asserted that it is *"absolutely certain that the Spanish mentality is to become an owner"*.<sup>17</sup> In the United States of America, it is part of the "American Dream"<sup>18</sup> (see appendix 7).

Whenever surveys are conducted about tenure, most people answer that they would rather own than rent. Owners, sharers and tenants in developed and less-developed countries all tend to say similar things. In the United Kingdom, *"four-fifths of the population ... aspire to be owner-occupiers"*.<sup>19</sup> In the United States of America, most people want to be homeowners.<sup>20</sup> Throughout Latin America, whenever people have been asked about their preferences the answer has been clear. In Chile:

*"the residents of two neighbourhoods stated that ownership of their property was a life-long dream and the main reason for their staying there."*<sup>21</sup>

In La Paz, Caracas, Guadalajara, Puebla, Mexico City and Santiago, the vast majority of owners are content to be owners and most tenants would like to join them.<sup>22</sup> Similar attitudes have been expressed in Cairo, Beni Suef (Egypt), Delhi and Benin City (Nigeria) and no doubt practically everywhere else.<sup>23</sup>

Ask people why they want to be owners and they will provide glowing testament of the advantages of ownership. In a survey in Bogotá:

*"one owner spoke proudly of the 'glory of the house', another asserted that 'he who has a house is a king', and a third claimed that 'anything purchased is worth it'"*.<sup>24</sup>

A major virtue of ownership according to many households in Bogotá and Mexico is that it gives the parents something to leave to the children.<sup>25</sup> Ownership is also helpful in guarding against both the risks of old age and financial misfortune. In societies that offer little in the way of social security or regular, well-paid employment, homeownership provides a kind of social safety net:

*"For many women a house of her own is much more than just a roof over the family. It provides short-term security through the option of informal activities and long term security through a place to live in after retirement"*.<sup>26</sup>

Ownership also frees people from the need to pay rent every month. This is welcome insofar as their money is going towards something of their own rather than to what tenants, in Guayaquil, *"regarded as an alien landlord's ill-*



*deserved affluence*".<sup>27</sup> Ownership is also a safeguard against an inability to pay the rent. If the main earner loses his or her job, then sooner or later, the family will be asked to move out of their rented dwelling. Although building a home is hard, expenditure can often be deferred by slowing the pace of house construction and by delaying the purchase of building materials until economic circumstances improve. When funds are scarce the family keeps on staying in the deficient accommodation, when times improve they add on a room or fix the roof.

What people say they prefer is reflected in what they actually do. While most owners have once been tenants or sharers, few families now renting or sharing accommodation have previously been owners. Few owners return to renting, renters tend to become owners.<sup>28</sup> The move into ownership is one-way traffic; only those in financial difficulties are likely to move back into renting or sharing (see section IV.F).

Seemingly therefore, the evidence provides a cast-iron case in favour of ownership and against renting or sharing. Give people the choice and they will choose to buy their home. Unfortunately, it is not as simple as this. First, as anyone experienced in market research or political opinion testing knows, questions tend to get the replies that they invite. Secondly, the evidence suggests that many households do not actually practise what they preach.

What do people really mean when they say they wish to be homeowners? Without wishing to question that the desire for homeownership is deeply felt or that many, even most households, want to own, the following questions still need to be answered. Why do some people not want to own? Why do some households say that they want to be owners and yet, despite having the means to acquire property, continue to rent or share? And, when tenants or owners say they want to be homeowners is it because of the desirability of ownership or because of the kind of home and lifestyle that it offers?

While the majority of people say that they wish to own, there is a significant minority, even in the United States of America, who do not:

*"In contrast to the stereotype that all, or nearly all, Americans want to own their homes, 32 percent of the sample preferred to rent for the foreseeable future".<sup>29</sup>*

Similarly:

*"surveys in the Netherlands show that renting remains the most preferred tenure for those already in the housing market, and even more so for those first entering the housing market, the so-called 'starters'. Among the last group, three-quarters still wanted to rent in 1989, even after a decade of steep rent hikes induced by government policy and continuing low prices for owner-occupation".<sup>30</sup>*

In several cities in much poorer countries, significant minorities also said that they preferred to rent. In Gaborone (Botswana), 10 per cent said that they were renting through choice,<sup>31</sup> in Santiago, 14 per cent,<sup>32</sup> and in Mexico City, 42 per cent.<sup>33</sup>

Those who wish to rent tend to fall into particular social-economic groupings. It has been noted that *“age, current and expected future income, and occupational position”* all affect *“tenants’ ability to buy and their preference to do so”*.<sup>34</sup> In Denmark, for example, 52 per cent of households currently own, but 70 per cent want to own in five years time.<sup>35</sup> People’s preferences change through time and vary according to their age and their family circumstances. In short, housing choices are contingent and they change through time.

Some households prefer to rent for the time being because it actually suits them better. In Latin America, Turner long ago pointed out that the housing aspirations of recent migrants are different from those of people who have lived longer in the city.<sup>36</sup> Newly arrived migrants, a group he called ‘bridge-headers’, move first into centrally located rental property. Only later, when they have found employment, become established in the city and acquired a family, do they become ‘consolidators’ and move into self-help ownership in the peripheral shantytowns. Both the shift in tenure and the move to the urban periphery form part of a wider process of integration into the urban environment. Such a process helps rural migrants adapt to urban life. Early experience in rental and shared accommodation is an important ingredient in the process of adaptation. The later move into self-help ‘ownership’ gives them a small but important stake in society.

Turner argues that migrants have different existential needs at different periods in their urban experience. The ‘bridge-header’ puts proximity to work above good quality shelter and ownership is a secondary consideration. In contrast, the ‘consolidator’ is prepared to trade off location and services for a self-help home that can be improved over time and which can be left to the children. The wish for modern standard shelter becomes more important as migrants become integrated into urban society and particularly when they begin to earn decent incomes.

This model seems to fit migrant behaviour beyond Latin America. In South Africa, almost two-thirds of rural-born migrants to Johannesburg had rented when they first arrived in the city, 22 per cent had shared accommodation with another family and 9 per cent lived in accommodation provided by their employers. Significantly, only 5 per cent moved directly into owner-occupation, the vast bulk into shack settlements.<sup>37</sup> In India:

*“rental housing has certain inherent advantages from the individual’s point of view, such as low initial investment and greater flexi-*

*bility for future tenure options. This makes it a preferred alternative for more mobile younger households, the floating population and new migrants”.*<sup>38</sup>

Some more permanent residents also prefer to rent. In the United States of America, one survey found that one-fifth of respondents did not want to own because of the “*greater flexibility and reduced commitment associated with renting*”.<sup>39</sup> These ‘lifestyle’ tenants might include the young wishing to enjoy the inner-city nightlife, or those of any age committed to the high, or even low, culture of the central city. When tenants choose to rent it is often because renting offers them a bundle of housing attributes that they cannot obtain through ownership. Of course, many households choose ownership for similar reasons. They want the kind of accommodation and life-style that they cannot obtain while renting. In fact, “*in selecting their housing, individuals and families pick not only a tenure form - ownership or rental - but also a structure type*”.<sup>40</sup> When housing markets fail to offer families adequate choice, they are forced to select sub-optimally. Thus it has been suggested that “*Americans’ seeming preference for homeownership may really be a preference for single-family detached housing.*”<sup>41</sup> They own because they cannot obtain their preferred housing type by renting.

In poorer cities, some of the poor may eschew ownership for similar reasons; they do not like the type of accommodation on offer. Faced with the option of occupying cheap land and building their own home, some poor people will refuse this alternative. Even if tenants want a home of their own, they may not want to build their own house and live in a shack without services. Their tenure choice is in part a choice about life style.<sup>42</sup> Renting may not be wholly desirable but at least it provides a proper roof and access to services. As such, many tenants in Mexico cling to their rooms in crowded rental accommodation despite having the money to become self-help homeowners.<sup>43</sup> Their reluctance to move into ownership is based on the fact that self-help ownership involves a great deal of hardship, a period living without infrastructure and services, and, since new self-help settlements are nearly always much farther away and tend to have worse bus services, much more travelling. Others feel that such an option is socially unacceptable; some downwardly mobile middle-class people, for example, may feel that living in an illegal subdivision is not a feasible option for them. Some families, and particularly female-headed households, may feel that they lack the know-how to build or organize the construction of a self-help home.<sup>a</sup>

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a. In Mexico, the proportion of workers in the construction industry is usually higher among the owner households and the number of female-headed households much lower (Gilbert and Varley, 1991).

There are lots of reasons why people might refuse the self-help housing option but location is an absolutely critical issue. In Mexico City, two-fifths of central tenants prefer to rent and, in Santiago, 30 per cent of those living in the *conventillos* say the same. Four-fifths of these central tenants had never looked for their own home.<sup>44</sup> These tenants have secure tenure near the centre of the city. A move into ownership would mean a move to the periphery and, if they work in the centre of a giant city, a daily commute of several hours per day. When Chilean squatters were forcibly removed from near the centre of Santiago to physically superior homes in the 1970s and 1980s, many later expressed a desire to return even if it meant going back to rental tenure.<sup>45</sup> In Delhi, 17 per cent of a tenant sample chose to stay in the rented house for reasons of location, even though they owned houses elsewhere in the city.<sup>46</sup> The movement of large numbers of black Africans into central Johannesburg as apartheid began to crumble was premised on the advantages of access to work in the centre.<sup>47</sup>

The tenure choice is also influenced by the relative cost of renting versus ownership. In some cities, rents are higher relative to incomes than elsewhere. Renting a home in the late 1980s in Mexico City was much cheaper than in Santiago or Caracas.<sup>48</sup> In South Africa rents were much lower relative to house prices than in most other countries.<sup>49</sup> Clearly when rents are low, families may continue to live in rental housing even when the accommodation is inadequate. Should rents rise households may well reconsider their housing situation, either because they cannot afford the higher rent or because the balance of advantage between ownership and renting has shifted. It is this balance of advantage, not just in cost but also in convenience, servicing and location that seems to be critical in the process of residential choice. This balance, of course, is not determined by individual families but by the political economy of land and housing in the city and country concerned. When rent controls give people permanent residence and inflation turns fixed rents into peppercorn sums, many stick to renting despite the attractions of ownership. Sudden rent rises may have the opposite effect. In the United Kingdom, where reduced subsidies and new rules in the public sector increased “*rent levels by 47 per cent in the three years from 1990*”, some no doubt were suddenly converted to the benefits of ownership.<sup>50</sup>

For others the question of location reflects a very different set of preferences. In many places, some people have little wish to rent in the city because they actually want to own, or actually do own property, somewhere else. This is an important consideration in many parts of Africa. It has been noted that “*many South Africans have a rural as well as an urban tie, and prefer to rent in at least one of their homes.*”<sup>51</sup> This certainly applies to hostel dwellers in Cape Town where “*87 per cent ... said they would prefer to rent than purchase*

*their accommodation*<sup>52</sup> and, in Soweto, where 44 per cent of migrants living in hostels have another home, usually in a former ‘homeland’.<sup>53</sup> In Nigeria: *“the desire of most urban residents to own their first houses in their respective villages of origin as a result of cultural factors, together with insufficient income, restricts access to home-ownership in the cities. Renting thus becomes the popular tenure choice for most urban residents”*.<sup>54</sup>

Similarly in Nairobi, it is argued that *“for many tenants priority number one is the availability of a cheap room – if there are any savings, these are more likely to be spent on property in the ‘home’ rural areas.”*<sup>55</sup> The same clearly applies to those migrants in Bangkok who shuttle seasonally *“between their upcountry home town and the settlement”*.<sup>56</sup>

Increasingly, of course, migrants are tending to stay longer and even permanently in the city. In Bamako, *“almost two-thirds (63.8 per cent) of migrant heads of households in the survey expected to stay in the city”*<sup>57</sup> and, in Soweto (South Africa), half of all migrants *“have been in the city for more than 20 years and one-fifth for more than 40 years”*.<sup>58</sup> Some of these people will move into owner-occupation in the city. But even long-established migrants may retain a strong allegiance to their rural ‘home’, the place to which they will retire and where eventually they will be buried.<sup>59</sup> In Soweto, even though a large majority of the migrants live with their partner, one-fifth has a partner back ‘home’ and just over half some of their dependent children. Although one-half said that they would retire in Soweto or in another town, almost one-third were certain that they would retire to their family home (one-fifth were uncertain).<sup>60</sup>

Of course, the whole issue of whether people actually ‘choose’ their own tenure or ‘decide’ the key issues in their lives is an open debate in the political economy literature. After all, most people are rational beings and only choose between feasible options. Most people might wish to live in a palace but (lacking royal blood) almost all must opt for a semi-detached or terraced house. One might wish to own in the best parts of town, but few can do so. As such, when many rent it is because they cannot afford to own. Many households continue to be tenants even though they are convinced of the advantages of homeownership and want to be a homeowner one day. Sometimes, people continue to rent until they have marshalled enough resources to put down the deposit on a house or a plot. These are constrained owners, waiting patiently to get out of rental tenure. Equally, many who own may have been cajoled or encouraged by excessively generous benefits into choosing that option. Others may have been forced out of rental housing by their inability to pay the rent. In this sense housing choices are contingent upon opportunity and circumstance.<sup>61</sup>

Making capital gains are often a vital element in the decision to buy a house. When, as in the United Kingdom, people think they make money from homeownership, the majority opt for it. But when economic circumstances change as they did at the end of the 1980s:

*“the attraction of home ownership appears to wane as its potential reduces and its costs increase. While it may provide autonomy and security, these attributes are apparently not enough to sustain its appeal (at the same level) when the economic advantages of ownership change”*.<sup>62</sup>

Clearly, inflation, unemployment, rising interest rates and falling incomes can all discourage people from buying a home. However, even when the costs of ownership rise rapidly some may feel obliged to take that tenure option. In Spain, it has been noted that since *“the beginning of the 1980s, families have assumed high debts while thinking that house purchase is their only option.”*<sup>63</sup> If they don't get on the treadmill now, they will never be able to. Something similar has been occurring in Belgium where it has been argued that homeownership has been increasingly available only to two-income families.<sup>64</sup> One-income households can not simply afford to buy. In the United Kingdom, the booming housing market has been having a similar impact on public sector workers, single person households and the poor. Clearly, attitudes to ownership are strongly affected by current economic realities. Frequently, what people say they want is beyond their ability to achieve. Sometimes they declare only what they know they can achieve. In this sense, what people say they want is neither immutable nor wholly to be believed.

### **V.C. Myth 3: ‘Ownership offers people a better life’**

Ownership is often presented as a more ‘natural’ tenure than renting. People want to own because buying a home makes them into proper citizens. Nowhere is this idea conveyed more strongly than in the United States of America. As President Bush put it when introducing his new, Cuban-born, Secretary for Housing and Urban Development in December 2000:

*“He understands American values. He’s grown to appreciate them. And there’s no greater American value than owning something, owning your own home and having the opportunity to do so.”*<sup>65</sup>

Similar, if less florid, sentiments have been expressed across the globe.

Of course, such arguments are absurd unless they recognize that the preference for ownership has been generated by years of housing practice. Many people want to buy because over the years governments have helped foster a preference for homeownership. Many governments have systematically distorted housing prices. In the United States of America and the United

Kingdom, governments strongly encouraged people to become owners by giving tax relief on mortgage payments. A similar policy was followed in the Netherlands after 1981 with the result that homeownership rose steeply.<sup>66</sup> Housing policy in Chile, Brazil, Colombia and South Africa has been very similar and those willing and able to become homeowners have been rewarded either through tax relief or by being offered a housing subsidy. In Chile, governments have been offering subsidies since 1958 and since 1977 have provided capital subsidies for poor families to buy their own home.<sup>67</sup> In Colombia, successive governments have subsidized the mortgages of middle-class families, and some of the poor have been offered subsidies, in one form or another, ever since 1939.<sup>68</sup>

Even when governments have lacked the resources to provide poor people with subsidized homes, they have often given them the opportunity to invade land or to buy plots in illegal subdivisions. In this way millions of poor families have become owner-occupiers in Latin America.<sup>69</sup> It is hardly surprising that so many people should think that ownership is almost the natural state.

Not only is homeownership seen to be a sensible option but it is also supposed to make people into better citizens. Expert opinion and the real-estate lobby constantly reiterate this message. In a technical report to the Colombian government, a group of Chilean consultants assert:

*“Latin American experience has proved that ... the single act of becoming a home owner helps a family to develop socially, culturally and economically”.*<sup>70</sup>

A recent article from a high ranking Colombian politician argued that Colombian democracy is limited due to the fact that only 55.7 per cent of the population owns their own home.<sup>71</sup> Advertising, the media and even literature and film foster the image of the responsible owner and the negligent tenant. Having something of one’s own boosts a family’s self-esteem and all ‘decent’ people own their own home. Ownership has become the cultural norm; it is where everyone expects to end up. Having picked up the message, parents pass it on to their children. Seemingly, young Scots develop pro-ownership prejudices early in their lives and these are well entrenched by the age of sixteen.<sup>72</sup>

Not only is homeownership praised and the problems of owner occupation generally ignored but rental housing and tenants are constantly criticized.<sup>73</sup> Public housing is the target for many pejorative comments. The picture British parents give of council housing:

*“is a poor one. Importantly, not only is the built form of housing considered to be unattractive, but the people who live in it are labelled as undesirable. .... Tenants of this sector are seen simultaneously as being both victims of a system of ‘have-nots’ and as*

*feckless consumers through their supposed misallocation of personal purchasing power*".<sup>74</sup>

*"As well as being part of the social package associated with success, home ownership is also seen as being part of a normal life"*.<sup>75</sup>

Similar attitudes are to be found in the self-help *barrios* of Bogotá, where tenants have long been considered to be "*less settled, dependable and respectable*" than owners.<sup>76</sup> In the 1960s, a major point of discussion in community organizations in Bogotá was whether or not tenants should even be allowed to attend meetings.

There are clear parallels here with the picture that Oscar Lewis gave of the tenants living in central city areas in New York, San Juan and Mexico City.<sup>77</sup> Not only were they poor but these families also developed a 'culture of poverty' that further entrenched their poverty and passed on undesirable behaviour traits to their children. Of course, similarly distorted views were given of homeowners living in the *favelas* of Rio, the *asentamientos* of Santiago or the *colonias* of Mexico City.<sup>78</sup> These people could not be regarded as proper homeowners because they occupied land clandestinely. Many thought that a necessary distinction should be drawn between legal and illegal homeowners, for the latter were clearly as irresponsible as most tenants.

*"Both politicians' and popular press's characterisations of tenure groups were based on simplistic stereotyped images that failed to acknowledge the diversity within groups"*.<sup>79</sup> And, while some tenants undoubtedly have undesirable personality traits, such a negative image hardly fits most tenants. If it did that would reflect badly on homeowners insofar as most owners were once tenants. In fact, the stigma of parasite does not fit most kinds of tenants, especially the recent college graduates; the elderly; and the single person household. The latter increasingly important group now makes up much of the tenant population in the United States of America.<sup>80</sup>

If the negative features of tenants have often been exaggerated, so too has the favourable image of homeowners. In the United Kingdom, owners are supposed to be more responsible citizens than tenants. Not only that, but they are happier because they bask in the sunshine of ontological security. Ownership:

*"ensures permanency, even across generations. In a world where change is rapid and expectations are forever being turned upside down, the privately owned home seems to represent a secure anchor point where the nerves can be rested and the senses allowed to relax"*.<sup>81</sup>

The view of homeownership in Latin America closely accords with that description. When poor households in Latin America are asked about what



families gain from owning a home, they most frequently mention the greater sense of security and feeling of independence.<sup>82</sup> As one woman in Bogotá described her feelings about self-help ownership: *“little by little, but with the happiness of knowing that it is one’s own”*. In Ecuador, poor tenants emphasize that they need *“to feel themselves masters of their own destiny, as symbolized by living in their own houses”*.<sup>83</sup>

Whether owners actually feel more ontological security than tenants has been widely contested. Even if they do:

*“greater ontological security is not necessarily to do with tenure itself: it is to do with having wealth, living in a nice area, living in a larger and better quality dwelling and being settled in relationships and work.”*<sup>84</sup>

*“Owner-occupiers might achieve more psycho-social benefits from their homes, but much of this is contingent upon the characteristics of the owners themselves, their financial resources and their skill abilities”*.<sup>85</sup>

Not surprisingly, poor households seem to be much less satisfied by their tenure than better-off families. Limited incomes restrict owners from making repairs or even paying for public services. Workers in danger of losing their jobs worry about how they will pay their mortgage. In the United States of America, it has been noted that:

*“When we turn our attention from the ghetto to the surrounding neighbourhoods of moderate or middle-income homeowners, we find a variety of problems besetting them: deteriorating structures, high maintenance costs, mounting taxes, blinding mortgage debt, inadequate transportation and public services, and fears of further deterioration or loss of homes.”*<sup>86</sup>

Ontological security is clearly much lower in such neighbourhoods and must be lower still in many self-help settlements in poor cities.

Recent South African experience also demonstrates that homeownership is a problem for many poor families. Many of those given state subsidies to buy new homes have sold out.<sup>b</sup> They have traded in their new home at a fraction of the value of the subsidy perhaps because they have been too poor to pay the associated costs of ownership such as servicing.<sup>87</sup> The low price may be a token of their desperation or a reflection of:

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b. Very little information is available internationally on what happens to such poor families that sell out following receipt of government subsidies. Clearly, this is an area where more research is required.

*“the peripheral location, the vastness, monotony and possibly the stigmas attached to these (capital subsidy) developments that have prevented interest by higher income groups”.*<sup>88</sup>

In Colombia, less than two-fifths of the families who bought homes with subsidies between 1998 and 2002 are still occupying that accommodation.<sup>89</sup> In Santiago, few subsidized homeowners have actually sold their homes, but many seem to be little happier with their lot.<sup>90</sup>

In short, to ask families whether they are happy to be owners or whether they want to buy a home is often meaningless. For, while many households clearly cherish homeownership, their answers depend too much on the nature of the home and the income of the family. No doubt families living in high-income suburbs are more content with their tenure than those living in more impoverished areas; although in places, many poor families genuinely appreciate homeownership. But whatever families say, their tenure preferences have to be placed in context. Without understanding the political economy in which the question about housing preferences is posed, the question is pointless. For governments create the demand for homeownership and generate much of the propaganda that fuels its favourable image. When the whole weight of government policy favours owner-occupation, people’s preferences begin to reflect this bias. Is it surprising that highly positive views of homeownership are found in societies where generous financial incentives have been given to the owners and where house prices have increased rapidly? Where tenants and the builders of rental housing have been given equal treatment – as in Germany, the Netherlands, Sweden and Switzerland – people often think differently. In fact:

*“the popularity of one housing tenure over another is culturally mediated and socially constructed rather than being indicative of any supposed natural disposition”.*<sup>91</sup>

Unfortunately, this is not a lesson that has yet been properly understood by policy makers in many less developed countries.

## **V.D. Myth 4: ‘No one invests in rental housing’**

Once upon a time, and not all that long ago, shrewd businessmen invested in rental housing. Putting money into bricks and mortar was a guaranteed way to make money, indeed one of the only safe businesses available. In much of Western Europe investment in rental housing continued to be profitable up to the Second World War and even in a few places until now. Throughout Latin America, the Church put much of its money into rental housing and it is said that, after the Mexican Revolution, Pancho Villa and Emiliano Zapata did the same.<sup>92</sup>

Gradually, however, in most countries the commercial attractions of investing in rental housing changed. The growth of stock markets and other opportunities for investment transformed the commercial calculus. Many former landlords moved into real-estate development as governments began to encourage owner-occupation. Increasingly, commercial investors began to ignore rental housing and, today, there are few countries beyond Western and Northern Europe where private investors find the sector very attractive.<sup>c</sup> In Spain, it is claimed that between 1984 and 1999 the returns from renting were lower than those from investing in government bonds,<sup>93</sup> which no doubt accounts for the rapid shift in tenure in that country. Other countries have seen more fluctuations in rental housing supply. Depending on cyclical fluctuations in interest rates and alternative investment opportunities, rental housing may become attractive again. In France, despite the passing of the Méhaignerie Act in 1986 – which allowed landlords to increase rents to levels existing for similar property in the neighbourhood once a tenancy agreement terminated – landlords in central Paris found it better to sell.<sup>94</sup> Some years later rental housing is once again becoming attractive to investors in Paris.

In South Africa, the number of private and rental units steadily declined during the 1990s as a result of low yields.<sup>95</sup> In Chile, neither large nor small investors have put money into the rental sector for years.<sup>96</sup> In Nigeria, an observer comments on “*the known reluctance of the corporate private sector to embark on this form of housing development*”,<sup>97</sup> perhaps because the cost of building rose 14 times between 1980 and 1990 and rents only rose threefold.<sup>98</sup> In India, private companies have preferred to build for sale rather than for rent:

*“The former scores over the latter in many ways, the quick turnover, the certainty of returns, freedom from maintenance and management of rental housing stock”.*<sup>99</sup>

Government intervention was often responsible for falling profits. Rent control is one explanation but the introduction of income and property taxes and regulations requiring landlords to maintain property properly were also significant. Frequently investors reacted negatively to the difficulty of evicting tenants. If they could not ask the tenant to leave and thereby capitalize on rising property values, their profits would be badly affected.<sup>100</sup>

For a while, the public sector filled the investment void in many developed countries and in most communist states. However, once privatization and market principles began to dominate housing policy – and the communist bloc disintegrated – interest in building public housing for rent declined. With

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c. The major exception being Kenya, where special circumstances have made rental housing the major form of housing tenure (see appendix 5).

the partial exception of a handful of countries in Europe, a few former communist countries and the Republic of Korea, few states have been prepared to invest in rental housing. During the 1990s some effort was made to develop social housing but success even here is limited to a handful of countries. Outside the Netherlands, the United Kingdom and northern Europe even public investment is aimed at expanding homeownership.

Admittedly, some commercial investors have continued to put money into rental housing. Large companies have continued to act as private landlords in Germany and Switzerland and some commercial investors entered the 'Buy to Let' market in the United Kingdom after the private rented sector was deregulated by the 1988 and 1996 Housing Acts.<sup>101</sup> But these countries have been very much the exception.

If institutional and commercial investment in rental housing has been minimal, the small investor has been more active. As chapters I and II demonstrated, most new rental accommodation has been created by the efforts of small landlords. These household or 'petty commodity' landlords are interested in making money from their 'investment' but generally lack the professional skills of the large commercial operators. They do not understand balance sheets or more sophisticated forms of marketing and neither their turnover nor their profits would impress most companies. They tend to invest in a piecemeal way but, because there are so many of them, the rental housing stock expands. In fact, these investors may not have many other options to utilize their means and savings but try to earn income through their own housing units, its annexes or newly built additional units. Governments tend to do nothing to help them, and moreover, through their rhetoric they even seek to discourage them, but small investors have been responsible for most of the vast expansion of rental housing in developing countries. Indeed, without the efforts of the world's self-help settlers, there would be very little rental housing in most cities today.<sup>d</sup>

## **V.E. Myth 5: 'Renting is inequitable'**

In the days when most landlords were rich and most tenants poor, the business of rental housing was often inequitable. When the rich and powerful could dictate government policy, manipulate the legislature and obtain support from

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d. It has been suggested that the reason for this is that returns are better in the informal rental sector than in the formal sector. The evidence does not seem to support this, however. It appears that many informal sector landlords continue investing in rental accommodation despite it not being a 'good business' in terms of conventional economic logic. In contrast, formal sector landlords tend to stop investments once returns are considered unfavourable.

the police and judiciary to evict tenants rapidly, a case for controlling the malevolent power of the landlord was easy to make. Today, although many continue to do so, it is much harder to make such a case. Few cities around the world have many powerful landlords. The world has changed and most landlords now operate on a small scale. They also tend to let to people of the same class. In Bogotá, rich landlords let to rich tenants and poor landlords to poor tenants.<sup>102</sup> Under such circumstances, the rich cannot easily be accused of exploiting the poor. In addition, many landlords are themselves poor and are reliant on their rents to survive, particularly in the case of older landlords and even more so in the case of widows. While section II.A has shown that many landlords do tend to be a little more affluent than their tenants, the differences are usually small. Since most landlords in developing countries are self-help builders, they are clearly drawn from the same economic and social strata as their tenants, many of whom will one day become homeowners and then begin to construct accommodation for rent.

Arguably, today it is the growth of homeownership that is the principal cause of social polarization, not renting.<sup>103</sup> When house prices rise, those who have bought prosper at the expense of those who have not. The wealthy tend to make greater capital gains than poorer homebuyers. In the United Kingdom, it has been noted that there are:

*“significant, and growing, differences in the wealth benefits of home ownership for the different classes, with elderly working-class owner occupiers gaining little advantage and risking entrapment in their tenure”.*<sup>104</sup>

In the United States of America, some homeowners gain little from their investment:

*“Those who buy homes in less desirable neighbourhoods or in housing markets that experience depreciation may not realize the economic or the social benefits of homeownership. Moreover, some homeowners may desire to move, but find themselves stuck in homes that they cannot sell.”*<sup>105</sup>

In Australia:

*“homeownership appears to provide greater net benefits, or smaller losses, to high-income groups than to low-income groups in a range of housing market and family conditions”.*<sup>106</sup>

Homeownership tends to increase existing absolute differences of income and wealth, helping to create a more unequal society.<sup>107</sup>

In many countries, social polarization is aggravated by housing discrimination based on lines of race, ethnicity and gender. In the United States of America, 70 per cent of non-Hispanic white households owned their home in

1991 but only 43 per cent of black households.<sup>108</sup> Some observers argue that poorer ethnic groups should not even try.

*“Income and wealth constraints make owning a home difficult for the poor. Despite open housing laws, discrimination barriers restrict access to financing and real estate markets for African Americans, Hispanics, and others. ... The considerable subsidies to homeownership afforded by federal and state income tax provisions are valuable to the relatively affluent but do not reach those households whose incomes are so low that allowable ownership-related deductions from gross income are not relevant.”*<sup>109</sup>

If the poor gain less than the rich from homeownership, tenants certainly lose out. In many developed countries, tenants are becoming more and more marginal to the rest of the society, particularly those who are accommodated in decaying public housing. In this sense, the state of the public rented sector “*can be seen as the flip side of achieving high levels of owner-occupation*”.<sup>110</sup>

In short, it is the incentives that promote ownership that are the most inequitable element in the housing system. When the housing system encourages and even pays the rich to make capital gains from homeownership, while the poor are excluded from homeownership, income polarization is bound to grow. When government propaganda and rhetoric applauds homeowners for their foresight and sagacity and denigrates tenants for their profligacy, this merely tips a totally unequal playing field even further against the poor.

## **V.F. Myth 6: ‘Governments should prohibit the renting of poor quality accommodation’**

Chapter IV demonstrated that many tenants live in poor quality accommodation. This is true both in older, inner-city areas and in some poorly serviced self-help settlements. What should be done about bad quality rental housing? Many governments over the years have thought that the answer was to destroy it. In practice, however, destruction tended to make the housing situation worse. The demolition of the infamous rental rookeries in London in Victorian times certainly led to greater overcrowding in housing nearby, in part because no alternative was provided and partly because the real motive for ‘improvement’ was to beautify the city or to improve transport facilities.<sup>111</sup> Experience in Mexico City in the 1980s was not dissimilar; when major ‘improvements’ were made in the road transport system in the central areas large numbers of poor families were displaced.<sup>112</sup>

The lesson seems to be that destruction can rarely be justified in most cities of developing countries. As Abrams long ago pointed out, in cities where

poorly constructed, badly maintained and inadequately serviced shelter is often the norm and can be found in virtually every housing tenure, housing demolition merely increases the numbers of families without a home.<sup>113</sup> There is little enough adequate housing without adding to the problem. Dilapidated housing should only be destroyed if it is on the point of falling down or is in a particularly dangerous state, for example, located on a slope subject to landslide. In an environment of general shortage, governments should always seek to add to the housing stock, rather than doing anything to reduce it.

Today, despite the fact that there is no clear support for rental housing in their respective policies, more governments are prepared to introduce methods to improve the quality of the rental housing stock. The justification is exactly the same as that to support upgrading programmes in self-help neighbourhoods. Indeed, the fact that many tenants live in precisely these areas adds substance to that point. Governments do not have a great deal of choice, so improvement is a far better choice than destruction.

The key difficulty is to know how to improve the living conditions of families on extremely low incomes living in slums. Arguably, governments should first seek to increase such families' incomes rather than acting directly on their housing situation. If incomes remain low and governments insist that housing improvements are made, rents will rise or the landlord will simply give up letting accommodation. The argument for insisting that all rental accommodation achieve a certain environmental standard is that this may not provide very poor families with what they need. Turner long ago demonstrated that there is little point providing a poor family with a fully serviced, three-bedroom house if the family cannot afford the rent or mortgage payment.<sup>114</sup> He once offered a comparison between the housing situations of two families, one living in formal accommodation the other in a shack in the backyard of relations.<sup>115</sup> While the living conditions of the first family were clearly far superior to those of the second, the housing expenditure of the first was far above than they could actually afford. Turner argued that given the circumstances of the two families at the time, the flimsy shack offered more appropriate accommodation to the three-bedroom house. The lesson is that different families need different kinds of accommodation at different stages of their lives. As incomes rise, empirical evidence shows that, households are prepared to pay more for their housing.<sup>116</sup> Poor families are prepared to live in appalling housing conditions because they have higher priorities than housing. Other needs, such as educating the children or setting up a business, may represent more important claims on the household income.

Poor families need:

*“choice at different stages of their life cycles, but also much needed ‘room for manoeuvre’ in responding to sudden changes in their economic or social circumstances. The rental housing options available, especially for poorer households, are the result of landlords ‘responding to the pulse’ of local needs and priorities. Thus, to denounce rental housing for its poor quality or lack of services is to ignore the extent to which local provision and consumption are finely matched”.*<sup>117</sup>

Interfering with that balance runs the risk of making matters worse.

A similar kind of argument has been made in the case of family houses in West Africa. Even though this accommodation is of extremely poor quality, most alternative forms of housing are arguably worse. For:

*“family houses provide accommodation for many of the poor and disadvantaged members of long-established families at almost no cost to themselves or to the state; a major resource in social welfare.” [As such, ] “policy makers should be mindful of the major contribution which family houses make in housing those on low income, and act to encourage and enable the maintenance and provision of such housing rather than acting as if it is a vestige of a bygone age, of little relevance to the modern city”.*<sup>118</sup>

Of course, it may be argued that no one should live in unsanitary, dangerous and over-crowded accommodation. But, if government policy leads to its demolition, the housing situation may deteriorate still further. On the whole, tenants do not complain a great deal about bad quality housing because they are seldom prepared to pay more to improve it. Even in the United Kingdom:

*“better quality dwellings tend not to command rents that are higher than on the dwellings in the worst condition. This implies that private tenants are unwilling to pay more for better quality accommodation”.*<sup>119</sup>

In African cities, poor people may have further reasons for not paying for better accommodation – the need to support the rest of their family somewhere else. In Nairobi:

*“it should be stressed that for many tenants priority number one is the availability of a cheap room – if there are any savings, these are more likely to be spent on property in the ‘home’ rural areas”.*<sup>120</sup>

In South Africa, many families are split between urban and rural locations, and are reluctant to spend much on their ‘temporary’ home in the city. If they invest in housing at all, it will be ‘at home’. In any case, whatever the purpose of



sending money ‘home’, remittances will leave less of a surplus with which to consolidate a house in the city.<sup>121</sup>

In South Africa, tenants who have been living in sometimes appalling conditions in the hostels have actually opposed moves to improve the quality of their housing. Resistance to conversion comes from those:

*“people with limited affordability and/or investments elsewhere whose needs are suited by their present levels of quality and cost. And there are those who have de facto tenure of many bed spaces which are sub-let for a profit”*.<sup>122</sup>

Any rigorous attempt to improve the quality of poor quality accommodation in very poor cities, therefore, runs the risk of being counter-productive. In the nineteenth century, the strict enforcement of construction standards in Scotland forced up building costs and encouraged over-crowding in working class housing. This undermined the municipal governments’ *“avowed intent to diminish slum dwellings and nuisances”*.<sup>123</sup> Equally, sanctions on landlords for renting unsafe or unsanitary accommodation do not seem to be workable. If building regulations are set at too high a level, the impact of effectively applied sanctions will be to force landlords to remove unsafe or unsanitary housing from the market. This runs the risk of turning badly housed families into homeless families. Sanctions should only be applied to the very worst housing and the standards applied should generally be relatively low. Even in the United Kingdom, it has been argued that:

*“simply to require landlords to meet certain minimum conditions without at the same time ensuring that they have the financial means, or the assistance needed, to improve their stock or so that others can do it in their place, is unlikely to prove an effective strategy”*.<sup>124</sup>

That argument is still more valid in Africa, Asia and Latin America where arguably the old adage should be applied: *“if it ain’t broke, don’t mend it”*.

## **V.G. Myth 7: ‘Mobility is bad for you’**

The previous chapter has shown that mobility rates are highly variable. In some cities, tenants move frequently and are sometimes subject to arbitrary eviction. In other cities, tenants often live in the same accommodation for many years. In nineteenth century Britain, Scottish tenants had yearly contracts and tenants in London had weekly agreements. It is debateable whether in difficult economic times the Scottish tenants were better off than their cockney counterparts.<sup>125</sup> At least the Londoners could move to cheaper accommodation whereas Scottish tenants had either to pay up or ‘flit’.

The lesson must be that rules do not fit everyone. If rental housing is left to the market, which is arguably the only realistic position in most poor cities at the present time, then a balance has to be struck. Some tenants need to stay in the same home for some time whereas others need to move around quickly.

For many tenants, stability of tenure is not the priority and, arguably, too many families around the world are suffering from the opposite problem, excessive stability. British tenants tied to council housing in areas where there are no jobs gain little from their high level of security. Subsidized homeowners in Chile are in a similar position:

*“once a low-income family acquires a home, it does not seem to move. In the consolidated periphery of the city the median length of residence in the current home is 23 years, most of the families having lived there since they first became home-owners”.*<sup>126</sup>

Families are stuck in their accommodation because there is virtually no housing market and 42 per cent of households want to move *“to improve their quality of their neighbourhood or their location”*.<sup>127</sup>

Owners in many self-help areas find themselves in a similar situation. In India, *“once one has built a house, one is stuck with it”*.<sup>128</sup> In Bogotá (Colombia), most owners of consolidated self-help housing remain in the same property for generations.<sup>129</sup> Developing cities need households to move when their circumstances change. If workers are unable to move, their choice of jobs will be even more limited. Immobility is also likely to complicate transport provision and creates inefficiencies in the housing market.

If the ability to move house is critical to tenants and owners alike, it is also vital if landlords are to provide rental accommodation. One of the greatest fears of landlords is that they will be unable to get their property back. Reassuring landlords on this point was critical in increasing the level of private rental investment in the United Kingdom during the 1990s. Until the housing reforms of 1988, most sitting tenants effectively had a lifetime's tenure. A few years later:

*“the landlords of 46 per cent of all lettings said that new lettings are adequately protected by the law against tenants refusing to leave. In 1982-84 the proportion was only 17 per cent”.*<sup>130</sup>

The ability to move house easily ought to be one of the virtues of rental housing. It should be less stable than ownership. Of course, it should be a tenure that allows controlled movement and landlords should certainly not be able to evict tenants without good reason. However, if too much emphasis is given to security of tenure, the danger is that one of the chief virtues of rental housing will disappear along with much of the supply.

## V.H. Myth 8: 'Homeownership encourages the emergence of a politically stable society'

*"It has long been supposed by left and right alike that home-ownership tends to conservatize people".*<sup>131</sup> In the United States of America tenants were not allowed to participate in federal elections until 1860 because homeowners were considered to be *"better citizens, better neighbors, and even better persons"*.<sup>132</sup> Politicians in both developed and developing countries have encouraged homeownership for precisely this reason. In the United Kingdom, Margaret Thatcher sought to turn Labour voters into Conservatives through offering council tenants the chance to buy their home. In Belgium, the *"government has chosen to satisfy housing needs through the construction of single family dwellings and private ownership"* ever since the first Housing Act of 1889.<sup>133</sup> The source of that inspiration is hostility to socialist thinking and belief in the principles of Christian teaching, the joint creeds that underpin the Christian workers' movement and its powerful ally the Christian Democratic Party. In Colombia, a national president in the 1950s applauded homeownership for its supposedly ability to stabilize society.<sup>134</sup> In South Africa, the director of the Urban Foundation in 1977 said that: *"the absence of meaningful provision of homeownership in our Black urban townships plays a significant part in the instability and insecurity so prevalent in these areas"*.<sup>135</sup>

The evidence underpinning this faith in the virtues of homeownership is not wholly convincing. Research in England suggests that tenants rarely take radical action, and then only when their tenure rights are threatened.<sup>136</sup> In other countries, there is little sign of tenants leading social revolutions or even voting for the left. Germany and Switzerland are hardly the most leftwing of countries and yet they contain far larger numbers of tenants than any other developed country. Elsewhere, so little information is available that it is difficult to say whether tenants are radical or otherwise.<sup>137</sup> Nonetheless, the suspicion must be that given the limited presence of tenant organizations or tenant participation in most neighbourhood associations, and the fact that most tenants want to become homeowners, they are just as conservative as most other people.<sup>138</sup>

Of course, in fostering the myth of the problematic tenant, governments have helped aggravate the housing problem. In the United Kingdom and the United States of America, government policy in recent years has helped to polarize society along tenure lines; the rich own and the poor rent. While that is also partially true of social democratic societies in Western Europe, in those countries many middle class and rich families also rent. More importantly, rental households are not despised as losers. Those who live in social housing estates are not perceived to be quite such parasites and criminals as their contemporaries in the United Kingdom and the United States of America. Of

course, Netherlands, Germany and Sweden all have their housing problems but it is difficult to argue that those problems are in any sense worse than in the equally affluent United States of America and the United Kingdom. As such, a higher rate of homeownership offers no kind of panacea for better housing conditions. It certainly cannot be relied on to create social harmony if it is associated with greater inequality.

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5. Economist, 2002b: 58.
6. Sak and Raponi, 2002; Statistics Norway, 2002.
7. Prado, 2003.
8. De Decker, 2001: 21.
9. IUT, 2003.
10. IUT, 2003.
11. UNCHS, 2001a (data for 1990).
12. Kimm, 1989; Gilbert, 2002b.
13. Rowlands and Gurney, 2001: 125.
14. Barbosa and others, 1997: 18.
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16. UNCHS, 2001a: 95.
17. Prado, 2003.
18. Heskin, 1983: xxii.
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21. Fadda and others, 2000: 177.
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25. Gilbert, 1999; Varley and Blasco, 1999.
26. Larsson, 2001: 8.
27. Salmen, 1987: 28.
28. Gilbert and others, 1993; Gilbert and Varley, 1991.
29. Varady and Lipman, 1994: 524-525.
30. Clark and Dieleman, 1996: 206.
31. Datta, 1996: 244.
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34. McLaverty and Yip, 1993: 1570.
35. Ball, 2002: 30.
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37. Crankshaw and Gilbert, 1999.
38. Sundaram, 1990: 126.
39. Varady and Lipman, 1994: 524-525.
40. Goodman, 1999: 31.
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43. Gilbert and Varley, 1991.
44. Gilbert and others, 1993.

45. Rodríguez and Icaza, 1993: 44.
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47. Morris, 1999b; Crankshaw and White, 1995.
48. Gilbert, 1993.
49. Dubel and Pfeifer, 1996.
50. Hunter and Nixon, 1999: 167.
51. Goodlad, 1996: 1642.
52. Thurman, 1997: 54.
53. Crankshaw and others, 2000.
54. Ikejiofor, 1997: 410.
55. Wegelin-Schuringa and Kodo, 1997: 183.
56. Pornchokchai, 1992: 144.
57. Van Westen, 1995: 207.
58. Crankshaw and Gilbert, 1999: 2380.
59. Ozo, 1993: 38.
60. Crankshaw and Gilbert, 1999: 2380.
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62. Curtice, 1991: 103.
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98. Ozo, 1993: 26.
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106. Burbidge, 1991: 277.
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126. Gilbert, 1993: 91.
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138. Heskin, 1983.



## VI. Appropriate forms of public intervention and assistance

Rental housing accommodates a considerable share of population globally. For many of these, rental housing is the preferred housing option. No one can claim that rental housing does not need more investment, better maintenance and better policies. But what can be done to improve it? This chapter considers eight main approaches to this problem: persuading governments to recognize that rental housing really exists; showing them how a balanced view of owning and renting is to be recommended; encouraging large scale investment in rental housing; seeking ways to stimulate the self-help landlord to build for rent; improving the quality of the rental housing stock; seeking ways to increase affordability; helping the tenant through subsidies; and by-passing the judicial system through encouraging forums for conciliation and arbitration.

### VI.A. Determining the appropriate level of government responsibility

The key responsibilities of government in the housing field include:

- Establishing the main targets for housing policy in the country (including the progressive realization of the right to adequate housing);
- Developing the means to attain these targets;
- Defining the respective roles of the government, the private sector, the social sector and civil society;
- Establishing the respective roles of the national (or federal), regional and local tiers of government;
- Developing the resources and socio-economic environment through which the different actors can perform their allotted tasks.

At present, it is less than obvious that most governments are performing this role properly. Despite their acceptance of the human right to adequate housing – as enshrined in international instruments and elaborated in the Habitat Agenda<sup>1</sup> – many governments still have a very narrow interpretation of their responsibilities (see section VII.C). In Latin America, for example, UN-HABITAT and UNECLAC have declared that: “*there is a high degree of consensus about the direction that urban and housing policies should take in the future*”.<sup>2</sup> But the list provided of state responsibilities is largely limited to current conventional wisdom about good governance like the need for greater horizontal linkages, the need for a housing policy at each level of government, more private involvement and less public intervention. Arguably, if the

consensus is limited to those elements excluding rental housing issues, it will achieve very little in the way of housing improvements.

It is a problem of the current times that even if national constitutions claim that everyone has a right to adequate housing, few governments appear to be very interested in the housing issue. Housing has been nowhere near the top of most governments' lists of priorities. A sign of this problematic position for housing is that few countries even have housing ministries. In Latin America, not one of the twenty countries has a ministry dedicated entirely to housing, although two (Chile and Ecuador) have ministries for housing and urban development and a further five (Argentina, Colombia, Guatemala, Peru and Uruguay) have a ministry responsible for housing along with infrastructure, transport and other issues.<sup>3</sup> Another sign of the low priority given to housing is how little governments have spent on the sector. Some governments in Latin America, for example, spend nothing whatsoever on housing.<sup>4</sup> Elsewhere, even when a ministry of housing does exist, its budget and responsibilities are very limited.<sup>5</sup>

Most governments have adopted the goals of the Habitat Agenda, which explicitly elaborates what needs to be done to promote housing within a human rights based approach. This requires that:

*“Within the overall context of an enabling approach, Governments should take appropriate action in order to promote, protect and ensure the full and progressive realization of the right to adequate housing”.*<sup>6</sup>

Arguably the low level of government involvement is due to current conventional wisdom, which is that governments should leave as much as possible to the market.<sup>7</sup> Following such a narrow interpretation, a government is satisfying its housing rights responsibilities by ensuring that it is enabling other actors – like the private sector and civil society – to improve the housing situation.

A principal problem with enabling policies is that the private commercial sector is generally not interested in providing better shelter for the poor. Governments in many countries have experienced considerable difficulty in attracting the private commercial sector into the low-income housing field. The private construction industry tends to be most interested in building housing for higher income groups. While it can be attracted into low-income housing provision, this often requires a degree of subsidization, one reason why up-front capital subsidies have become so popular in recent years.<sup>8</sup> While more affluent developing countries, like Chile, Colombia, Costa Rica and South Africa, can marshal the resources to provide subsidies, this is a more difficult action for poorer countries to follow. One way out of the subsidization problem is to encourage more private banks to lend money to the poor to finance home

construction. Unfortunately, while the issue of providing more credit to the poor seems to be high on most governmental and development agency agendas, the private banking sector seems to be extremely reluctant to offer mortgages to the poor (see sub-section VI.D.3). Governments in most developing countries even have problems mobilizing the social sector. There are remarkably few examples of successful cooperatives, NGOs or social housing agencies in operation and, so far, virtually none in the rental-housing sector.

If governments are tending to delegate more responsibility to the market and to civil society, there has also been a shift in the level at which state responsibility is exercised. More and more central and federal governments are delegating responsibility for the delivery of shelter to other levels of government. The advantages of decentralization are well known.<sup>9</sup> Perhaps the most important is that local governments are believed to be more responsive to local needs both because they understand local problems better and because they are more accessible to the local population. Certainly the multilateral development banks are encouraging the decentralization process<sup>10</sup> and in a number of larger developing countries, for example, India, South Africa and Brazil, housing has been predominantly a State (province) level responsibility for some time.

The principal problem with decentralization arises when local government is unfit to perform the functions required of it. In Latin America, most countries have large numbers of municipal authorities, over five thousand for example in Brazil, many of which have great difficulty in fulfilling most of their statutory obligations. In Colombia, for example, every local government was supposed to have produced a local land-use plan by the end of June 2000. However, by October of that year only 425 of the country's 1,088 municipalities had managed to produce such a plan. A related problem is that only larger and privileged municipalities tend to have enough resources to undertake the tasks required of them. As such, a principal problem facing housing provision in most rural areas and small towns is the lack of competent local government.

Whether administration is delegated or not, a general problem for state involvement in the housing field is the generally restricted ability of most State agencies. When housing laws are approved few governments have the ability to apply those laws. Administrative and police systems are too weak to enforce most national or local legislation on environmental and construction standards or on evictions. And, when malpractitioners are identified, court systems in most developing countries are too slow, too expensive and too inefficient to help individuals claim their legal rights.

The point of this incidental philosophical remark is to emphasize that housing policies must be realistic. There is no point in promising that everyone will live in an adequate home, if the State and the wider society are incapable

of satisfying that promise. Of course, every society should strive to improve the housing situation. Perhaps the strengthening of human rights based development approaches will encourage more governments to establish more meaningful targets, develop better programmes and generate more resources to achieve those targets.

## **VI.B. A balanced government housing policy**

People are not born with a natural desire to become a homeowner. Nor is this supposed cultural norm of very long standing. Much of what is thought in some countries to be a deep-seated feature of human nature has been implanted much more recently, usually through active encouragement by the State. Many people around the world would not have craved for homeownership had it not been for the generous incentives that so many governments have held out to 'responsible' homeowners.

At present, most governments push homeownership and do nothing for tenants beyond turning them into owner-occupiers. UN-HABITAT has earlier noted that:

*“instead of promoting the widest possible range of housing alternatives so that people can choose from a range of options, shelter strategies still tend to promote home ownership”.*<sup>11</sup>

Or, as the Economist puts it:

*“the lesson for governments is that, rather than offering subsidies to home buyers, they would be wise to encourage a healthy market for rental housing. And, since buying a house is a stressful experience, having fewer home buyers and more renters might produce not only more efficient economies, but also cheerier ones.”*<sup>12</sup>

Arguably the major problem is not the amount of intervention so much as its form. For example, too many governments try to control rents, in both insensitive and inequitable ways, but do nothing to stimulate landlords to invest in more and better quality accommodation. Even worse, is that the main housing policy is to offer over-generous incentives to people to buy their own homes. Tenure bias is a fundamental flaw in most housing programmes.

Governments in many developing countries do not seem to be utilizing sufficiently the experience of most developed countries where past policies often failed. As Saunders described experience in the United Kingdom over a decade ago:

*“we have seen that the case for phasing out ‘bricks and mortar’ subsidies is compelling. Price controls on private renting have proved counter-productive, state provision in kind has become dominated by producers and unresponsive to consumers, and sub-*

*sidies to owner-occupiers through mortgage interest tax relief and other channels distort supply and demand and redistribute income from those who cannot afford it to those who do not need it.*"<sup>13</sup>

How free is the current policy in most developing countries of these same criticisms?

While there has been some improvement in thinking about what the appropriate policy should be, the problem is that many governments in developing countries still seem determined to continue with too many of these discredited policies. Among the foremost of these is to encourage the spread of owner-occupation through subsidies. Admittedly, such subsidies are increasingly and more accurately focused on the poor but the approach is still problematic.<sup>14</sup> In South Africa, it seems that many poor people cannot afford to run the homes that they are being given (see section IV.F). Perhaps the position of poorer countries is understandable in the sense that even developed countries do not always seem to learn from their own experience. As has been noted in the United States of America:

*"the argument that extending homeownership opportunities to the poor will produce social benefits and improve American society seems to us to rest on shaky ground."*<sup>15</sup>

Encouraging owner-occupation is not an adequate policy in the sense that it is becoming difficult to raise levels of homeownership much further in many developed countries and achieving **universal** owner-occupation is clearly unattainable. In most developing countries economic problems have made the purchase of a home in the formal sector difficult for households with falling real incomes. Many households, whose employment situation would have led them to expect owner-occupation in the past, are now forced to share with families or to rent accommodation. Even self-help ownership is becoming problematic in many developing countries because of falling real incomes and the growing shortage of cheap land. If owner-occupation continues to expand under current conditions, it is possible that this trend will contribute significantly to producing tomorrow's slums.

If owner-occupation as a universal policy goal is clearly inappropriate, then governments need to encourage the development of other forms of tenure. After all, Saunders, in a book that was widely interpreted as an evocation of the joys of homeownership, argues that:

*"the most fruitful strategy in the long term is to move towards a tenure-neutral system of income support in which consumers can choose whether to rent or buy without their decision being influenced by a confusing and often contradictory system of controls and subsidies."*<sup>16</sup>

Such a view has been espoused by many writers on housing policy in poorer countries ever since. A recent report on housing in South Africa argue that:

*“rental and ownership housing together create a healthy and vibrant housing sector. Each offers a range of choices to meet the lifestyle and economic needs of consumers. .... Any housing policy should therefore strive to create both forms of tenure in order to facilitate a vibrant housing sector”*.<sup>17</sup>

Similarly, arguments for a multi-faceted policy in Bolivia include:

*“managed self-build combined with subsidized loans, the construction of low-cost housing with minimal beneficiary participation plus access to loan finance and, finally, the construction of low-cost living units for rent are considered complementary elements of a more comprehensive housing system capable of meeting the variety of needs of the low-income sector.”*<sup>18</sup>

And, in India, arguments indicate that:

*“the core objective of housing policy should be to enhance the productive contribution that housing makes to the lives of individuals and households by ensuring the availability of a healthy mix of tenures.”*<sup>19</sup>

Singapore provides an interesting example, with only 10 per cent of all housing units being occupied by tenants – following decades of government promotion of homeownership. Questions are now being raised about the efficiency of Singapore’s 100 per cent homeownership model:

*“...decreasing size of the rental sectors may act as a constraint on mobility and thereby a barrier to the right people being in the right jobs.”*<sup>20</sup>

If a clear model is needed, it lies in Europe. Not in the United Kingdom, nor in Southern Europe, but in central Europe. For, if any two countries show that decent shelter is not reliant on high rates of homeownership, it is Germany and Switzerland. By embracing relatively tenure-neutral policies, governments in these two countries have arguably produced superior housing conditions to those in countries with much higher rate of owner-occupation. It can hardly be argued that high levels of renting have undermined democracy, reduced ontological security or slowed economic growth in Germany, Sweden and Switzerland.

## **VI.C. Encouraging large-scale investment in rental housing**

Chapters I and II showed that few governments in developing countries have been successful landlords. Seemingly, their experience has taught them the

error of their ways and few are interested in becoming social landlords once again. Only the Republic of Korea, the state of São Paulo in Brazil and, perhaps, South Africa, seem to be possibly exceptions to the general rule. Ha's injunction, that "*the role of the public sector in housing production should be limited to low-income housing, and the policy of state-developed housing for sale should be stopped and switched to expanding state-developed rental housing for the low-income group*",<sup>21</sup> seems to hark back to another era.

If governments are reluctant to become involved either directly or indirectly in rental housing, then the alternative is to produce an environment conducive to commercial involvement. Some, like the Colombian government, believe that they can attract large-scale private investors into the arena (see appendix 2). Others think that the government needs to play a more active role. For example, it has been argued that the public sector is most effective where government funds are used to facilitate rental housing for low-income households through public private-partnerships, where the responsibility for developing and managing the stock rests with the private sector partner.<sup>22</sup> Whether governments should offer subsidies to private companies to develop rental housing is doubtful, given the financial difficulties facing most governments in most developing countries, there is certainly no case to be made unless those subsidies are offered for generating accommodation for poor families. This is the strategy currently being followed to regenerate the inner-city areas of South Africa (see appendix 1). Arguably, such an approach is defensible in places where subsidies are offered to homebuyers; in such an environment, indeed, a tenure-neutral policy almost demands subsidies for landlords and/or tenants.

Tax relief is the other commonly used strategy to encourage owners to create rental accommodation. Even in the United States of America, the government seeks to encourage the production of housing for low-income families by offering owners the possibility of tax credits, provided that tenants, at or below a certain income level, reside in the dwelling units.<sup>23</sup> A series of standards requirements also have to be satisfied.

In developing countries, such approaches are of limited value in the sense that there are so many families requiring accommodation, that few governments can contemplate providing subsidies or tax credits in sufficient numbers to do much to improve the general housing situation. In the past, a few tried to encourage rental investment for specific groups. In Mexico, the government provided generous tax incentives in the 1980s to companies building rental accommodation, permitting the sale of the rental units after a period of five years.<sup>24</sup> In practice, this produced little housing outside of the main tourist resorts. In the Republic of Korea and Saudi Arabia, somewhat more successful

attempts were made to stimulate private rental construction.<sup>25</sup> At various times, the governments of Egypt and India offered incentives to certain kinds of rental housing developers although with little sign of success.<sup>26</sup>

In Colombia, the government is currently trying to create an environment in which companies will invest in rental housing as part of a campaign to increase housing investment and to reduce high levels of unemployment (see appendix 2). However, while some financial incentives are being offered, notably relief in the level of property tax charged, the main emphasis is on reducing rent controls and on easing the task of repossessing property when tenants do not pay the rent.

An almost universal complaint among landlords is that they cannot remove difficult tenants from their property.<sup>27</sup> Frequently, the failings of the legal system lie at the heart to the problem (see section V.E). In Colombia, it currently takes up to three years to remove a tenant and it is just as slow in most Spanish speaking countries.<sup>28</sup> The new Colombian legislation is attempting to improve the speed of recovery from a maximum of three years to eight months – still far too long to satisfy most landlords in any country (see appendix 2). In England and Wales the introduction of the accelerated repossession scheme seems to provide a much quicker procedure and is worthy of consideration in other countries (see appendix 4).

A further means by which some governments have sought to encourage private investment is by creating a hybrid form of renting cum purchase, perhaps misleadingly known as leasing. The aim is to combine the advantages of rental and owning. Households start to rent but part of their payments contribute to the eventual purchase of the house. This arrangement satisfies the need for some families to rent at the beginning of their lives but who want one day to become homeowners. Finland, Chile and Brazil have all introduced some variety of this idea of hybrid renting-ownership scheme. So far, these schemes have not been totally successful and have tended to be more geared towards middle-income groups. Nevertheless, it is an approach worth considering and more detail is provided in appendix 3.

Governments eager to encourage more commercial investment in rental housing should also be aware that their regulations with respect to mortgage lending may discourage lending for anything except owner-occupation. As the World Bank point out:

*“regulations governing mortgage lending are usually biased toward completed owner-occupied housing, making it unattractive or impossible for financial institutions to lend for rental housing or condominium housing, or for house improvements or unfinished core houses on serviced sites.”<sup>29</sup>*



In Nigeria, there is little formal sector finance available for any kind of housing construction, and the rate of interest also discriminates against the building of housing for rent.<sup>30</sup>

### **VI.C.1. Creating a social housing sector**

Faced with the problems of encouraging private landlords to create more accommodation, many governments have looked towards the social housing sector. In the United Kingdom and the Netherlands, most of the housing created for poorer families since the 1980s have been generated by housing associations.<sup>31</sup>

A highly relevant approach is that adopted in Belgium in the middle 1980s with its Social Rental Agencies:

*“These aim to act as a buffer between landlord and tenants. They lease property and re-let it to underprivileged or vulnerable individuals or families. They guarantee the owners the rent and also provide supervision. For problem tenants they organize social support if required. Social Rental Agencies were founded by a great number of players including: voluntary welfare services, local authorities and statutory social welfare agencies. Notwithstanding their still limited experience and market impact, they have acquired legitimacy among the landlord associations.”*

*“The [Social Rental Agencies] have become a success story, and sixty-eight Flemish [Social Rental Agencies] now manage approximately 2,100 dwellings”.*<sup>32</sup>

The South African government is currently trying to increase the participation of social housing foundations in developing and managing rental housing (see appendix 1). However, Martin and Nell warn that in South Africa:

*“institutional rental comprising rental provided by social housing institutions and private sector developers is generally more expensive than ownership, both from a capital investment and operating cost point of view. The higher cost of capital investment is a function of the VAT legislation, which disadvantages rental. Operating costs are more expensive due to the cost of management, which is institutionalised. However, upfront barriers to entry are lower than for ownership. This form of rental is more sustainable in terms of conversions and refurbishments, than the construction of new stock. Despite the higher costs, this form of rental delivery offers significant opportunities in terms of city integration and urban renewal, particularly in inner cities.”*<sup>33</sup>

In theory, cooperatives have a major role to play in developing countries in the same way that they do in certain European countries. However, as section II.C has shown, a strong housing cooperative movement is still in development in most developing countries. And, where they have been relatively successful, as in India, few have created much housing for rent. Where they do seem to have a potentially important role is in improving the quality of deteriorated rental housing. However, currently most cooperatives involved in this activity seem to want to turn the tenants into homeowners. While it is highly desirable that poor quality housing is improved, transforming tenants into homeowners does not help develop the rental housing sector.

## **VI.D. Encouraging the self-help landlord**

If few governments in poorer countries have given much help to private landlords to develop rental housing, virtually nothing has been offered to small-scale landlords. Neglect of the latter appears odd given that the vast bulk of rental housing in poor cities appears to be provided by the informal sector (see chapters I and II). Of course, it could be argued that the very success of the small landlord suggests that it has been the very absence of government involvement that has provided the opportunity. Unlike those in the formal sector, small landlords have been largely unhampered by rent control, tax or planning regulations.

But a price has to be paid for this informality, in terms of poor living conditions, lack of services and overcrowding. At the very least the case should be examined of how small landlords might be helped by governments anxious to foster a tenure-neutral policy and to stimulate both expansion and improvement in housing conditions.

The following sub-sections discuss what seem to be among the best ways of encouraging self-help landlords to create more and better rental accommodation: offering them incentives, building rental incentives into upgrading programmes, providing them with micro-credit, creating appropriate planning regulations and offering them more assurance about their role in society.

### **VI.D.1. Incentives for small landlords?**

Subsidies are a controversial area in housing discussions although few governments have failed to give help to certain groups at one time or another. Almost always the help has gone to those who wish to buy their own home. Arguably, however, an equally plausible argument can be made for giving subsidies to poor owners who create living space for others. Some years ago, UN-HABITAT and ILO argued that:

*“relatively low-income households should be encouraged to add rooms for rent to their dwellings both informally, such as the renting of rooms in a house, and in more formal rental units (such as apartments). The message of the last few years is that the symbiosis between owners and renters should be embraced positively and wholeheartedly by beleaguered government housing agencies as therein lies at least part of the solution to both the housing-supply and cash-flow problems affecting the poor in developing countries.”<sup>34</sup>*

In South Africa, Martin and Nell have proposed the establishment of ‘The Household Rental Grant Programme’ comprising a capital grant to households who are owners or have site permits and have built or renewed rental accommodation on their properties to meet specified minimum standards.<sup>35</sup> The grant would be paid only once the accommodation has been built and inspected (for details, see box 3).

### **Box 3. Improving living conditions in South Africa: A household rental grant proposal**

In a report prepared for USAID, Martin and Nell (2002: 67) have suggested that local authorities in South Africa should be responsible for co-ordinating a range of area-based programmes, which seek to upgrade the engineering and social infrastructure and encourage investment to provide better quality household rental units. Action might be funded through a new ‘Household Rental Grant Programme’ applicable in renewal zones identified by the local authorities.

Households who are owners or have site permits will be encouraged to build new or renew their existing rental accommodation. Both family and single rental units will be eligible. In both cases minimum standards must be met in order to be eligible for the Household Grant. The minimum standards should be: Family Units – minimum of 30m<sup>2</sup> with own or shared ablution facilities; Single Units – minimum of 15m<sup>2</sup> with shared ablution facilities.

Once they have completed the building or renewal process, households would apply for a subsidy via a local authority. Applicants will be required to submit an approved building plan along with the application (pro-forma plans would be made available by the Local Authority), as well as a rates-and-service payments clearance certificate (certifying that they were up to date in respect of these payments).

Tenants occupying the rental units will not need to meet any eligibility criteria as it will be too difficult to administer and police; moreover most of the tenants are likely to be lower income people anyway because of the location and nature of the accommodation.

(continues...)

### Box 3. (continued).

Buildings will then be inspected and approved. The criteria applied will include the following: separate ablution facilities for family units must be provided; shared ablution facilities for accommodation for single units will be accepted; minimum standards will apply to both family and single units.

The subsidy will then be paid on the following basis: for a unit providing family accommodation say R5,000; for a unit providing bachelor accommodation say R2,500.

**Performance risk:** Household rental subsidies will be paid out only once the household rental units have been built, inspected and approved. No bridging finance will be provided. The subsidy will not be payable unless the household provides an approved building plan and a rates/service payments clearance letter.

**Subsidy payment risk:** The subsidy payment will be made directly to the qualifying household who must be the registered owner or site permit holder. The eligible beneficiary will need to provide an approved certificate together with identification at a designated post office or bank. The post office or bank would match this with the approved certificate check and make the payment by bank guaranteed cheque, bank transfer or in cash.

**Capacity development:** The following capacity development programmes should be implemented:

- A standardized Household Rental Project methodology should be developed nationally. The methodology should detail the overall approach, project components or stages, programme and budgeting tools, standard contracts and forms, procedures as well as terms of references for outsourcing services and job descriptions for staff functions. A manual similar to the Project Linked Subsidy Guidelines should be prepared.
- A focused training programme for project managers and field workers who will promote the programme in the field to households. These field workers should also be able to provide support and advice to households in assisting them to develop or renew their rental units.

Offering subsidies to landlords might seem to be politically explosive. But, the case for providing such subsidies in developing countries is substantially eased by the fact that so few landlords are very well off. If landlords are as poor as their tenants, equity considerations do not represent a problem. In any case, governments in countries like Chile and Colombia have introduced procedures by which poor families can be identified, which provides some kind of guarantee that any subsidies given to landlords will not go to the wrong people.

The principal problem with offering landlords a capital subsidy, however, is the perennial one that too many families are poor and too little money is available. In Colombia, for example, some 2.6 million poor families are eligible for help with their housing problems but the government managed to allocate

only 23,000 subsidies per annum between 1999 and 2002.<sup>36</sup> If that is the situation in a relatively affluent developing country, what hope is there of providing sufficient subsidies in much poorer nations?<sup>a</sup>

An alternative approach is to allow landlords greater tax relief with respect to their rental income. In both the United Kingdom and the United States of America, such an approach seems to have helped to increase the rental housing supply. In less developed countries, UN-HABITAT and ILO suggest that:

*“Tax benefits on rental income would be helpful in places where landlords routinely pay tax, especially in formal-sector houses or in areas where informal housing is being formalized.”*<sup>37</sup>

The difficulty, of course, is that so few small landlords currently pay tax. Indeed, many seem anxious to evade paying tax by pretending that they do not have any tenants. In Mexico, few self-help landlords admit to having tenants, and even the tenants are told to tell visitors that they are friends or guests.<sup>38</sup> In Bangalore and Surat (India), landlords attempt to escape higher property taxes by labelling tenants as relatives or by taking down temporary partitions between rental units when the tax collector calls.<sup>39</sup> In Resistencia (Argentina), *“all but two of the landlords interviewed do not pay taxes regularly”* and landlords rarely sign contracts with tenants because they are *“afraid of being detected by municipal officials”*.<sup>40</sup>

If most petty landlords don't pay tax now, how will they gain from tax relief? Coulomb and Sánchez argue that fears about being charged tax in the future prevents landlords from expanding their operations and from adapting the property to make it more suitable to accommodate the tenants.<sup>41</sup> They are afraid to do this in case it becomes obvious that they are letting their property. Kumar also argues that the fear of paying tax drives rental housing in India underground and results in poor housing conditions because, for example, landlords refuse to build kitchens, as they are the clearest physical indicator of multiple occupancy.<sup>42</sup>

Kumar also argues that:

*“rather than being discriminated against by higher property tax rates because they are producing rental accommodation, they need to be acknowledged by the granting of exemptions from not just rent control measures but also from, for instance, the payment of property tax.”*<sup>43</sup>

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a. The most practical subsidy in many developing countries, may be the provision of infrastructure and land at discounted prices.

The recently approved Colombian rental act (see appendix 2) is actually inviting municipalities to lower property taxes on properties with tenants.

Of course, any attempt to offer tax relief for all landlords is problematic. First, property taxes are an important source of local government revenue and since in some cities so many property owners are landlords, it would lead to a major loss of municipal income. Secondly, not all small-scale landlords are poor and some do not merit tax rebates. If rebates are to be given then they should be directed at poorer landlords, at least in those countries, like Chile or Colombia, with the ability to identify them. Property tax rebates could be given to poor landlords in return for improvements in the quality of the property. What should not happen is that property taxes be levied merely on the number of rooms, thereby tempting landlords to remove partitions when the inspectors come to call. It would be much better to tax properties according to their floor space.

## VI.D.2. Building rental incentives into upgrading programmes

Urban upgrading is currently the most ubiquitous form of housing intervention and the multilateral development banks are very active in financing such projects.<sup>44</sup> This is welcome in so far as upgrading programmes are themselves an excellent means by which to increase the supply of rental housing in low-income settlements. The provision of water, electricity and schools, the improvement of transport links, and the integration of self-help settlements into the urban fabric by themselves attract tenants and encourage the creation of more rental housing. Studies from many countries have demonstrated that tenants wish to move into improved neighbourhoods and that owners respond positively to the increased demand for shelter.<sup>45</sup> Not only does the upgrading of self-help settlements improve the quality of owners' lives, it also increases their opportunities for letting rooms.

Upgrading programmes in Guayaquil (Ecuador) and La Paz (Bolivia):  
*“encouraged the addition of rental units, thereby increasing the housing stock and generating needed income for the homeowner. Over a quarter of the sample intended to rent part of all of the additional space they were building with loan funds”.*<sup>46</sup>

And in a general evaluation of upgrading programmes, Skinner and others conclude:

*“upgrading mechanisms have generally been found to contribute to improved quality **and** quantity of housing. ... private improvements consisted to a large extent of adding rooms or otherwise increasing the amount of sheltered space at the disposal of the households, thus contributing significantly to the expansion of the housing stock.”*<sup>47</sup>

Kumar may argue that sites and service programmes are “*more conducive to the production of rental housing than upgrading programmes*”,<sup>48</sup> but that is only because most of the settlements being upgraded already contain lots of tenants. Unfortunately, official projects all too frequently ignore the effects of upgrading both on the existing tenant population and in terms of the opportunities for generating more rental accommodation. Those who plan, implement, finance or study urban upgrading programmes frequently fail even to mention tenants. In Nairobi:

*“low-income residents in the site-and-service schemes as well as settlement upgrading projects were neither consulted nor included in the plans to improve their neighbourhoods”.*<sup>49</sup>

In La Paz, renters were neglected:

*“because project staff had been unaware of the numerical significance of the renters, either actual or potential, and had little understanding of their living conditions....”*<sup>50</sup>

Most assessments of upgrading programmes are little better, including several evaluations of the famous Favela-Bairro programme in Rio de Janeiro.<sup>51</sup> It is difficult to comprehend how an evaluation of the impact on the community can be made properly if the interests of large numbers of the current population are ignored.

What seems essential in future is that managers of urban upgrading programmes be made aware of the presence of tenants and of the potential for increasing rental accommodation. They should take tenants into consideration in planning the programme because upgrading can create tension between owners and tenants.<sup>52</sup> Since it is well known that “*tenants are less motivated to join community projects*”,<sup>53</sup> community organizations must be encouraged to include more members from among the tenants.

Homeowners in upgrading programmes should be encouraged to increase the supply of rental housing. Managers must avoid past practice when some officials have actually prohibited owners from letting property in upgrading programmes.<sup>54</sup> Managers should also consider whether it is feasible to offer subsidies or credit to finance room additions.<sup>55</sup> Something similar has been attempted in several parts of Latin America, admittedly with mixed success.<sup>56</sup> The *Plan Terrazas* programme that was introduced in Colombia in the 1970s worked very well in Medellín and Cali, although it was less successful in Bogotá. Something similar is being attempted in the Mawani Squatter Resettlement Programme in Voi (Kenya), where cooperative societies organize the construction of two-room dwellings for their poorer members. While the family occupies one room, the other is rented out. The money obtained from rent is used to repay the loans.<sup>57</sup>

Interest in this kind of approach is slowly spreading. In the vast Alexandra neighbourhood in Johannesburg, the Alexandra Renewal Project is considering whether to encourage small-scale private landlords to build or upgrade property to accommodate up to six tenants. The settlement's location close to the high-income areas of the city makes renting a lucrative potential investment and one that people "*know how to do*" because they "*have been doing it for years*".<sup>58</sup>

The only danger is that upgrading will lead to the displacement of tenants through some kind of 'gentrification'. It has been argued that because:

*"higher standards enhance the attractiveness of the project areas, this leads to a demand from the better off households who can afford to enter the upgraded settlement.... tenants are the first victims of any trend towards displacement. .... a rise in rent may compel them to leave their rented home and look for other housing."*<sup>59</sup>

Other authors also argue that "*regularisation or legalisation*" can push "*tenants, or those unable to pay the additional taxes that usually follow, ... off the housing ladder altogether*".<sup>60</sup> Likewise, in Kenya:

*"the introduction into Mombasa's low-income settlements of the conventional or formal systems of financing residential development has resulted in absentee landlordism, escalating rents, and the 'invasion' of low income settlements by higher income groups"*.<sup>61</sup>

Similarly, tenants are often portrayed as the inevitable losers in the upgrading process. They:

*"are exposed to the arbitrary decisions of their land or shelter owner, and generally have no recourse to legal advice. ... they are unable to meet the cost incurred by any improvement of their living environment. Unlike most irregular settlement occupants, they cannot apply for compensation in the case of forced removal and they are generally not eligible for resettlement."*<sup>62</sup>

However, the limited research carried out on this issue does not provide much support for the displacement hypothesis. For example, in Pakistan, it has been noted that:

*"in most cases informal neighbourhood consolidation does not lead to displacement. This can be attributed to either the cultural and quality barriers rendering low-income neighbourhoods unattractive to middle income households, or the resistance to move among the original inhabitants (or both)"*.<sup>63</sup>

Only where the location of an upgraded settlement is particularly attractive to higher income groups does some form of gentrification occur. In Papua New Guinea, for example:



*“the conversion of temporary houses into permanent structures, coupled with land tenure security, has ... led to higher rental values. .... To a limited extent this has led to higher-income households replacing the poor tenants, but many of the old tenants do not mind paying higher rents because of the improved micro-environment and surety of residence, at least for a certain period”*.<sup>64</sup>

In short, therefore, upgrading programmes give a positive boost to the creation of tenants and there is little evidence of tenants being displaced. The only problem is that the officials who are directing upgrading programmes are all too often insufficiently aware of the presence and needs of tenants.

### **VI.D.3. Providing micro-credit for self-help landlords**

Evidence from many countries suggests that most landlords tend to finance rental housing from their own resources. Bangalore (India) landlords *“depend on a combination of moneylenders, deposits, leases and rents to make housing improvements”*.<sup>65</sup> In Bogotá, illegal sub-dividers tend to finance the purchase of the land and accumulated ‘unemployment’ funds (*cesantías*) finance most of the construction.<sup>66</sup> Even among small landlords in the United Kingdom, *“borrowing from banks and building societies was uncommon”*.<sup>67</sup> Whether this is due to the lack of appropriate financing arrangements or because of the reluctance of landlords to borrow is uncertain. However, the possibility of offering finance to existing and potential landlords is now recommended widely in the literature.<sup>68</sup> Such an approach is wholly compatible with the current fashion for legalizing self-help settlements and the related enthusiasm for micro-credit.<sup>69</sup>

The utility of micro-credit for rental housing is subject to some of the general doubts about the usefulness of small loans in the housing field.<sup>70</sup> First, few banks appear to be willing to lend to low-income families, let alone to those who own self-help homes. In Bogotá, banks seem very reluctant to lend money to people in the informal sector. Informal work does not provide the kind of collateral that formal credit institutions require. Even when they are prepared to lend to the family, many institutions have ‘red-lined’ the areas where the family lives. How hard it is to get credit to the poor has been documented clearly in Colombia, Chile and South Africa.<sup>71</sup> In India, it has been argued that:

*“as long as the crucial role of rent receipts remain unrecognised, a vast majority of individuals and households will continue to be excluded from formal credit sources...”*<sup>72</sup>

Secondly, many low-income people trust banks and mortgage companies as little as those institutions trust the poor. Many poor families consider

repaying a loan to be a burden that may endanger the household's whole financial future.<sup>73</sup> In Bogotá, many poor families are very reluctant to enter a formal borrowing commitment, especially when the banks charge such high interest rates.<sup>74</sup> In South Africa, attitudes appear to be similar and only one in four of the households that received housing subsidies wanted to borrow money on a mortgage.<sup>75</sup>

Nonetheless, letting rooms is a way in which families can increase their incomes and some may be prepared to borrow if the conditions are right.<sup>76</sup> As such, governments should encourage banks to move into the low-income housing sector and to lend to landlords wishing to enlarge or modify their properties. Banks should certainly think of rental housing as a viable business practice in the same way as they might consider lending to a taxi driver or the owner of a small shop.<sup>77</sup> They should certainly modify their regulations to remove any kind of bias against informal sector landlords. For, as the World Bank points out:

*“regulations governing mortgage lending are usually biased toward completed owner-occupied housing, making it unattractive or impossible for financial institutions to lend for rental housing or condominium housing, or for house improvements or unfinished core houses on serviced sites.”<sup>78</sup>*

#### **VI.D.4. Planning regulations**

UN-HABITAT and ILO have earlier argued that:

*“The efficiency of extensions made for renting out, in areas where services are already in place, deserves more attention. Adding rooms to an existing house is comparatively inexpensive – possibly as little as half the price of new building as no new land is required and at least some of the structure is already in place.” Yet, because “extensions are discouraged by planning regulations on maximum use of plots or by estate owners, occupants of relatively well-built and well-located housing may be discouraged from supplying rooms for rent which they can well afford to build”.*<sup>79</sup>

As such, incorporating rental housing into upgrading programmes or indeed encouraging its development in informal settlements may require some modification to the planning regulations. All too often these regulations are set at such a high level that either most builders break them or they impede production. But planners are seldom eager to lower standards in case it makes living conditions worse. First, the authorities fear that the densification involved in increasing rental occupancy will subject settlements to new kinds of danger. For example, building wooden dwellings in the backyards of formal

structures is considered to be a fire hazard in South Africa<sup>80</sup> and the construction of four- or five-storey dwellings in cities prone to earthquake or landslide is increasingly worrying many Latin American planners.<sup>81</sup> Secondly, some authorities worry that the arrival of tenants may raise the demand for services beyond the level that the infrastructure was designed to satisfy. If the population doubles, the electricity, water and sewerage systems may not be able to cope and the size of the school may have to be increased.<sup>b</sup>

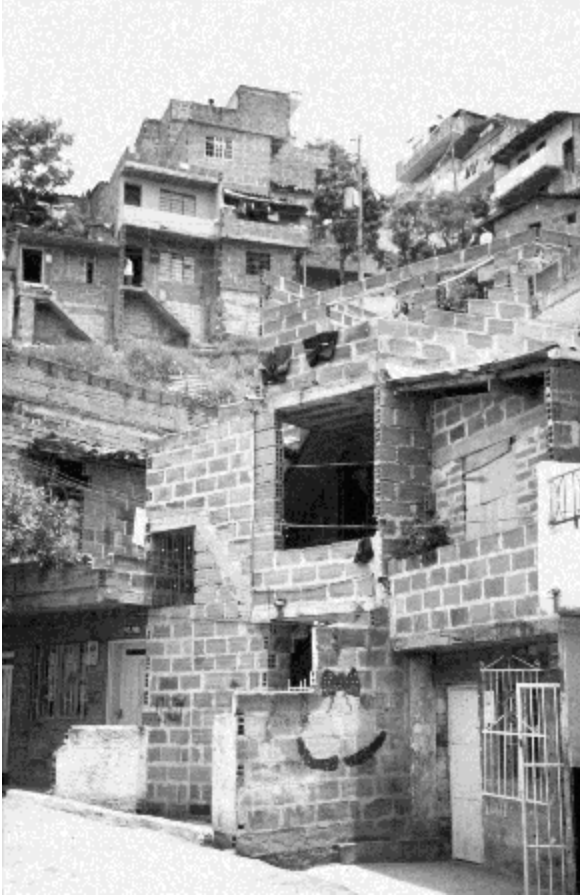
The counterview is that excessively strict building standards, infrastructure norms and land use regulations, limit the production of housing. The World Bank<sup>82</sup> suggests that they often restrict the residential land supply, and create bureaucratic bottlenecks that cause delay in housing projects. Similarly, others complain that apart from the restriction of lot sizes for economic activities, two other factors hamper the economic development of planned settlements: the limited proportion of plots for commercial use, and the regulatory framework which often prohibits mixed residential/commercial land-use.<sup>83</sup> Such planning codes are often an inappropriate legacy of former colonial regimes or the education received by indigenous planners trained in the 'mother' country. In Delhi, the planning regulations seem to have discouraged every kind of housing construction, including rental housing. Renting part of an owner's flat is virtually impossible because legally only one kitchen can be built.<sup>84</sup> In Benin City, the zoning regulations ostensibly limit the profitable development of rental accommodation by stipulating that houses can only have eight living rooms on a single storey, 12 on two floors and 15 on three, with a maximum occupancy rate of two persons per room.<sup>85</sup> In Cairo, the urban zoning laws limit the number of houses that can be built on each plot.<sup>86</sup>

Of course, the very difficulty of getting planning permission for new settlements may actually stimulate the generation of rental housing by limiting urban expansion. In cities such as Seoul, rigidly enforced greenbelt regulations and master plan provisions limiting residential development to only 25 per cent of the total land area in the 1970s led to "*explosive increases in the price of land and housing, severely decreased housing affordability, and created persistent housing shortages*".<sup>87</sup> No doubt, the high incidence of renting and sharing in Seoul was one result.

Some critics, however, accuse the authorities of discouraging rental housing by setting standards that are too low.

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b. Martin and Nell, 2002: 67. Of course, as Martin and Nell point out, such a problem can be overcome by upgrading the infrastructure of areas with a heavy concentration of rental households.



**Photograph 8: At risk in an earthquake? Consolidated self-help housing in Medellín, Colombia**

*“The adoption of extremely low planning standards, especially in relation to plot sizes, completely closes avenues for housing to be put to productive uses – either renting or home based enterprises”.*<sup>88</sup>

According to these authors, settlements would prosper if they were subject to many fewer rules and regulations. If plots in sites-and-service schemes are too small it may be difficult for owners to create space for tenants.<sup>89</sup> In Delhi, the regulations decree that only three families are permitted to live on a single site.<sup>90</sup> Small plot sizes are currently a major problem in social housing programmes in Bogotá where formal developers in the first generation of Metrovivienda projects are producing housing on plots as small as 36 square

metres. Some writers have even argued that site-and-service schemes should allocate more land to households to encourage them to build accommodation for tenants.<sup>91</sup> For similar reasons, it has been argued that South African town planning schemes and bye laws should be reviewed to encourage the construction of second or third dwellings on existing residential sites.<sup>92</sup>

A related argument is that housing administrators should relax repressive occupancy rules and regulations in upgrading and sites-and-services projects. Instead of imposing eviction orders for non-payment of amortization, they should look into the possibilities of helping the affected households by allowing them to accept tenants.<sup>93</sup> Andreassen recalls how, in some African countries, *“and backed by the World Bank – owners were encouraged to build extra rental rooms for supplementing their small income.”*<sup>94</sup>

Of course, the main difficulty in commenting on the impact of planning regulations on rental housing lies in knowing precisely to what extent the rules are actually being implemented. Since most regulations are applied in only a cursory manner in most areas of poorer cities, it is difficult to be categorical about the overall effects of their application. In general, however, it is probably true that in most cities high planning standards have either been ignored and/or have helped to increase levels of corruption.<sup>95</sup>

#### **VI.D.5. Reassurance**

In recent years, governments in Brazil, Chile, Mexico, Peru and Colombia, and no doubt in many other countries too, have been offering title deeds to self-help households in order to rectify the widespread illegality of tenure in their major cities. One of the key arguments behind offering legal title is to reassure owners that they will not lose their plots.<sup>96</sup> The additional sense of security will encourage them to improve their housing.

In practice, owners need rather less than title deeds to assure them that they will be left alone.<sup>97</sup> The lesson of past experience seems to be that few settlements are actually removed, and all that is needed to reassure settlers that they will not be evicted is a specific assurance to that effect by the mayor or major politician and by the promise that services and infrastructure will soon be provided. Once assured of these fundamental points, owners have shown that they are able to improve their property very quickly. They need title deeds less than the funds to buy essential building materials. As the self-help housing process advances, rooms are soon created for tenants, particularly in neighbourhoods with decent transport links or close to sources of employment.

Nonetheless, potential landlords may sometimes feel sufficiently threatened by government policy to slow or modify the creation of rental space.

Venezuelan landlords are frightened by the law that gives tenants the right to claim a house that has been rented to them illegally (for example, because it lacks the necessary services). In Valencia in the late 1970s, landlords responded by only renting *ranchos* to illegal Colombian immigrants.<sup>98</sup> Venezuelan tenants might try to claim the house, but an illegal Colombian immigrant would not take the risk of being deported. Elsewhere, a frequent response is for owners to take in tenants and simply deny to outsiders that the occupants pay rent. Several surveys in Mexico City have found difficulty in recording the numbers of tenants because landlords have claimed that tenants are members of their family.<sup>99</sup> Sometimes, as in India, fear of taxation or rent control encourages landlords to hide the physical presence of the tenants by installing removable wall partitions within the homes.<sup>100</sup>

If the rules and regulations are generally ignored, while complicating people's lives and encouraging corruption, then they are perhaps best removed. But why should the authorities not go further and reassure owners that, subject to certain very basic minimum standards, letting accommodation to tenants is not frowned upon? Landlords will not lose the property to tenants and will be able to repossess it if tenants do not pay the rent. The establishment of mediation and conciliation tribunals (see section IV.F) will also help reassure both landlords and tenants that there is some kind of official recognition of both them and their problems. Indeed, why not go further and applaud the fact that landlords are helping to reduce the housing deficit by creating space for other households?<sup>101</sup> Since the offer of reassurance costs nothing and may increase the quantity and quality of self-help rental housing, it is worth considering.

## VI.E. Improving the quality of the housing stock

The greatest dilemma facing housing policy throughout the world has always been how to ensure minimum standards of quality when so many people live in desperate poverty. For example, to what extent should the authorities insist on property conforming to specific building or service standards when neither owners nor tenants can afford to pay the cost of applying those standards? As Lord Shaftesbury summarized the housing dilemma in London in 1875:

*“Are we to construct a vast number of single rooms in order to meet the needs of these poor people or are we to build houses according to our new sanitary requirements?’ To construct single rooms for families would be to ‘maintain a most indecent and immoral state of things’, but not to do so would raise rents to impossible levels”.*<sup>102</sup>

Over the years, many governments have been tempted to demolish deteriorating housing. In the 1960s and 1970s, inner-city renovation programmes

led to the loss of large numbers of homes in Lagos, Rio de Janeiro and Tunis.<sup>103</sup> In Delhi, some 700,000 squatters were moved in 1976 from the central areas to the outskirts.<sup>104</sup> And, currently millions of people are threatened with eviction under similar kinds of circumstances.<sup>105</sup>

Demolition normally creates more problems than it solves. In the centre of Mexico City, attempts to resuscitate commercial activity in the central area destroyed vast numbers of rental homes in the central city. It has been estimated that slum demolition and new road programmes during the 1970s led to the destruction of 50,000 rented rooms in three neighbourhoods alone.<sup>106</sup> Demolition certainly goes against Turner's argument that housing standards should be less concerned about physical quality than about the role that shelter plays in a household's survival strategy.<sup>107</sup>

Turner compared the situation of an elderly mason who had moved into a formal four-bedroom house and a rag picker who lived in a shack in the back garden of a godparent. The mason could not afford the payments on his house but the rag picker was living in virtually free accommodation and had access to water and electricity. The 'supportive shack' was hardly adequate accommodation but given the current instability of the man's employment, it freed him from finding the money to pay rent or mortgage payments. If the rag picker had to remain in the shack permanently it would cease to be a satisfactory housing solution. But in the short-term, until he could find better employment, the backyard shack was preferable to a formal but very much more expensive alternative.

Rental housing currently offers tenants something in the way of necessary flexibility. In Bangalore and Surat (India), it has been argued that renting provides poorer households with:

*"much needed 'room for manoeuvre' in responding to sudden changes in their economic or social circumstances. The rental housing options available, especially for poorer households, is the result of landlords 'responding to the pulse' of local needs and priorities. Thus, to denounce rental housing for its poor quality or lack of services is to ignore the extent to which local provision and consumption are finely matched."*<sup>108</sup>

Of course, this does not mean that no standards should be applied at all. Increasing population densities may stretch infrastructure capacity. Landlords may also extend their property in ways that may endanger life and limb. Clearly, certain basic building and planning standards are necessary and these minimum standards must be implemented. However, this does not mean high standards. Sometimes relatively simple measures can improve conditions considerably. In South Africa, for example, if landlords were to put in legal

electrical connections to backyard dwellings it would make life a lot more convenient for all concerned. Illegal connections can carry only a limited amount of power (so backyard residents cannot use two hotplates at the same time or a heater and a hotplate at the same time without tripping the electricity). It would also make sense to provide separate credit meters for backyard tenants and thereby eliminate conflict with the landlords over payment for electricity.<sup>109</sup> Legalizing electricity supplies would also help to reduce fire hazards, a major problem in many poor South African settlements where wooden structures and a dry climate can be a deadly combination. Box 4 provides one suggestion of how the British Government has tried to deal with low quality rental accommodation.

#### **Box 4. Efforts to improve the quality of private rental housing**

The recent literature on attempts to improve the quality of the private rental housing stock in the United Kingdom contain some interesting insights into what may or may not be relevant in the cities of developing countries.

The rental housing in the poorest condition, in 1991, tended to belong to the relatively small proportion of small-scale landlords who regarded their units as an investment (DETR, 1998a: 1). Those landlords who were letting in order to supplement their income or were renting because they could not sell the accommodation tended to look after the property much better. Few small-scale landlords borrowed from formal sources. Hence DETR (1998a: 6) conclude that in the United Kingdom: *“If the private rented sector were more commercially oriented (owned both by existing investment-minded landlords, as well as new landlords entering the market), and a greater proportion of the stock was seen as investment, this might not result in required improvements taking place, unless certain conditions were met.”*

In the United Kingdom, landlords are sanctioned if they do not maintain their properties to an acceptable standard, although it is uncertain how uniformly these sanctions are applied. Evidence from the United States of America suggests that even in affluent countries, sanctions do not always work. When several court decisions in the 1960s and 1970s *“compelled landlords to maintain their units in accordance with local housing codes”* the burden of maintenance was effectively shifted *“away from tenants whose responsibility it had been in common law”*. Establishing a division between ownership and use created a moral hazard problem, which led *“both parties to invest too little in maintaining the quality of the unit”* (Miceli, 1992: 17).

Perhaps a more appropriate way of improving the quality of the stock is through consultation with landlords and with accreditation schemes. In the United Kingdom, landlord forums have been established which organize meetings in which local authorities and landlords can discuss issues of common interest. Such forums are in operation

(continues...)



#### Box 4. (continued).

in 146 local authority areas (41 per cent of the total), most having been established in the last couple of years (DETR, 2001: 1). The local authorities administered three-quarters of the landlord forums, and many of the rest were run by institutional landlords (like universities) rather than by landlords. Almost half of all the forums were meeting at least every four months.

Another way in which landlords are being encouraged to improving the quality of the accommodation is through accreditation schemes. The big advantage to accreditation is that it is far cheaper for local authorities to administer. *“A voluntary accreditation scheme involves landlords in agreeing to submit their property for assessment against a range of conditions and management criteria. Such schemes were less common than landlord forums: some 87 areas (25% of the total) had an accreditation scheme in active operation”* (DETR, 2001: 1).

The schemes were voluntary and, not surprisingly, the best schemes were those that had involved landlords from an early stage. *“Most accreditation schemes were run by local authorities (65%), universities or colleges (27%) or both (3%)”* (DETR, 2001: 3). *“In most cases, standards were policed by an initial inspection visit, either covering all properties (48% of cases) or a sample (23%), and followed up by re-inspection at regular intervals. At the other end of the spectrum some schemes (14%) relied entirely on self-certification by landlords, with non-compliance identified mainly from complaints. Both approaches had advantages. Full inspection required substantial resources and was used in schemes with small levels of membership. But there were concerns both from authorities and landlords about full self-certification. Self-certification with random checking to ensure compliance provided a compromise position which might be more practical in larger authorities or those seeking to secure a large membership”* (DETR, 2001: 3).

How appropriate accreditation is in poor cities is of course questionable. In the United Kingdom, *“accreditation appeals to responsible landlords owning properties which are generally in reasonable condition. It is not appropriate to deal with poor condition properties or unwilling landlords. It works best in situations where landlords can see a clear market advantage in joining. In areas of high demand the task is harder but incentives can influence the level of success.”* The key point is that in the United Kingdom the local authorities have certain incentives to offer to landlords, particularly helping in securing tenants through advertising or listing and occasionally through providing them with grants. Even then, accreditation did not seem to work very well in areas of high demand. In countries with few incentives to offer, there is less scope for accreditation.

The greatest problems in terms of quality tend to be found in the inner city, particularly in decaying rental tenements. There is no point banning such housing because poor people need cheap rooms. So minimum requirements about space, washing facilities, and fire are sensible. And, if rents are too low so that landlords genuinely cannot afford to improve the standard of accommodation, why can't the authorities offer landlords help to improve facilities?

Where the authorities are prepared to give subsidies to encourage homeownership, why not also provide small subsidies to upgrade or introduce water and electricity services in tenements? Offering credit, logistical support and advice to those landlords who wish to improve the quality of their accommodation would also be sensible. The emphasis should be on improvement not on removal; only physically dangerous accommodation should be demolished. In this way, those who wish for cheap temporary accommodation will have a wider choice of backyard accommodation from which to choose.

Unfortunately, government measures to improve living conditions in central areas have often been counter-productive. One of the difficulties in formulating policy for inner cities is that despite many similarities, the characteristics of central areas differ considerably. The centre of Rio de Janeiro was heavily redeveloped during the twentieth century and is very unlike most other Latin American central areas.<sup>110</sup> Buenos Aires has suffered much less from deterioration and depopulation than most other central areas.<sup>111</sup> Some central areas have suffered badly from the effects of rent control, for example, Mexico City, whereas others have not.<sup>112</sup> Earthquakes have wreaked havoc in some places, i.e., Arequipa (Peru), Managua (Nicaragua) and Mexico City, but not in others. The central areas of most Latin American cities have lost people, especially where urban renovation has been extensive, as in Caracas, Guadalajara (Mexico), Rio de Janeiro and to a lesser extent Santiago.<sup>113</sup> Others, as in Bogotá, have been depopulated without a great deal of help from the authorities, the consequence of high crime rates, economic decentralization and general environmental deterioration.<sup>114</sup> Some central areas are densely populated (for example, Lima and Havana) while others have extensive areas of empty land close to the centre, such as the La Merced area in Mexico City, Brás in São Paulo and the docklands of Rio de Janeiro.<sup>115</sup>

But there are two fundamental problems that tend to complicate inner city rehabilitation in most cities. First, the value of land in some inner-city areas is often much higher than the value of the property. Hence it is in the interest of the landlords to try to sell their property. They do not wish to rent and have little interest in trying to repair it. Rent control legislation often exaggerates this problem. In Arequipa (Peru), it has been noted that:

*“there is general discontent, or at least indifference, among the landlords concerning their property, the low rents being the most important motive. .... It is no wonder that the majority of owners in general and purchasers in particular, do not intend to continue letting rooms, especially those landlords and/or buyers who have developed specific plans for the near future like car-parks, shopping centres or houses.”*<sup>116</sup>

For such reasons, many landlords in Mexico City were pleased when an earthquake destroyed their property in 1985.<sup>117</sup>

Secondly, many of the tenants living in the central city are more interested in its location than in the quality of the accommodation. Any effort to improve the latter is likely to raise rents and create financial difficulties for the poorest tenants. This is why the *cortiços*, “*the dilapidated private houses usually situated in central areas, where thousands of families live in precarious and hazardous conditions*”, survive in Brazilian cities.<sup>118</sup> Such tenants are trading off poor accommodation for central location. Perhaps for this reason, in Peru, the “*tugurio population (in Arequipa) is not very active in improving their present housing conditions and, on the other hand, neither are they very eager to leave the rental house*”.<sup>119</sup>

Perhaps for these reasons, very few government efforts to improve the maintenance of central rental housing have been effective. Historic renovation projects have sometimes succeeded in resuscitating parts of the central area, although few have managed to protect poor tenants or indeed street traders at the same time.<sup>120</sup> In Quito, historic preservation of the colonial city encouraged landlords to renovate some buildings, but at the cost of pushing up rents, which “*poor people can no longer afford*”.<sup>121</sup>

Current efforts in Johannesburg to resurrect economic and social life in the central areas demonstrate a similarly pragmatic approach. The construction of new forms of social housing for rent and the attempt to channel rents into the maintenance of badly dilapidated buildings are innovative policies to escape from a very difficult inner-city problem. Certainly, the ‘Bad Residential and other Buildings in Arrears’ strategy of the Johannesburg Metropolitan authority seems to offer a reasonable compromise between the wish of landlords to sell their property and the need of tenants for accommodation in the central city. Whether private investors will take advantage of the scheme and buy out existing landlords can only be judged over time. And, whether the local authority will be able to sustain its tax base if many landlords opt for the scheme is also open to question.

The complicated nature of the inner-city problem means that there are no simple solutions. That lesson seems to have been drawn by Harms to judge from the highly tentative conclusion to his book on central area rental housing. Quite rightly he makes no dogmatic statements against exploitative landlords, in favour of tenants or about the need to protect the precious architectural fabric of the city at all costs. Any solution has to be pragmatic. Conflicts of interest between property interests and tenants should be resolved “*in the political arena*”, through the passing of laws and the offer of State support. At a local level, specific urban renovation programmes should be developed in the

medium and long-term, through mutual effort including cooperation by “*the distinct actors in civil society*”. Such programmes should be aware of “*social objectives*”, “*careful and respectful of the history of the city*” and “*at the same time, adaptable to the specific characteristics of each district and of the community and their experiences*”.<sup>122</sup>

## **VI.F. Affordability and rent control measures**

*“Affordability is another key component of adequate housing. Under international law, steps should be taken by States to ensure that the percentage of housing-related costs is generally commensurate with income levels. ... As for rental or leasehold arrangements, tenants should be protected from unreasonable rent levels or rent increases by appropriate, including legislative, means”*.<sup>123</sup>

Over the years, many governments have sought to achieve affordability by forcing landlords to keep rents low. It has been estimated that, at the end of the 1980s, rent controls or rent subsidies were operating in about 150 countries in the world.<sup>124</sup> The introduction of such controls sometimes represented a genuine effort to help tenants and some governments in newly independent African and Asian countries introduced rent controls as part of an ideological commitment to socialism. Rent control was seen to be an effective way of protecting poorer groups from exploitation by the rich. At times, governments used socialist rhetoric as part of a populist strategy of winning elections. However, the timing of the introduction of rent control in many countries suggests that it was part of macro-economic policy and specifically part of a programme to prevent inflation. The most common date for introducing rent controls was during or immediately after the First or Second World Wars.<sup>125</sup> Governments were concerned that the majority of their urban populations would be threatened with excessive rent rises, which would fuel demands for higher wages, accelerating the pace of inflation. Since most parts of Africa and Asia were still colonies, European practice tended to be transferred to them wholesale. Even the independent republics of Latin America introduced rent controls widely during the Second World War.<sup>126</sup>

If most rent controls were introduced as a temporary expedient to cope with special difficulties, few governments removed them when circumstances changed. Arguably, many governments maintained those controls as a facade to hide the lack of an effective housing programme; public housing construction programmes were expensive, whereas rent controls cost nothing. In addition, since tenants greatly outnumbered landlords, it was not always that easy to remove rent controls.<sup>127</sup>

Rent control was supposed to help poor tenants and was therefore an equitable policy. However, in recent years, rent controls have been discredited and many economists have pointed out their numerous deficiencies. Indeed, a survey by the American Economic Association in 1992 found that antipathy to rent control was the single issue that most united its members; “no fewer than 93.5 per cent agreed that ‘a ceiling on rents reduces the quality and quantity of housing’”.<sup>128</sup>

In brief, the main problems with rent control are:

**Equity:** Rent controls can operate inequitably in three ways. **First**, they favour some tenants at the expense of others. In particular, they tend to favour those who have lived in rental housing for years against those who wish to become tenants. When rent controls apply only to sitting tenants, new tenants lose out.<sup>129</sup> **Secondly**, there is no guarantee that those covered by rent controls are actually poor. Indeed, in so far as rent controls tend to work in the higher income areas but not in the poorer areas (see below), they are likely to be inequitable in their impact. Similarly, if the legislation only covers sitting tenants and the latter are more affluent than new tenants, the result is again perverse. In Bangalore (India), it has been noted that there was no simple relationship between income and the benefits derived from rent controls<sup>130</sup> and, in Mexico City, it is argued that “the major beneficiaries of the subsidy were not those who needed it.”<sup>131</sup> **Thirdly**, tenants clearly gain at the expense of landlords. But, when tenants are more affluent than the landlords, the effects of rent control are the reverse of what is intended. Artificially low rents in Egypt mean that:

*“tenants are sitting on a significant asset and the only way an owner can reclaim the unit – besides waiting for the death of the tenant and his or her children – is to offer a sizeable cash incentive (sometimes approaching the market value of the unit) for the tenant to renounce the contract and leave”.*<sup>132</sup>

In Calcutta:

*“an enormous amount of landlord-tenant litigation has accumulated in the courts, enabling tenants to resort to courts as a means of indefinitely stalling any action by landlords”.*<sup>133</sup>

**Efficiency:** By distorting market values, rent control often encourages the inefficient use of housing. For example, small tenant households may occupy housing that is much larger than they require, and for which they would not be prepared to pay the market price, limiting the availability of accommodation to larger households. More importantly, by holding down profits, controls discourage some landlords from investing in rental property,<sup>134</sup> although this claim

is sometimes exaggerated and contrary evidence also exists.<sup>135</sup> In general, however, most experts agree that:

*“the negative impact of rent control outweighs its benefits. It has resulted in a decrease in the production and supply of both the quantity and quality of rental housing”*.<sup>136</sup>

**Maintenance:** Where rent control makes rental housing unprofitable, a regular complaint has been that landlords do not maintain the property. This tends to be a complaint made about central accommodation particularly when the premises are old, for example, in the central areas of Mexican cities.<sup>137</sup> In Arequipa (Peru) low rents lead *“to the absence of maintenance and repairs to the buildings and services”*.<sup>138</sup> Calcutta, too, seems to have suffered in a similar way:

*“in the four decades since the enactment of the West Bengal Tenancy Act, urban conditions have changed drastically. A large number of houses are now protected tenancies, paying very low rents and, consequently, there is no maintenance or improvement by the owners”*.<sup>139</sup>

In Karachi, rent control leads to *“rapid deterioration in the quality of the buildings”*.<sup>140</sup> It is only when the tenants have been prepared to take up the burden of repair that living conditions have not deteriorated, something that apparently happened in parts of central Cairo in the 1970s.<sup>141</sup>

**Selective application:** Rent controls are often implemented only in particular areas of the city. Sometimes, this is deliberate, for example, when rent controls are applied to low-income housing but not to high-income accommodation or when it applied to tenants who were in residence before a certain date but not to those who move in later.<sup>142</sup> Sometimes, however, the controls appear to operate in a more haphazard way. The most common bias is that controls work in the formal rental market but not in the informal. Evidence of bias in this way has been reported in numerous cities in developing countries.<sup>143</sup> The lack of legal rental contracts in most Latin American self-help rental housing is a clear sign of this danger.<sup>144</sup> In Benin City (Nigeria), rent control was always implemented haphazardly and eventually the authorities ceased to apply it at all.<sup>145</sup> The only places where rent control seems to have been implemented consistently have been under socialist regimes.

This catalogue of disadvantages has convinced most economists and increasing numbers of governments that rent controls should be removed, albeit gradually in order to minimize adjustment costs and to maintain political harmony.<sup>146</sup> Indeed, since 1980 many governments have done just this. Substantial reform of rent controls has occurred in the United Kingdom and Spain, in

## Box 5. Buy to let in the United Kingdom

In 1996 the Association of Residential Letting Agents teamed up with a group of big name lenders to promote the idea of becoming a landlord and now most of the well-known lenders offer buy-to-let mortgages. Such mortgages are usually only available up to a loan value of 70-85 per cent. Different lenders put in place different provisos, such as no students as tenants. Many insist that the estimated rent on the property cover 125 per cent of the annual interest due on the loan or the monthly repayments.

*“The deregulation of the private rented sector included in the 1988 and 1996 Housing Acts made an important contribution to reversing the decline of the sector. It is estimated that there has been an increase of 600,000 in the number of private rented sector homes in the last decade. ... Buy to let lending has contributed to the recovery of the private rented sector over the past decade”* (Council of Mortgage Lenders, 2002b: 1).

*“Increasing numbers of Britons are turning their backs on traditional pension schemes in favour of buying properties and renting them out.... The value of the buy-to-let mortgage market soared by 126% between 1999 and 2001 as more and more people opted to put their money in bricks and mortar”* (Guardian, 2002).

*“Sales of buy-to-let mortgages reached £5.2 billion in 2001”* (Guardian, 2002).

Egypt and South Africa and in some states of India. Colombia has just done the same (see appendix 2).

Unfortunately, the removal of rent controls has not always had the desired effect of stimulating more investment. Admittedly, some success has been achieved in the United Kingdom where the private rental housing market expanded during the 1990s, particularly in London, and the Buy-to-Let programme seems to have been particularly successful (see box 5). In the United Kingdom:

*“landlords today hold more positive views about letting accommodation, especially business landlords and those who have let accommodation since the introduction of the 1988 Housing Act. They think gaining possession of a letting is now less difficult, market rents can be charged and private renting has a better image”*.<sup>147</sup>

However, in Spain, the transformation of “a highly regulated sector to a greatly liberalised market” in 1985 “has not been able to redress the decrease in the number of rented dwellings”.<sup>148</sup>

Sometimes, the injudicious or excessively rapid removal of rent controls has also caused problems and even protest, as was the case in Montevideo and Lima in the 1980s.<sup>149</sup>

As a result, some re-evaluation of the role of rent controls has been under way.<sup>150</sup> As Lind puts it:

*“Economists are very critical of rent control but in the theoretical literature there has in recent years been a tendency to revisionism.”<sup>151</sup>*

Lind argues that it is necessary to distinguish between first-generation and second-generation controls. The first tend to freeze rents to a level significantly below the market level whereas the second tend to permit rent rises linked to the rate of inflation. The first tend to prohibit evictions whereas the second allows them under certain conditions.

But Lind also points out that some governments favour ‘segregation related rent regulation’ that:

*“aims to keep rents for both new households and sitting tenants below the market level ‘forever’. One common motive for this kind of regulation is that ‘everybody’ should be able to afford to rent an apartment in attractive areas. This was the argument behind what Keating and others (1998) call the ‘hard’ rent regulations in Berkeley and Santa Monica in California, and it is a common argument in the current debate about rent regulation in Stockholm”.*<sup>152</sup>

In proposing a typology of five different kinds of rent control, Lind<sup>153</sup> is aiming to encourage policy makers to think more clearly about why they wish to introduce or maintain rent controls and to consider the different impacts of different kinds of control.<sup>154</sup> Such an approach is designed to avoid some of the black and white discussion that currently characterizes much of the debate about rent controls.<sup>155</sup> It would perhaps not have convinced the staff of the Economist magazine, which claimed some years ago that:

*“there are far simpler fairer and more effective ways to raise the real incomes of the poor than trying, however cleverly, to micro-manage the markets for housing and labour”*<sup>156</sup>

## **VI.G. Affordability and the role of subsidies**

If rent control is one way to ensure that rental housing remains affordable, a second route is to provide tenants with subsidies. This approach is used in the United States of America where ‘vouchers’ are considered to be much cheaper than public housing or project development because there are no costs of developing the structure. In France and the United Kingdom, the government pays ‘housing benefit’ to families to cover all or part of the rental outlay. One problem with this approach is that it creates an opportunity for owners to charge more than the market rent. As such, it is necessary to inspect the accommodation and to establish some kind of ‘fair rent’.<sup>157</sup>

The voucher approach also runs the risk of subsidizing poor quality accommodation. For this reason, in the United States of America:



*“all units listed to voucher holders must meet Housing Quality Standards (HQS) established by Federal regulations. These are detailed and cover areas such as sanitary facilities; food preparation and refuse disposal; space and security; thermal environment and electricity; lead-based paint; access; site and neighborhood; sanitary conditions; etc.”*<sup>158</sup>

Another difficulty is that housing benefits and vouchers work much less well in areas of high rental demand.<sup>159</sup> In the United States of America:

*“if there are substantial vacancies and housing is in good condition, then the vouchers satisfy their fundamental objectives of addressing affordability for low-income families. If these conditions do not prevail, then availability as well as affordability becomes an issue”*.<sup>160</sup>

In the United Kingdom, the complicated rules and regulations and the limited value of housing benefits have stopped some private landlords from letting to poor tenants at all and some from letting to persons younger than 25 years of age.<sup>161</sup>

While few have argued that tenant subsidies should be removed, the schemes employed in the United States of America and the United Kingdom have been strongly criticized.<sup>162</sup> In the United States, it has been argued that the design of the Federal Housing allowances leads *“to perverse housing consumption effects, stigma, rent inflation and unnecessary restrictions on recipient choice”*.<sup>163</sup> Similarly, in the United Kingdom, the way in which social housing and subsidies often reinforces rather than counters social polarization and divisions has been criticized.

*“Systems of rationed provision with little tenant choice or control and no trade-off between cost and quality or location look increasingly outmoded.”*<sup>164</sup>

A constant fear in the United Kingdom has been that housing benefits allow landlords to raise rents and subsidized tenants accept the higher rents without complaint. Reforms in 1996 tried to confront this problem by establishing target rents for rental property and for individual rented rooms. The law provided for a rent officer to visit individual properties to establish the appropriate rent, either before occupancy or after.<sup>165</sup> Although the regulation procedure may have held down rents in some places it has not managed to control rents in areas of peak demand such as London. Even worse, it has discouraged landlords in such areas from taking subsidized tenants.<sup>166</sup>

If subsidies were to be offered to tenants in developing countries, the most obvious problem would be cost. Housing budgets in poorer counties tend to be very limited and could certainly not cover the needs of tenants in cities where

more than one-quarter of all households rent accommodation. In addition, unlike the currently fashionable practice of distributing up-front capital subsidies with which poor families can buy a home, housing subsidies are an on-going governmental expense. One of the appeals of one-off housing subsidies for ownership is that governments know precisely what they are going to have to pay. Rental subsidies are rather like subsidies to the interest rate, they are a continuing and unpredictable expense and should therefore be discouraged.<sup>167</sup>

Even if rental subsidies were to be considered they would have to be limited to the poorest tenants. Unfortunately, few governments in poorer countries have systems by which to identify who is in real need. Chile has a much-admired system for identifying poor people and which has been adopted in Colombia.<sup>168</sup> Even in Chile, however, the system is less than perfect and, in Colombia, it is argued that many municipal authorities exaggerate the amount of poverty when they make their returns. In South Africa, which gives out subsidies to poor families for home purchase, provincial governments have very limited means of checking on declared incomes.<sup>169</sup> In many poorer countries, the danger is that political criteria rather than need would be used to identify beneficiaries.

## VI.H. Conciliation and arbitration

If the relationship between landlords and tenants is generally better than much of the literature suggests, this does not mean that there is never conflict. Some landlords exploit tenants and *vice versa* and better ways of preventing excesses should be found. One way to improve the current situation is to diffuse information more widely about landlord and tenant rights and the normal rules of rental practice. Currently, few landlords or tenants seem to understand the often complicated rules governing rental housing in their country and few can afford to pay the legal bills required to adjudicate in their disputes.

One way to increase understanding of the issues involved and to reduce the chance of conflict is to insist that all landlord/tenant agreements should be written down on standardized forms.<sup>c</sup> Standard contract forms should be freely available in local shops or newspaper stalls. Such a standard contract would not

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c. Of course, it is a problem that not every landlord and tenant can read but as educational levels rise, most households should have someone in the immediate or extended family or a close neighbour who can. The advantage of rental contracts is that they are far more reliable than what people later say about what they thought they had established in a verbal contract. Apart from the danger of deceit, time is likely to play tricks with people's memories.

determine the nature of each and every agreement, but it would help to remind landlords and tenants that they should agree on the most basic issues before the tenant moves in: the level of the rent, who is responsible for paying for the services and who will maintain the accommodation. The contract would not have to be notarized, merely produced in duplicate, and signed by the two parties, with one being held by the landlord and the other by the tenant. If the causes of rental disputes are well known, many disputes can be avoided by anticipating them. Such *“standard rent contracts could be a relatively easy way of improving the tenant-landlord relations”*.<sup>170</sup>

Of course, some disputes are bound to occur and currently few poor tenants or landlords gain much through the court system. As section IV.E shows, in most countries the system is too slow, too expensive and all too often favours one party over the other. Speed of decision is critical, for what good is a court decision in favour of one side or the other if it has taken three years to come through?

Arguably a different approach has to be taken, more in line with the needs and resources of the societies concerned. Such a system should perhaps not determine the outcome so much as arbitrate between the two sides. The essential requirement of any decent arbitration service is that it seeks to reassure both sides that the other lot are not villains.

Calls for some kind of arbitration, mediation and conciliation service are becoming more and more common in a variety of countries. In Belgium, it has been argued that landlord-tenant disputes are *“exacerbated by the lack of any formal mediation system to settle disputes”*.<sup>171</sup> In Kenya, it is argued that *“the existing rent tribunal should be decentralized to allow for local authority jurisdictional landlord-tenant arbitration bodies.”*<sup>172</sup>

Some services are also becoming available. In Ireland, the government has recently set up:

*“a Private Residential Tenancies Board, which aims to deal with disputes between tenants and landlords without recourse to the courts. In addition to dispute resolution, the board will also carry out policy research, provide policy advice on the sector and develop model leases and good practice guidelines”*.<sup>173</sup>

In Bolivia, the Office for Conflicts in the Renting (a division of the Ministry for Urban Development and Housing) has been applauded for its activities, which—

*“works on a voluntary and mediating basis trying to provide a quick and satisfactory solution to conflicts”*.

*“In this way an attempt is made to avoid the disagreement becoming a court case, which will certainly take many years.”*<sup>174</sup>

Colombia, a society that has more than its fair share of disputes and civil violence, has recently developed considerable experience with different forms of mediation and arbitration. In Bogotá, three different kinds of organizations run conciliation tribunals of one form or another: the Chamber of Commerce, the Government of Bogotá and individual faculties of law. Rental disputes form the basis of a majority of the disputes taken to the city's tribunals (see table 13) and also of those that go to the Chamber of Commerce's Centre for Arbitration and Mediation.<sup>d</sup>

**Table 13. Total consultations in mediation and conciliation units, Colombia (1998-1999)**

<b>Zone</b>	<b>Total consultations</b>	<b>Per cent consultations over rental disputes</b>	<b>Period</b>
San Cristóbal Sur	1861	59	Dec 98-Nov 99
Suba	855 *	54	Dec 98-Nov 99
Santafé	187	35	July 99-Nov 99
Puente Aranda	179	44	Dec 98-Nov 99
Engativá	534 *	69	July 99-Nov 99
Ciudad Bolívar	1051	45	Dec 98-Nov 99

\*: Estimate.

Source: Barreto and Perafán, 2000.

One study of the Mediation and Conciliation Units is generally complimentary about their value, although it says rather little about how rental disputes are actually mediated. The usefulness of the system operated by the Chamber of Commerce is underlined by the fact that people are prepared to pay the modest sums involved in the conciliation hearings. The only doubt that can be raised about the Centre is that most of the claims are brought by landlords rather than by the tenants.

d. *Centro de Arbitraje y Mediación.*

## Notes

1. For details, see UN-HABITAT and OHCHR, 2002; and UN-HABITAT, 2002b.
2. UNCHS and UNECLAC, 2000: 73.
3. Gilbert, 2001.
4. Gilbert, 2001.
5. Bond, 2001a.
6. Habitat Agenda, paragraph 61 (UNCHS, 1997).
7. World Bank, 1993.
8. Almarza, 1997; Bond, 2000a; Chiappe de Villa, 1999; Held, 2000; Pérez-Iñigo González, 1999; Mayo, 1999; Rojas, 2001.
9. Campbell, 2003; Cheema and Rondinelli, 1983; Rodríguez, 1997; Tandler, 1997; World Bank, 1999.
10. Campbell, 2003; World Bank, 1999.
11. UNCHS, 1996: 353. See also UN-HABITAT, 2002e.
12. Economist, 1997.
13. Saunders, 1990: 371.
14. Mayo, 1999; Gilbert, 2003.
15. Rossi and Weber, 1996: 32.
16. Saunders, 1990: 370-371.
17. Martin and Nell, 2002: 48.
18. Richmond, 1997: 138-139.
19. Kumar, 2001: 3.
20. Doling and others, 2003: 21.
21. Ha, 2002: 200.
22. Martin and Nell, 2002: 49.
23. Kenison, 2002.
24. Gilbert and Varley, 1991.
25. Tuncalp, 1987; Byong Key, 1987.
26. Wadhva, 1993: 5; Abt Associates, 1982; Serageldin, 1993; NIUA, 1989b.
27. Wadhva, 1993.
28. Gilbert and Varley, 1991.
29. World Bank, 1993: 118.
30. Ozo, 1993.
31. Ball, 2002.
32. De Decker, 2001: 31.
33. Martin and Nell, 2002.
34. UNCHS and ILO, 1995.
35. Martin and Nell, 2002: 78.
36. Colombia, Ministerio de Desarrollo Económico y Departamento Nacional de Planeación, 2002.
37. UNCHS and ILO, 1995.
38. Coulomb and Sánchez, 1991; Gilbert, 1991: 93.
39. Kumar, 2001: 6.
40. Coccato, 1996: 68.
41. Coulomb and Sánchez, 1991.

42. Kumar, 2001: 7.
43. Kumar, 2001: 101.
44. IADB, 1998; Kessides, 1999; Werlin, 1999.
45. Banerjee, 2002; Salmen, 1987; Skinner and others, 1987; Strassman, 1982; UNCHS, 1989; 1993.
46. Salmen, 1987: 65.
47. Skinner and others, 1987: 230.
48. Kumar, 2001: 104.
49. Syagga and others, 2002: 49.
50. Salmen, 1987: 80.
51. Brakatz, J. and others, 2002; Fiori and others, 2002; Castro, 2002.
52. Kumar, 2001: 104.
53. Andreasen, 1996: 359; see also Gilbert and Ward, 1985.
54. Leynes, 1990.
55. Johnson, 1987: 187.
56. Salmen, 1987: 68.
57. UN-HABITAT, 2003c.
58. Interview with Carien Engelbrecht.
59. Nientied and others, 1990: 38.
60. Payne, 1989: 47.
61. Macaloo, 1994: 281.
62. Durand-Lasserve and Royston, 2002: 7.
63. Baken and others, 1991: 21.
64. Kundu, 2002: 152-153.
65. Kumar, 2001: 57.
66. Gilbert, 2000.
67. DETR, 1998a: 4.
68. UNCHS and ILO, 1995; Watson and others, 1994: 34.
69. Almeyda, 1996; Ferguson, 2000; de Soto, 2000.
70. Rogaly and Johnson, 1997; Ferguson, 1999.
71. Gilbert, 2000; Tomlinson, 1999b; Goodlad, 1996; Rojas and Greene, 1995.
72. Kumar, 2001: 102-103.
73. Rogaly and Johnson, 1997: 119.
74. Gilbert, 2000.
75. Tomlinson, 1999a: 1357.
76. Hoffman and others, 1991; Mwangi, 1997: 157.
77. UNCHS and ILO, 1995.
78. World Bank, 1993: 118.
79. UNCHS and ILO, 1995.
80. Watson and others, 1994: 27.
81. UNECLAC and Inter American Development Bank, 2000; Freeman and others, no date.
82. World Bank, 1993.
83. Baken and others, 1991: 129.
84. Wadhva, 1993: 28.
85. Ozo, 1993.
86. Serageldin, 1993.

87. World Bank, 1991: 83.
88. Kumar, 2001: 101.
89. Chant and Ward, 1987:14.
90. Wadhva, 1993: 29.
91. Ward, 1978.
92. Martin and Nell, 2002: 57-58.
93. Leynes, 1990; UNCHS and ILO, 1995.
94. Andreasen, 1996: 362.
95. Wadhva, 1993; Kumar, 1996a; de Soto, 1989; Abt Associates, 1982.
96. De Soto, 2000.
97. Gilbert, 2002c.
98. Gilbert and Ward, 1985.
99. Coulomb and Sánchez, 1991; Gilbert and Ward, 1985.
100. Kumar, 2001.
101. UNCHS and ILO, 1995.
102. Quoted in Yelling, 1986: 23.
103. Marris, 1979; Hardoy and Satterthwaite, 1981; Peil and Sada, 1984; Valladares, 1978.
104. Risbud, 1990; World Bank, 1993: 30.
105. COHRE, 2003.
106. Coulomb and Sánchez, 1991: 40.
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108. Kumar, 2001: 97.
109. White and others, 1996.
110. Abreu, 1987; del Rio, 1997; Ribeiro, 1995; Vaz, 1996.
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113. Hardoy and Satterthwaite, 1981; Valladares, 1978.
114. Gilbert, 1996: 98; Harms, 1996.
115. Ward, 1993: 1148-1149.
116. Custers and Vreman, 1995: 401.
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118. Fernandes, 2002: 208-209
119. Custers and Vreman, 1995: 398
120. Bromley, 1981; Bromley, 1998; Jones and Varley, 1994.
121. Godard, 1988; Klak and Holtzclaw, 1993: 263.
122. Harms, 1996: 267.
123. UN-HABITAT, 2002c.
124. Kalim, 1990: 188.
125. UNCHS, 1993.
126. UNCHS, 1989.
127. Ramaswamy and Charavarti, 1997.
128. Economist, 1995.
129. Malpezzi, 1990: 113.
130. Malpezzi and Tewari, 1990.
131. Romero, 1990: 198.
132. Soliman, 2002: 194.

133. Ramaswamy and Charavarti, 1997: 65.
134. Wadhva, 1993: 71; UNCHS, 1993.
135. Abt Associates, 1982: 208.
136. Kumar, 1996a: 768-769.
137. Aaron, 1966; Coulomb and Sánchez, 1991; Gilbert and Varley, 1991.
138. Custers and Vreman, 1995: 403.
139. Ramaswamy and Charavarti, 1997: 65.
140. Kalim, 1990: 189.
141. Abt Associates, 1982: 208.
142. NIUA, 1989a: 153.
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145. Ozo, 1993: 12.
146. Malpezzi, 1990.
147. DETR, 1996: 1.
148. Pareja and San Martín, 2002: 284.
149. Benton, 1987; Custers and Vreman, 1995: 392.
150. Economist, 1995.
151. Lind, 2001: 41.
152. Lind, 2001: 48.
153. Lind, 2001: 54.
154. Lind, 2001: 54.
155. Tierney, 1997.
156. Economist, 1995.
157. DETR, 1999b.
158. Kenison, 2002: 6-7.
159. DETR, 2001: 4.
160. Kenison, 2002: 5.
161. DETR, 1999b.
162. Ball, 2002; DETR, 1999b; Flood and Yates, 1989; Gibbs and Kent, 1993; Mayo, 1999; Steele, 2001; van der Scharr, 1989.
163. Steele, 2001.
164. Hills, 2001.
165. DETR, 1999b: 5.
166. DETR, 1999b.
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170. Custers and Vreman, 1995: 404.
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172. Mwangi, 1997: 157.
173. Ball, 2002: 76.
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## VII. Promoting rental housing: An international agenda

If few governments in developing countries have done much to stimulate rental housing what can be done to encourage them to do more? This chapter suggests that one way is to stimulate more debate about rental housing in order to demonstrate that so many of the ideas about the sector are misplaced. Within the framework of a rights-based approach to housing and the full and progressive realization of housing rights as elaborated in international instruments, particularly in the Habitat Agenda, more governments may consider how to improve the housing conditions in general and of tenants in particular. However, there are a number of conceptual issues that have to be addressed. This is particularly true in the area of rental housing where more discussion of the tenure rights of landlords and tenants is called for.

The chapter also argues that if more governments are to be persuaded to take the housing sector seriously, more is required of the international development banks and aid agencies. Currently, most are rather silent about the rental housing issue, even when their investment programmes directly affect the tenant population, as in the case of upgrading programmes. More research would also help, as there are still numerous gaps in the existing knowledge about rental housing (despite the fact that much more is known today about rental housing in poor cities than before). Nonetheless, enough is known about rental housing to be able to stimulate and improve the quality of the housing supply. All that is lacking is the political will to do it.

### VII.A. Stimulating a debate about rental housing

This report does not argue that renting is an ideal tenure for every household or even for the majority. It is certainly not arguing that tenants should be prohibited from becoming homeowners. What it is elaborating is that the balance of advantage is currently slanted far too much in favour of homeownership. Too few governments recognize that renting offers many people definite advantages at particular points in their lives. In many cases, renting may be the most appropriate tenancy during both the early years of the housing career and towards the end. It may also offer the only real answer to temporary set backs like unemployment or divorce. There is absolutely no contradiction between being a tenant today and wanting to be a homeowner tomorrow.

In this sense this report argues for “*support for the freedom of households to choose for themselves the housing arrangements which best suit them*”.<sup>1</sup> It is also developing the argument made earlier by UN-HABITAT that:

*“the first priority in redressing the current crisis in rental housing is to establish tenure-neutral housing policies. Too many governments provide generous incentives for owner-occupation and too few attempt to maintain, let alone, increase the rental housing stock. Governments need to rethink their priorities in the housing arena in the light of the arguments presented in this report. There are strong reasons why rental housing should receive equality of treatment from government vis-à-vis that afforded to owner-occupation”*.<sup>2</sup>

Unfortunately, in the ten years since that statement was written, little change has occurred in most governments’ housing policy. Some inappropriate forms of rent control have been removed here or there, but nothing much has generally been done to offer families a greater tenure choice. Too many governments continue to support people into becoming homeowners, through tax incentives and rising property prices, and to convince them that they have little choice but to buy now. Most governments still encourage homeownership because they believe that homeowners are better citizens and that they are more likely to support the *status quo*.

The debate is strongly tilted to favour homeownership. Is Krueckeberg’s description of the United States of America not relevant to most developing countries?

*“We are the inheritors of a nasty and pervasive property bias in our society with roots that run deep, just as other strong biases of gender, race, and nationality still do in spite of our efforts to outlaw them. Our institutions and practices continue to embody and perpetuate the property bias, particularly in the tax system - in the subsidies given to owners but denied to renters and in many of the property tax laws that deny that renters are stakeholders in their communities. The celebration of homeownership in the US stigmatizes those who don’t, can’t, or won’t buy property.”*<sup>3</sup>

Before tenure-neutral housing policies can be introduced, something must be done to generate a tenure-neutral housing debate. As this report has demonstrated, many of the ideas about rental housing do not apply consistently across the globe and some are just wrong. As such, the first step in promoting rental housing is to demonstrate to politicians and policy makers that many of their prejudices about rental housing are unjustified. At the very least, they need to be disabused of their belief that any of the following statements are always true:

- ‘There is a single best housing tenure’
- ‘Developed countries are societies of homeowners’
- ‘Every household wants to own’

- ‘Every household wants to own now’
- ‘Every landlord owns a lot of property’
- ‘All landlords are exploitative’
- ‘Landlord-tenant relations are conflictive’
- ‘Tenants crave security of tenure’
- ‘Owners are better citizens than tenants’
- ‘Rent control is bound to help tenants’

## VII.B. Human rights and tenure

The United Nations Housing Rights Programme (UNHRP) was launched in April 2002, as a joint initiative by UN-HABITAT and the Office of the United Nations High Commissioner for Human Rights (OHCHR). The UNHRP aims at initiating actions which ensure that:

*“governments ... take appropriate action in order to promote, protect and ensure the full and progressive realization of the right to adequate housing”.*<sup>4</sup>

The realization process of the ‘right to housing’ comprise:

*“packages of policies and practices rather than a single (ultimately unenforceable) right. Such packages include: ensuring secure tenure, preventing illegal and mass evictions, removing all forms of discrimination, and promoting participation, gender equity and freedom of information, especially with respect to land markets”.*<sup>5</sup>

To judge from their national constitutions, more and more governments are recognizing the human right to adequate housing. Certainly, *“most countries with new constitutions in the last 10-12 years have included the right to housing within them or at least a formal acceptance that the state has a responsibility for ensuring people find housing”.*<sup>6</sup> In 1998, *“the constitution or national laws of more than 70 per cent of countries”* promoted the *“full and progressive realization of the right to adequate housing”.*<sup>7</sup> Most importantly, *“without exception, every government has explicitly recognised to one degree or another the human rights dimensions of adequate housing.”*<sup>8</sup>

Of course, *“the fact that the right to housing is implicitly or explicitly recognized in state constitutions does not necessarily mean that it is implemented and enforced”.*<sup>9</sup> Many countries insert housing rights into the constitution and then forget them. As Mwangi remarks with respect to Kenya, *“the goal of adequate shelter for all remains more a statement of social and political intention than a feasible objective in the foreseeable future.”*<sup>10</sup> And:

*“no government could proclaim that housing rights exist as much in fact within their jurisdictions as they do in international (or*

*national) law. Thus, renewed commitments on housing rights and more refined legislative initiatives at the national level on housing rights appear necessary. Such initiatives should lead to action on:*

- *amending national legislation when existing laws are inconsistent with international human rights law;*
- *enforcing and implementing existing housing rights provisions with more vigour; and*
- *ultimately adopting new national and international legislation addressing the under-emphasized human right to adequate housing.*<sup>11</sup>

As part of their efforts to ensure the full and progressive realization of the human right to adequate housing, UN-HABITAT and the OHCHR published a joint report entitled *Housing Rights Legislation* in 2002. The report contained a review of housing rights in international and national law, including a discussion of housing rights as progressive legal obligations and reviews of selected adjudication. It illustrates that effective constitutional and legislative measures on the right to adequate housing are not only realistic but have already been in use successfully in a number of countries. The examples presented there provide guidance to the development of a model legislation framework with respect to specific components of the right to adequate housing, and legislative reforms that could be initiated to advance housing rights more effectively.<sup>12</sup>

Those components include the following:

- security of tenure in informal housing;
- protection from forced eviction by State and non-State actors;
- non-discrimination, including gender-based discrimination in customary law;
- provision of affordable housing for the poor;
- accessibility to persons with disabilities;
- housing restitution;
- habitability;
- homelessness; and
- land rights.<sup>13</sup>

The key question within the arguments raised in this report is what does the human right to adequate housing concept imply for government action towards landlords and tenants? What in practice are the housing rights of tenants and what is the best way to consolidate those rights? So far this issue does not seem to have been addressed comprehensively in the housing rights literature and the following discussion is to raise questions to stimulate further

discussion. There seem to be two particular complications in the rental field: the meaning of ‘security of tenure’ and the concept of ‘affordability’.

### VII.B.1. Security of tenure

What is meant by security of tenure in the rental context? Perhaps, the clearest definition of security of tenure is that:

*“Legal security of tenure takes many forms, but all involve providing dwellers with some form of due process designed to protect them from arbitrary deprivation of housing rights, including protection from forced eviction.”<sup>14</sup>*

It may be argued that evidence of secure tenure includes tenant households with ‘formal’<sup>a</sup> rental contracts. Thus, assuming that legal and administrative processes operate effectively, all tenants with a formal rental contract have secure tenure. The majority of tenants in developing countries of course lack a formal contract, which is the basis of Flood’s statement that:

*“under operational definitions based on the Habitat Agenda and the Global Campaign [for Secure Tenure], the bulk of people with insecure tenure in the world are renters.”<sup>15</sup>*

If “[s]ecure tenure is the right of all individuals and groups to effective protection by the State against unlawful evictions”,<sup>16</sup> it may be argued that by definition – at least in a narrow sense – any tenant without a ‘formal’ contract is vulnerable to unlawful eviction. And, since one of the aims of the Global Campaign for Secure Tenure is to prevent people being unlawfully evicted from their homes, then an interpretation of one of the aims of the Campaign is that it implicitly aims to protect specifically the rights of tenants. Of course, it is accepted that any movement towards this goal must be progressive because as:

*“with virtually all human rights – no right can be transformed from principle to reality overnight”.*

*“The ‘progressive realization’ clause imposes an obligation on States to move as expeditiously and effectively as possible towards realising fully the right to housing”.<sup>17</sup>*

The right to security of tenure for tenants, therefore, would seem to require the progressive spread of written contracts – recognized by both

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a. ‘Formal’ here refers to a contract that is made according to the requirements of the legal framework of a particular country. There are, as discussed later in this section, a number of alternatives to such ‘formal’ contracts that, in practice, offer the same kind of security to a tenant. See also the discussion in section I.B on definition of terms, and section VI.H which includes a discussion of alternative tenant/landlord agreements.

parties – to every landlord-tenant situation, and protection of tenants from unlawful evictions. Naturally this appears to be a long-term goal and one with considerable implications for rental housing.

Since few tenants in developing countries sign a ‘formal’ contract with their landlord, and therefore – at least in a formal sense... – have insecure tenure, should governments try to insist that every landlord and tenant should sign such a ‘formal’ contract? If they were to do this, the cost of renting would be likely to rise especially if every contract needed professional legal input. Even if rents did not rise, would such legalization of the rental contract help either the tenant or the landlord? It might, but the real problem is that the legal systems in many countries are so flawed. Currently, the possession of a legal contract provides little assurance to poor landlords or tenants because they have no means to assert their rights. For this reason, the report has argued that it is preferable for the State to encourage methods of conciliation and arbitration that fall outside the remit of the courts. Conciliation does not require a legal contract and a potential danger from insisting that secure tenure is linked to legal process is that legality can complicate landlord/tenant relations without guaranteeing either party a means of solving a dispute. In addition, the advantages of legalization to either party depend greatly on the nature of the legislation relevant to rental housing. When, for example, legal contracts are issued under hard rental control regimes, legalization may strongly discourage landlords from renting out property. Under such circumstances, legalization of rental contracts may reduce the supply of rental housing supply and also damage landlord-tenant relationships.

Measuring security of tenure by recording the ‘proportion of men and women who are evicted from their residence over a specific period of time’ – partly in view of the fact that women tend to be more vulnerable to insecure tenure than men – would assist policy makers to better understand and take measures to prevent unlawful evictions. In principle, there is nothing wrong with such an objective and approach. However, much depends on the motives behind the eviction which should not be unlawful and/or in violation of the rental agreement made by the tenant and the landlord. If good tenants who have paid their rent are being evicted for no good reason, then any reduction in the rate of eviction is highly desirable. But, if tenants are being evicted because they have not paid the rent for a number of months or because they are damaging the property, or if they – in another manner – are in violation of the mutually agreed rental agreement, any major constraints on the landlord’s right to evict such a tenant would place landlords in a very difficult position.

Improving tenure security for some can impinge on property rights for others<sup>18</sup> and while “*anti-eviction laws are a priority*”, it should also be recog-

nized that “*improved security of tenure often impacts negatively on the rental sector in informal settlements*”.<sup>19</sup> The Global Campaign for Secure Tenure also points out this situation by indicating the “*tension that exists between secure tenure for tenants and sub-tenants, and the property rights of the owners*”.<sup>20</sup>

If landlords cannot evict tenants, they lose some of their property rights; if tenants can be evicted unlawfully and against their contracts, then they lose some of theirs. UN-HABITAT and OHCHR recognize this problem:

*“... housing rights have also at times come into conflict with property rights, for example the right of a landlord over her or his property and the right of a tenant to security of tenure. In such cases, the overwhelming view is that the public interest of securing housing rights trumps private property rights”.*<sup>21</sup>

Indeed, the Special Rapporteur on promoting the right to adequate housing<sup>b</sup> also touched upon this issue:

*“Under international treaties where the right to property is protected, and in countries in which it is a fundamental right, it has never been doubted that the right to property must yield to the greater social good of the community.”*<sup>c</sup>

What is the “*greater social good of the community*” when it comes to a dispute about the non-payment of rent? If it is in the greater good of the community for landlords to create more rental accommodation and, if the inability to evict bad tenants is a minimum condition for landlords to create rental space, perhaps the greater social good can only be achieved through upholding at least some of the property rights of the owners:

*“Administrative measures aimed at improving or controlling the low-income rental sector may have undesirable adverse effects, and generate severe housing shortages by restricting the housing options.”*<sup>22</sup>

Of course, this is precisely the issue that underpins the debate about rent control and affordability (see section VII.B.2).

What would be the impact on rental housing if the tenure rights of tenants were strengthened? Much would depend, of course, on the extent of the change. If, say, freedom from eviction were to be guaranteed for life whatever the tenants did, and was not dependent upon their regular payment of the rent,

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b. Appointed by the United Nations Sub-Commission on Prevention of Discrimination and Protection of Minorities in 1992.

c. United Nations Sub-Commission on Prevention of Discrimination and Protection of Minorities, 1994, paragraph 67. For an in-depth examination of the jurisprudence regarding housing rights *versus* property rights, see also paragraphs 67-76 of the same document.

security of tenure would presumably stop any landlords from ever again investing in rental housing. On the other hand, if security were conditional on the rent being paid on a regular basis, that the rent could rise each year in line with prices, that the tenant had to look after the property according to some agreed basic principles, then a majority of landlords would probably continue to invest in rental property.

What seems clear is that the perception of landlords about the conditions under which they can repossess their property is critical. Since landlords seem to be extremely sensitive about their right to remove difficult tenants and to repossess their property within a reasonable period of time when they wish to, any strong move towards unconditional increased security of tenure for tenants runs the risk of reducing the supply of rental housing. It is obvious from the above argument that security of tenants should be understood and protected within the context of their rental agreement and the framework of relevant legal measures. In this relation evictions should only be carried out when they become inevitable and according to due process and the legal context.

In any case, it is less than certain whether the majority of tenants either need or want greatly strengthened security of tenure. There would certainly appear to be important local variations in feeling on this question. As such, the trade-off between tenants having enough security so that they can plan their lives while at the same time reassuring landlords that if they let property they will be able to get it back needs to be resolved locally. Similarly, the terms under which tenure should be guaranteed are critical and can only be determined locally. What happens when the tenant cannot pay the rent? What happens if the landlord genuinely needs the property because he or she has been made homeless? Should there be a minimum period of contract, say one year, and to what extent should contracts be automatically renewable?

Experience would suggest that the only real answer to these questions is for governments to establish some basic ground rules, and for each landlord and tenant to spell out the details when they sign a rental contract. Anything that *bona fide* landlords feel will deprive them of their property unjustly, will probably lead to massive disinvestments in the rental housing stock. It is one thing to prevent governments from evicting low-income settlements, it is quite another to prevent private landlords from evicting tenants. Providing the contract rules are transparent, flexibility should be the keyword. Reassure landlords that they will be able to get their property back according to the terms of the contract, and reassure tenants that they will not be evicted except under the terms laid down in the contract. Establish some kind of arbitration and mediation procedures that are cheap, freely accessible and which hear 'cases' rapidly, and that is perhaps as much as should be done. These are the kinds of



issues that individual governments should consider when debating how to promote security of tenure.

## VII.B.2. Affordability

Affordability is another key component of adequate housing:

*“Under international law, steps should be taken by States to ensure that the percentage of housing-related costs is generally commensurate with income levels. Furthermore, States should establish housing subsidies for those unable to obtain affordable housing. As for rental or leasehold arrangements, tenants should be protected from unreasonable rent levels or rent increases by appropriate, including legislative, means.”*

*“Legislative means by which States attempt to ensure that housing is affordable include inter alia: subsidy programmes, the direct provision of housing by the State, rent price controls, the availability of affordable construction materials, incorporating affordable housing into general economic policies, and employer provided housing.”<sup>23</sup>*

This interpretation again poses some important issues, which should be debated. While few would dispute that housing should be affordable and that governments should do all that they can to make it affordable to the poor, such a goal has so far proved beyond the ability of any government in the world to achieve.

For years, rent control was seen to be a means of achieving this goal. However, as section VI.F has shown, few have much confidence in rent control today, at least in the hard form that was once so fashionable. Indeed, the trend in recent years has been for governments to weaken rent controls, Colombia being the most recent example of this (see appendix 2).

The key issue here is the one that has echoed throughout this report - how to help poor tenants without alienating those who do most to provide accommodation for them, poor landlords. Debates about how to pursue a human rights based approach to housing must consider that dilemma very carefully.

The Global Campaign for Secure Tenure must also consider the degree to which tenants and landlords should be made aware of their rights. For one of the main aims of human rights advocacy in general is to raise people’s knowledge of their rights so that they will demand that those rights be satisfied. “[C]ivil and political rights ... give people the opportunity to draw attention forcefully to general needs and to demand appropriate public action.”<sup>24</sup> But, unless they are aware of their rights they will not insist upon them. This is true

even in the United States of America where legislation, in the form of fair housing laws, was long ago approved to prevent blatant racial or sexual discrimination. The weakness of that legislation, however, is that activation of the law requires a complaint by the victim when the victim is often unaware that his or her rights have been violated.<sup>25</sup>

General policy statements regarding the promotion and protection of housing rights should not be regarded only as enforceable legal standards in their own right, but should be used to determine the context in which national housing policy should be read and therefore can be used to interpret the legislative intent of relevant legislation. On the other hand, unless ordinary people are aware of those measures protecting their rights, it may not be enough that courts are overseeing government policy.

### **VII.C. Persuading governments to include renting in their policy agendas**

The ideology that owners are better citizens than renters is a modern manifestation of a bias hardened in stereotypes that has misguided public policy in many countries. As such, it seems essential to begin the reform of housing policy near the top. **A principal argument of this report is that governments have been over-anxious to encourage households to become homeowners. More governments need to be persuaded of the inadequacy of this policy.** For this argument to be made it is useful and essential to convince the relevant international institutions and development agencies to give rental housing a higher profile. At present, very few ever do.

UNECLAC for example, has recently paid more attention to housing than previously but has been virtually mute on the subject of rental housing. Certainly a recent statement does not hold out much hope.

*“Housing policies in the region have placed so much emphasis on finance that there has been a tendency to overlook other important modifications that could improve the efficiency and effectiveness of housing programmes. National programmes are almost always geared, either explicitly or implicitly, toward facilitating the purchase of new homes, but do not consider other options, such as the improvement or expansion of existing homes”.*<sup>26</sup>

Although the opportunity was there to mention rental housing, it was definitely not grasped. UNDP is no different and although rental housing could figure in the agendas of ILO, in terms of income generation, or WHO, in terms of health improvement, little or nothing has ever been said. Even UN-HABITAT (which has addressed the issue considerably in some of its publications) is sometimes rather silent on rental housing.

Silence about rental housing is also characteristic of the multilateral development banks. The World Bank did carry out some important research on rental housing in the past,<sup>27</sup> and its influential policy statement of 1993 did, occasionally, refer to rental housing.<sup>28</sup> However, the Bank has been virtually silent on the issue ever since and has certainly not provided any loans to support the rental-housing sector. In fact, the Bank is:

*“surprisingly reticent regarding the impact of its tenure proposals on the rental sector, particularly private informal rental housing, which accommodates a large proportion of the urban population and almost all of the poorest households. There is therefore a real danger that a policy approach, which emphasizes the benefits of owner-occupation, and provides various incentives for it, may result in the creation of a large underclass that is denied access to any form of affordable or acceptable housing.”*<sup>29</sup>

Similarly, the Inter American Development Bank has done far too little to finance rental housing or even stimulate a debate among its member countries on the issue.

Clearly, putting the rental issue onto the agendas of multilateral institutions is essential. If housing loans were premised on at least some recognition of the potential role of rental housing, it might help.

Convincing NGOs of the benefits from rental housing would also be helpful, insofar as few of these institutions are currently supporting its development. Now that more is known about how rental housing markets work:

*“... there is an equal need to better understand how development agencies can help to improve the situation faced by many tenants.”*<sup>30</sup>

At present, many NGOs seem to be as incognizant to the issues of rental housing as national governments. NGOs involved with tenant organizations, for example, tend to be confrontational, challenging landlords to improve conditions and lower rents. This is largely a consequence of those organizations being most active in central areas, where the different interests of landlords and tenants are most brutally exposed. But NGOs concerned with developing self-help housing options seem to do little to encourage rental housing. They normally only develop programmes for owner-occupation and when they do directly address the problems of tenants, most come up with proposals to turn the tenants into owners.<sup>31</sup>

To stimulate debate, it is, first, necessary to convince housing experts that the rental issue is a critical ingredient in the housing debate. In achieving this task, some mileage can be achieved through better diffusion of research evidence and of examples of best practice. In these days of rapid international travel and of instant access to information on the web, it should be possible to

convince some policy makers that alternatives to homeownership are available. Seminars should also be organized to bring together policy makers to demonstrate some of the advantages of rental housing and the disadvantages of homeownership. What advantages do the Germans and Swiss obtain from having such a large stock of rental housing? How does the Dutch experience with social housing help the poor and ethnic minorities? What is the downside of giving homebuyers tax relief on mortgages, particularly when such vast sums are offered as in the United States of America? The huge cost of tax relief in the United States of America suggests that it is an inappropriate policy for poorer countries.<sup>d</sup> How do small-scale informal sector landlords actually operate, and what do they need in the way of policy help?

More should also be done to integrate housing into the mainstream of the debate about poverty alleviation. This report has argued that renting in most developing countries is an activity predominantly involving two sets of poor people. Poor landlords produce rental housing for poor tenants. Since the rents of one set of poor people help sustain the incomes of another set of poor people, the role that housing plays in income generation and household budgets is very important. However, recent debates about poverty alleviation are all too likely to omit the housing question altogether. This is most regrettable given how important letting is to some women-headed households and to increasing numbers of older people. In an ageing world, landlordism is one of the few ways in which some older people can survive.

## VII.D. Research needs

More is known about rental housing today than was the case a decade ago, but there are still many gaps. The following list suggests some of the major gaps in existing knowledge, which can assist in formulation of more effective measures to promote rental housing globally:<sup>e</sup>

- The nature and characteristics of formal rental housing in developing country cities.

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d. *“In 1989, the amount of federal tax subsidy for owner-occupied housing is estimated at between \$49.7 billion and \$51.9 billion. ...including non-taxation of net implicit income in the measurement of home-owner tax expenditures adds substantially to the estimates of the aggregate tax expenditure on owner-occupied housing”*, possibly reaching US\$109 billion a year (Megbolugbe and Linneman, 1993: 673). This implies an average annual subsidy of more than US\$ 1,600 per owner-occupied unit.

e. In addition to the issues listed, it would be appropriate to investigate what happens to low-income families that receive government housing subsidies and then decide to sell out. Likewise, there is a need to know more about the fate of low-income mortgage defaulters. Are these reabsorbed into the ranks of tenants?

- The impact of upgrading programmes on tenants and rental housing.
- The reasons why national and local governments have ignored rental housing.
- The reasons why international agencies have ignored rental housing.
- The impact of rent control reform in less developed countries.
- The contribution of rents to incomes of self-help sector landlords, particularly women and the older persons.
- How self-help landlords run their ‘businesses’.
- The history behind the emergence of the myth of ownership in less-developed countries.
- Economic recession and its impact on tenure.
- The attitudes of cooperatives to rental housing.
- Developing mechanisms for arbitration and conciliation.

## **VII.E. The ultimate task**

The main aim of promoting discussion about the nature of rental housing and incorporating it more into national policy agendas is to help to increase the quality and quantity of the rental housing stock. This is one way of addressing the severe shelter problems currently facing most developing countries. Promoting rental housing is not, to repeat, a means of overthrowing home-ownership but a means of supplementing its strengths. The essential links between ownership and renting in most low-income settlements are obvious and, given the difficult employment situations found in most cities, there is much to be said for encouraging poor households to increase their incomes by renting out rooms.

This is not so much an option, but rather a necessity. For, as access to land is becoming harder in the major cities of developing countries, ownership even of the self-help kind is going to get harder in the coming years. With so many cities in Africa and Asia growing so rapidly, providing adequate shelter is going to pose a major problem unless some rethinking is done. Of course, the uncontrolled expansion of un-serviced self-help housing in the rapidly growing mega cities of developing countries is one possible scenario. But, there are more humane ways of accommodating the masses moving to or being born in these cities. One of these more humane routes is to understand the advantages of promoting rental housing.

Ten years ago, UN-HABITAT concluded that the key objectives of housing policy should be: to stimulate housing production, to help produce a mix of housing choices (tenure, location and quality) and to assist those who

cannot afford adequate housing to improve their shelter situation.<sup>32</sup> That support for rental housing contributes to this task, is demonstrated by a recent analysis of the rental sector in South Africa, which concluded that rental housing offers the following significant opportunities:<sup>33</sup>

- Choice and mobility to consumers.
- Accommodation for the very poor and for those households who currently do not qualify for the housing subsidy
- Contributes to economic development through providing business opportunities to entrepreneurial rental property developers and specialist service providers.
- Supports the economic sustainability of ownership through household rental, whereby owners are able to afford and improve their accommodation through income earned from sub-letting. This also improves the rates base and financial sustainability of urban areas and contributes to poverty alleviation.
- Improves the performance of urban areas by increasing densities and facilitating urban renewal in inner cities, slum areas and townships.
- Household rental can also have a positive impact on female economic empowerment, as it is often women who manage the household rental process.

The research results included in this report demonstrate how such opportunities can be realized. Many stakeholders around the world, and in particular most researchers, are now convinced that renting should receive higher priority than it has in the past. Arguably there is no real choice. What remains, therefore, is for national and international agencies to get on with the job of effectively promoting rental housing.

## Notes

1. Saunders, 1990: 4.
2. UNCHS, 1993.
3. Krueckeberg, 1999: 26.
4. Habitat Agenda, paragraph 61 (UNCHS, 1997).
5. UNCHS, 2001c: 32.
6. UNCHS, 1996: 351.
7. UNCHS, 1999: 33.
8. UN-HABITAT and OHCHR, 2002: 24.
9. Durand-Lasserve and Royston (eds.), 2002: 249.
10. Mwangi, 1997: 142.
11. UN-HABITAT and OHCHR, 2002a: 24.
12. UN-HABITAT, 2002e: 639.
13. UN-HABITAT and OHCHR, 2002: xiv.
14. UN-HABITAT, 2002c.
15. Flood, 2002: 18.
16. UN-HABITAT, 2002d: 8.
17. UN-HABITAT and OHCHR, 2002: 13, 14.
18. Kumar, 2001: 105.
19. Durand-Lasserve and Royston (eds.), 2002: 253.
20. UNCHS, 2001b: 11.
21. UN-HABITAT and OHCHR, 2002: 16.
22. Durand-Lasserve and Royston (eds.), 2002: 250.
23. UN-HABITAT, 2002c.
24. Sen, 1999: 92.
25. Galster, 1998; 1999.
26. UNECLAC, 2000: 33.
27. Mayo, 1985; Mayo and others, 1986.
28. World Bank, 1993.
29. Payne, 1999.
30. Mitlin, 1997: 13.
31. Ramaswamy and Charavarti, 1997; Richmond, 1997; Thurman, 1997.
32. UNCHS, 1993.
33. Martin and Nell, 2002: 7.





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## Appendices: Choice of case studies

The seven appendices included here provide more detail on a number of important issues addressed and elaborated in the main report. The first two, on South Africa and Colombia, constitute examples of two governments that have recently attempted to stimulate rental housing. Both governments are committed to expanding homeownership on a large scale but represent major exceptions in developing countries insofar as they realize that this route alone cannot solve everyone's housing problem. Even the delivery of subsidies for homeownership on a major scale will not solve the housing crisis in their countries. A demand for rental housing remains and something needs to be done to encourage its development.

Appendix 3 considers a form of tenure that falls in between renting and ownership. It permits households to rent a property for a number of years with an option to buy. Leasing options have been taken up in several Latin American countries, notably in Brazil, Chile and Colombia. The case study looks briefly at all three but concentrates on the most recent initiative, that of Colombia. The importance of leasing is that it may constitute a compromise area in which governments committed to extending homeownership may still offer some kind of rental housing option.

Appendix 4 provides some evidence from the United Kingdom of a change in the procedures to evict tenants who have not paid their rent or who have overstayed their lease. The significance of this case study is not to recommend eviction but to show that it is important for landlords to have a cheap, rapid and efficient way to evict tenants who do not keep to the terms of their rental contract. If it is important to criticize landlords who do not provide decent accommodation or who exploit tenants, it is equally important to recognize that there are exploited landlords too. The experience from the United Kingdom suggests that there are ways in which the court system can provide a rapid and fair way to evict tenants. Since the ability to remove a difficult tenant appears to be central to encouraging landlords to create more rental space, it is important to find ways in which this can be done. In far too many countries the court system simply does not work.

Appendix 5 considers a form of housing that is both problematic and arguably very necessary. The family houses of West Africa offer migrants to the city an assured form of shelter. For those with family in the cities there is little danger of being homeless because a homeowner in most West African societies is expected to accommodate every member of his or her extended family. The main problems with this kind of housing are that very little appears

to be spent on maintenance; overcrowding; and that adequate services are often lacking. No doubt most modern planners would like to get rid of this kind of accommodation. But, perhaps this is just the kind of cheap shelter that poor people need? In any case, what would happen if this housing were not there?

Appendix 6 underlines the fact that not all rental housing is satisfactory. Nowhere demonstrates that better than the rental slums of Nairobi. Here a majority of the population rent accommodation in flimsy structures, most of which lack adequate services. Unlike most landlords around the globe, most of the 'slumlords' rent to large numbers of tenants and many are drawn from the elite political and administrative class. The example of Nairobi demonstrates how corruption and inequality generates very poor housing conditions and even political violence. Despite the fact that the report strongly supports the promotion of rental housing, the Nairobi example demonstrates that if the circumstances are not conducive, any housing solution will fail.

Appendix 7 concerns the United States of America. It is included because the example of this country has been extremely influential in the housing arena. The American government has not been reluctant to publicize its experience around the globe, pushing many governments in many poorer countries to accept elements of the American model. The delights of homeownership are one element in this lesson. And, yet, the housing experience in the United States of America is not one of unalloyed success. Despite its wealth, many live in relatively poor quality housing. One of the reasons for this is the reluctance of the United States government to reject the notion that everyone can be a homeowner. The case study, drawn from comments of many American observers, is intended to stimulate thought. If the United States of America with all its wealth cannot achieve universal homeownership, perhaps there is a flaw in the assumption that any country actually can?

# Appendix 1. South African rental housing

## The drive for homeownership

In 1994 the new ANC government unveiled its housing policy. Formulated on the basis of a compromise between the construction industry, the banks, the unions, the NGOs and the ANC, it aimed to rectify some of the injustices of apartheid policy (Rust and Rubenstein, 1996; Gilbert, 2002a). The priority was to increase the number of poor, black homeowners, to reverse the legacy of the apartheid years when blacks could only live in rental housing in the townships. Ownership to the ANC seemed critical and remained so, *“until recently when the need for rental shelter was once again raised”* (Parnell and Hart, 1999: 384).

The drive to increase homeownership took two forms. The first was to transfer ownership of the problematic and dilapidated housing stock to the tenants. A discount scheme offered up to R7,500<sup>a</sup> to the one million tenants living in state-financed housing and, between 1994 and December 2000, 370,000 title deeds were transferred to council house tenants in the townships (Streek, 2001). In practice, this was just a continuation of the policy begun in 1983 that had managed to sell off about 30 per cent of the stock by the end of 1991 (de Loor, 1992: 127).

The more innovative strand of the drive for homeownership was to offer poor families capital housing subsidies with which they could buy a home. It was not the subsidy element that was original, for the apartheid government had invented a convoluted system of subsidies in an effort to co-opt different racial groups,<sup>b</sup> so much as the form in which the subsidies were offered. Although they did not realize it, the South African government was employing a similar approach to that used in Chile, Colombia and Costa Rica (Gilbert, 2002a). Instead of ‘subsidizing the interest rate’, the poor were offered upfront, once-in-a-life-time subsidies. The subsidy was never supposed to cover the cost of building a complete house, although many politicians and provincial government officials thought that was the aim, but to finance a basic formal housing unit. The programme’s objectives were less than modest, offering subsidies to one million families in the first five years. The hope was that this would stem the flood of land invasions and cut the rapidly rising housing deficit.

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a. The exchange rate of the rand to the dollar has varied considerably; in July 1994 R7,500 was worth US\$2,200. As of September 2003, R7,500 was worth US\$1,000. Despite this, the amount involved for these subsidies appears to be rather on the high side compared with the realistic abilities of most other developing countries.

b. See de Loor, 1992; Dewar, 1992; Hendler, 1988; Parnell, 1992; Wilkinson, 1998.

## The neglect of rental housing

Some argued that the new government should also encourage the development of rental housing. The de Loor Commission, effectively the mouthpiece on housing of the outgoing government, certainly thought that more should be done:

*“Although home-ownership has always been a priority in the government’s housing policy, rental housing plays an important and indispensable role as well”* (de Loor, 1992: 126).

The old regime was pushing the idea of giving subsidies to institutions prepared to provide subsidized rental housing (RSA, 1994: 26). Even within the National Housing Forum, there were some who were pushing the rental option strongly and a preliminary policy document was produced by one of the technical committees in the National Housing Forum (Gilbert, 2002a; Rust and Rubenstein, 1996).

These efforts foundered on the substantial opposition that came from a wide range of sources. Local government officials were particularly hostile because of:

*“their inability to collect outstanding rents, the difficulties they had maintaining the stock, and the administrative and judicial problems they had when determining who qualified for tenancies”* (Tomlinson, 1999b: 286).

Opposition also came from ANC politicians and from the pro-private sector Urban Foundation. One member of the joint task team set up to negotiate transitional policies claimed that opposition “was coming from everywhere”.

Admittedly one small incentive was offered to the rental lobby insofar as the institutional subsidy was offered to *“organisations providing rental housing ‘to the lower end of the market’”* (Goodlad, 1996: 1639). But, it was ownership that was the main plank of ANC policy and in practice the institutional subsidy produced nothing in the way of rental housing.

## How successful was the drive to homeownership?

The promise to deliver one million subsidies during the first ANC administration was kept and the same pace has been maintained during the second. Since the election of 1994:

*“the government, in partnership with housing institutions, communities, the private sector and NGOs, has provided subsidies for more than 1,334,200 houses”* (RSA, 2001: 5).

One observer has observed that: *“South Africa’s delivery rate should look like a stunning achievement in anybody’s books”* (Tucker, 1998, cited in Smit,

1999: 2). If there are problems with the homes provided, people are at least living somewhere legally. No other country has ever been able to do so much over the first five years of its programme. Compared to its achievements in most other fields, housing should be regarded as a success story. If it is not, that can only be explained in terms of poor public relations (Smit, 1999).

However, many would concede that the capital housing subsidy programme has some flaws. If the living environment is much better than what it has replaced, the new housing has been criticized for the way it has concentrated the poor into low-income neighbourhoods and thereby consolidated the social divisions of the apartheid city (Thurman, 1999; Huchzermeyer, 2002). Nor is the physical structure all that might be hoped for:

*“There are too many straight rows of box dwellings lacking social amenities and situated far away from the places where their residents work, constructed as they are on the cheapest land available”* (Lodge, 1999: 37).

There is also the complaint that housing without work does not remove poverty—

*“huge numbers of families are in the same economic situation as before, albeit with a housing option”* (Tomlinson, 1999b: 292).

## **Subsequent recognition of the need for rental housing**

The government is still committed to its ownership policy but recognized in 1998 that expanding homeownership alone could not cope with the sheer scale of the housing deficit. As the Minister of Housing put it:

*“About 7.5 million people in South Africa still have to be provided with adequate housing despite more than five million people being given shelter over the past six years”* (Streek, 2001).

Given that the government was unprepared to spend very much on housing, the drive for homeownership alone would not be sufficient.

Demands for rental housing had also been building up. As early as 1995, Parliament’s Housing Committee called on the Housing Department to embark *“on building rental housing on a large scale”* in order to speed up delivery (Goodlad, 1996: 1640). Even when the construction of subsidized housing began to accelerate, occasional voices were raised in favour of rental housing. One local representative commented: *“we are so obsessed with turning people into homeowners that we are missing the proper way to solve the housing crisis”* (Thurman, 1999: 70). Some women’s groups complained that *“there is insufficient attention to the provision of rental stock”* (Parnell, 1996: 24-25).

By September 1998, the Department of Housing had prepared a draft bill to modify the existing rental legislation. The subsequent Rental Housing Act of

1999 was intended to provide a national framework within which provincial governments could devise their own legislative programmes. The Act provided a new legislative environment in which existing rental housing could be stabilized and by focussing on landlord-tenant relations might encourage future investment.

The government also planned for a ‘massive’ increase in rental accommodation in the form of social housing. The Department’s annual report for 1998 declared that:

*“the time has now arrived for government to consider the extension of its housing assistance to cover the broader diversity of actual housing needs in the country. Assistance towards the development of rental housing requirements, based on the principles of affordability and sustainability for both government and the beneficiaries, is therefore a priority for the coming year”* (RSA, 1998: 15).

Ten projects, containing some 50,000 rental housing units, were originally planned. The projects, to be located in areas relatively close to the central city, would be provided with adequate social and recreational facilities and were intended to accommodate a mix of income groups with different tenure options (although 75 per cent of units in each project were to be rental). The idea was to create a financial mechanism that would allow capital housing subsidies to be rolled up and put in the hands of a social housing foundation, which would build rental housing for the subsidy beneficiaries. The subsidy money would be used as starter capital in order to attract finance from private banks. The latter, fearful that the tenants would not pay the rent, would be able to buy this ‘paper’ in the capital markets to raise the R1.3 billion needed to build the housing. The social rental housing associations in charge of the projects would have boards of directors drawn from government, business, labour and the community. Their budgets would be tight, because the subsidized units were planned for families earning between R1,200 and R3,500 and the households were not expected to pay more than 27 per cent of their income in rent.

Why did this form of rental housing take precedence over others? It is claimed that support for the pilot schemes came mainly from the union movement (Tomlinson, 1999b: 293), with the government, NGOs and private sector only gradually agreeing to participate. The unions had been pressing the need for good quality rental housing for some years and thought that the projects would also generate employment. The government had an additional motive; it wanted to use rental housing as a means to resuscitate the problematic inner-city areas. Seemingly the only opposition came from those members of the government who questioned the projects’ financial sustainability; although later some of the banking community were reluctant to participate despite their commitment to the projects at the Presidential Job Summit in October 1998.



They argued that the financial arrangements were unacceptable and that the funding would not support the government's requirement that one-quarter of the units had to go to families earning less than R1,500. The programme ran into real trouble when the Minister of Finance refused to approve the plan for a new rental housing institution; why was one needed when the country already had housing institutions like the National Housing Finance Corporation that could do the job?

After a major rethink, a pilot project, consisting of 15,000 units in three separate schemes in Johannesburg, Witbank and Durban, was initiated in 2001. The organization of the projects is complicated but consists essentially of private companies building the accommodation, social housing foundations running the projects and central government, through the National Housing Finance Corporation and the Social Housing Foundation helping to finance new projects and improving the performance of the NGOs. The first project at Tribunal Gardens was inaugurated in May 2002. It is managed by a non-profit making organization with several years experience of operating in the inner city, the Johannesburg Housing Company. The four-storey walk-up accommodation seems to be well constructed and the Johannesburg Housing Company is determined to make sure that it is very carefully managed. Good security, tight controls over tenant behaviour, an active residents' association and strict rules about payment are meant to avoid the problems that have developed in so many social housing estates around the world.

### **The weaknesses of this approach**

The new projects are being built in the several inner-city areas, at relatively high standards. Yet, the Department of Housing wants rents to be kept down so that the poor can access the new accommodation. The only effective way in which the budget can be balanced is by nearly doubling the normal subsidy level (Tomlinson, 1999b: 293). Certainly the first two projects to have been built in Johannesburg (Tribunal Gardens and Carr Gardens) do not cater for the really poor. In addition, the Johannesburg Housing Company is hardly a typical social housing foundation insofar as it was established with a R40 million capital grant from the European Union. Other social housing foundations will not have this windfall capital to rely on.

None of the various schemes that form part of the central Johannesburg project really fit the original outlines laid down at the Job Summit. Although they are still labelled Job Summit projects, they don't get summit funding or follow the rules. The Johannesburg Housing Company has about 1,200 units and will have 1,800 by the end of the year; the project of COPE Housing Association has just over 1,000 units; and the African Games village has about

1,700 units. Two more projects in Barrowlink and Kliptown will provide a further 2,400 units, which will bring the total to the projected 5,000.



**Photograph 9: Tribunal Gardens rental housing development in inner-city Johannesburg, South Africa**

The biggest problem the companies face is not in building the projects but in running them. The latter has been complicated insofar as several of the projects have been completed under ‘turn-key’ contracts. In order to be paid, the developers need to find clients and one way of doing so is by offering cheap rents and cheap deals for rent to buy. Some initially outsourced the marketing to an agent who told the people what they wanted to hear. Since affordability is one of the key criteria of the Department of Housing, the board of the social housing foundation that will take over the running of the project is amenable to such an approach. The trouble comes when the project is handed over and the housing association has to cope with all the problems with very low rents. It seems that some projects do not have enough money from the rents to pay back the original loan even if there is a zero per cent default on rent payments. Few social housing foundations are now prepared to consider turn-key projects and they are also advised by the Social Housing Foundation either to do the marketing themselves or to make sure that the agent understands and does not bend the rules.

Unfortunately, the social housing institutions that are meant to run these projects are not strong. Moreover, they are expected to solve a financial equation that many experts believe cannot be solved. When non-payment, maintenance costs and repayment of capital costs are taken on board, there appears to be no way the South African poor can afford good quality, inner-city accommodation. The foundations cannot square the circle.

They also need to learn very quickly how to collect rents. The Johannesburg Housing Company is extremely skilled at this necessary art because it has realized that if it isn't done right from the start, within a year there are all kinds of problems. Rent payments are a very sensitive issue in South Africa where many people got used to not paying rents and rates as part of the struggle against apartheid. Other social housing organizations have not been managed to keep rental arrears in check. One encouraging sign is that many housing associations now take out insurance against non-payment for up to three months, plus a couple of months deposit, and the rent includes the cost of the insurance.

The task of the foundations is not helped by the fact that the administrative system underpinning the rental housing projects has been put together in a rather improvised fashion. The Social Housing Foundation is nominally in charge of preparing institutions to undertake the schemes and the National Housing Finance Corporation of getting money to lend to the institutions. In addition, Job Summit coordination committees have been formed in each province.

Of course, these are very early days for the 'job summit' experiment. Some of the early schemes do look as though they will be successful as housing developments and will help to regenerate the central cities. However, they are not catering for the poor and are certainly not replicable on a large scale. They are also being criticized by some of the people who already live in inner Johannesburg. Whether the social housing foundations can balance their books is also questionable given the huge pressures that they are under to combine quality with low rents. Few have much experience and in the current financial and economic environment it could be that many will fail. Indeed, it is already rumoured that some are facing major difficulties.

### **The alternative of small-scale private renting**

If formal social housing for rent cannot provide the answer to those problems, what about supporting small-scale landlords? In 2002, a report considering rental-housing options was produced for the Department of Housing, which argued strongly in support of this option (Martin and Nell, 2002). The report

demonstrated that one-quarter of South African households live in private rental accommodation, either in formal or informal structures, and argued that more support should be given to expanding and improving the quality of that form of housing.

More formal rental housing could be developed through a state-initiated loan programme. Finance would be available only to commercial developers but would be supplemented by other funds, which would guarantee the inclusion of lower income groups. Local authorities would be permitted to use subsidy funds to reduce the rents of poor families in up to 70 per cent of the new accommodation.

The report also suggested that local authorities should seek to improve the quality of backyard accommodation.

*“Household rental is extremely sustainable and offers opportunities in terms of city integration, economic development and poverty alleviation. However this form of delivery is problematic in terms of the space provided, access to services and the health and safety of inhabitants”* (Martin and Nell, 2002: 77).

To improve the quality of the accommodation a capital grant should be made available:



**Photograph 10: Backyard shelter near Pretoria, South Africa**

*“to households who are owners or have site permits and have built or renewed rental accommodation on their properties to meet specified minimum standards”* (Martin and Nell, 2002: 78).

It seems that the Department of Housing did not receive these recommendations very warmly and decided that it would only support the Job Summit rental housing projects. The Department wanted to be seen as encouraging the development of proper, high quality housing, run by non-profit organizations. The idea of offering financial help to private landlords and to enhance the quality of private accommodation of the flimsy shelter in the townships was felt to hold too many political risks. The need to support private landlords has not been accepted in official circles.

In conclusion, the South African government is one of the very few in developing countries that has managed to develop anything resembling a policy for rental housing. At the same time, South Africa’s policy is rather traditional insofar as it relies on subsidies to social housing foundations. It is also based on some rather questionable practical and financial assumptions. Arguably the government should be directly encouraging the main providers of rental housing, small-scale formal and informal landlords. After all, there are an awful lot of them and the official alternatives are based on some dubious economic calculations.



## Appendix 2. Reviving private investment in rental housing in Colombia

For years the Colombian government ignored rental housing. Until 1990, national governments in Colombia had adopted a typically Latin American approach to housing policy. The private sector built homes for the better off, a public agency constructed houses for a small number of poorer families, and the poor provided their own homes through self-help construction on non-serviced and sometimes invaded land. With the exception of 1970-1974, when housing construction constituted one of the four basic planks of the national development plan (DNP, 1972), and during 1982-86, when a major initiative was taken to increase housing construction for the poor (DNP, 1983), housing had always received low priority in national government policy and spending.<sup>a</sup> The almost inevitable consequence of such a policy was that self-help housing expanded throughout the country; invasions and squatters provided the plots on which most of the population built their own homes.

As in most other Latin American countries, the principal state housing agency, the Institute for Territorial Credit (ICT), was less than effective (Gutiérrez, 1989). It was widely criticized for its limited production, the low quality of its housing solutions, its high administrative costs, the political criteria underpinning the distribution of its housing units, the large financial losses it made and the fact that it usually ignored local planning regulations.<sup>b</sup> When the Institute accumulated huge debts between 1982 and 1986 – a result of the way that the plan to provide housing without a down payment was implemented – the time for radical change was nigh (Pacheco, 1989).<sup>c</sup>

In 1990, the government of César Gaviria Trujillo (1990-1994) abolished the Institute for Territorial Credit, replacing it with a slimmed-down successor, INURBE,<sup>d</sup> introduced a policy of direct capital subsidies for the poor, and encouraged the private sector to respond to the new level of effective demand by producing ‘social-interest housing’ (DNP, 1991; 1993).

Housing policy promised to tackle two of the country’s long standing development problems: too much poor-quality housing and too little well paid

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a. See Gilbert and Ward, 1985; Jaramillo, 1982; Molina, 1990; Robledo, 1985.

b. See Castro, 1989; Pacheco, 1989; Robledo, 1985; Ortiz, 1995.

c. Under Belisario Betancur (President 1982-1986), a major effort was made to make lower income housing units available to the poor. The key plank in this effort was to remove the barrier of the housing deposit. The Housing and Savings Corporations were expected to lend a proportion of their savings for social-interest housing.

d. The National Institute for Social Interest Housing and Urban Reform.

work. Housing production would increase as a result of encouraging more private investment into the housing, the result of offering subsidies to potential buyers and of obliging the housing finance system to invest more in low-cost housing. Increased output would generate more jobs in the labour-intensive construction sector and in related industries. On the demand side, state subsidies would allow more low-income families to buy new homes or to improve their existing shelter.

Social-interest housing would be aimed at those earning less than four minimum salaries, without a home of their own, and whose accommodation was poorly constructed, overcrowded or lacked a title deed and/or services. Colombia had clearly moved strongly towards the approach to housing being recommended by World Bank policies (World Bank, 1993). The state would stop providing houses directly and decisions about the kind of housing solutions to be offered would be left mainly to the market. If builders did not offer appropriate solutions they risked attracting few purchasers with subsidies; an approach far superior to the old system employed by the Institute for Territorial Credit.

Despite this major change in the housing system, nothing was done to address the issue of rental housing. Insofar as there was any discussion about renting it focussed on the need to reform the rent-control legislation. Rent controls were first introduced in 1956 although the current legislation dates from 1985. The latter decrees that rents can only rise by 90 per cent of the increase in the national price index for the previous year. Although the evidence suggests that these controls have never worked very well, the authorities have been reluctant to reform the law. Successive governments have worried that if it frees rents, which make up rather more than one-fifth of the index used to calculate the rate of inflation, rents might increase rapidly and take prices with them. In addition, there is the problem of Congress where most politicians believe that it is their duty to protect weak tenants from exploitation by grasping landlords. The building and real estate lobbies have long complained that on this issue politicians treat landlords as if they themselves were the problem personified. An effort to reform the law in 1999 sank without trace.

Conventional wisdom suggests that the legislation has killed all investment in rental housing. In fact, the figures show that rental accommodation increased during the 1990s, both relatively and absolutely. According to the government's statistical office, the proportion of the total housing stock rented nationally increased from 23.7 per cent in 1988 to 29.8 per cent in 2001. The absolute number of rented homes rose from 1.4 million to 2.5 million.



However, because of the weak state of the economy since 1998, the building and real estate lobbies have recently shown considerable interest in the rental-housing question. The Federation of Exchanges (Fedelonjas), a professional body that represents a series of companies administering rental accommodation, managing buildings and carrying out property surveys, has been leading the campaign. Together with the Colombian Chamber of Construction (CAMACOL), which represents the building industry, the Federation managed to convince the incoming Minister of Development in 1999, that the time was ripe for reform. The Minister was amenable because he wanted to help stimulate the economy and to reduce the high level of unemployment, which at the time was hovering around 18 per cent in the major cities of the country. Unfortunately, Congress failed even to debate this bill.

A new bill was prepared and presented to Congress in 2002. The bill aimed “*to create judicial and economic conditions under which the market for urban rental housing may flourish*”. Increasing the supply of rental housing and improving its quality would help to satisfy “*the constitutional mandate under which every Colombian has the right to a proper home*”.<sup>e</sup> It argued that the existing law, which was introduced to protect tenants from the power of major landlords, was no longer necessary because few landlords own many properties and most are letting property to tenants of the same social class. The exploitation that used to characterize the rental relationship was no longer a major problem. A reform was needed because both the wording of the legislation and the way that the legal system operated were undermining landlord confidence.

The bill attempted to simplify the contract and thereby make it more effective. It made the choice of guarantors much easier and broadened their functions, for example, in future they would be required to guarantee payment of both the rent and service charges. In the process it hoped to encourage tenant associations to take up the role of guarantor for poorer tenants. The rental contract would be more flexible and would prevent either tenants or owners from automatically prolonging the contract against the wishes of the other party.

The bill also tried to simplify the legal process in the case of conflict. Repossession of the property would be much easier, at least in those cases where the tenant had not failed to pay the rent. New forms of conciliation and mediation were also proposed, which it was hoped would remove the need for

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e. The adjective in the common Latin American term - *una vivienda digna* - is translated in one dictionary as worthy, deserving, dignified, suitable or fitting. Perhaps the words decent and proper have the nearest meaning in English. Adequate, deserving, suitable or fitting are rather ambiguous and dignified is certainly an inappropriate translation.

most cases to go to court. In those cases that should go to court, the bill recommended new procedures, which should *“prevent one of the parties in dispute using the likelihood of delay to favour their cause”*.

By removing these legal difficulties and lifting rent control, the government hoped to attract more investors into the rental housing market. The new approach to contracts and guarantees would ease the task of raising capital and there would no longer be any need to find an intermediary to act between the investor and the capital market. Certain tax incentives were also contemplated. Municipal governments would be invited to reduce the level of property tax in the case of rental housing. In addition, claiming depreciation and expenses against income tax would be made both simpler and faster. There was some suggestion that an indirect subsidy might be offered to those building rental housing for the poorest three income groups. Such a subsidy would be permitted under the new constitution of 1991 as a form of affirmative action in favour of the poor.

These reforms were expected to open the rental market up to new kinds of investors, particularly institutional investors, such as trust funds, and the administrators of pension and unemployment compensation funds. Increased investment would help in *“the remodelling and building of housing for rent and thereby provide an important incentive for the building industry to contribute to the generation of employment and reactivation of the economy”*.

After a long delay when it appeared that the new government which took office in August 2002 was not going to push the reform, it suddenly did so. Congress finally approved the bill on 20 June 2003 and the details of the financial rules will be finalized by the government over the next six months.

What are the chances of these reforms working? *Fedelonjas* believes that Colombia's cities need Rental Investment Funds, each of which would handle a large number of properties and that certain kinds of capital are prepared to invest. It estimates that there is a potential middle-income rental market amounting to some 15 per cent of the 1.7 million properties in Bogotá. The reforms to the contract system, the removal of rent control and the easing of the procedures to remove tenants who do not pay will appeal to large investors. If the role of the National Guarantee Fund were to be extended that would also help. This Fund currently provides guarantees for 70 per cent of the loans borrowed by building companies to build social interest housing. A similar arrangement in the rental housing area would attract more investors.

It is likely that more small-scale, formal-sector landlords will be encouraged into the market by the easing of the rules on repossession. The earlier process was hopelessly slow and complicated. First, a lawsuit had to be

issued and then the tenant and the guarantors had to be notified in person. The Constitutional Court complicated the old system further by banning the pinning of eviction notices to the front door, and requiring all judges to send the lawsuits to an office in Bogotá for delivery. The office then had to tell the court if it could not communicate with these people. The tenant then had a period to reply and to name a representative. The case then went to one of the *curadores urbanos*, the local offices that deal with rental and planning matters. These offices normally passed the case to their superiors, a process that took even more time. When the eviction order was eventually approved, the judge sent a demand to the police who began their own procedure. A new administrator took over the case and eventually the tenant was evicted. If there were any complications the case could take years. The weakness with the reform is that while its provisions will reduce the chance of delay, the time needed to repossess a property may still take up to eight months. More important are the reforms to the guarantor, making it possible for the landlord to claim back the service charges. This is important because the service companies have been unwilling to sign a contract with the tenant.

Where the reform is likely to be ineffective is in the poorer parts of the city. Here the issue of contracts is rare and neither landlords nor tenants are very knowledgeable about legal processes. Some landlords may be tempted to take advantage of the promised reduction in the property tax, which is rising rapidly in the poorer areas of the city. But, they might equally well be put off by the fear that they will then be presented with a bill for income tax. If they are also worried by all the hassle and expense of dealing with a lawyer, they may decide that it is simpler just to deal informally with the tenant.

At least, the reform bill shows that the Colombian government has realized that homeownership is not the only answer to the country's problems and that rental housing may have something to contribute to overcoming the current economic crisis. This is a significant change from the past. However, the official policy is still "*to create a country of homeowners*", a line that was pushed strongly on 2 July 2003, after a major legalization programme was announced in one of the country's major cities (El Tiempo, 3 July, 2003). And, in the higher income sectors, the concern is that as one Colombian expert put it: "*in Latin America, what we most worry about is the capital value of our homes; we like to make as much money as possible*".<sup>f</sup> Maybe large investors will again start to put money into rental housing; maybe not.

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f. Informal interview.



## Appendix 3. Leasing: The best of renting and owning?

In recent years, many governments have become interested in leasing programmes. The essence of leasing is to combine the advantages of renting and owning. Instead of tenants ‘losing’ all of their rent to the landlord, part of their monthly payment goes toward the eventual purchase of the house. This arrangement satisfies the need for some families to rent at the beginning of their lives, but who want one day to become homeowners. It is particularly suitable for families with a regular income who lack the savings to put down a deposit on a house. In the last decade, Chile, Brazil and Colombia have all introduced some variety of this hybrid renting-ownership scheme.

### Chile

Chile was the pioneer of leasing in Latin America and is still seen to be the exemplar. Leasing was introduced in 1993 into a nation where the dominant ethos was to promote universal homeownership. The supply of rental housing was much more limited than in comparable countries (see table 1) and few Chilean governments seemed to have much interest in stimulating its expansion.

The leasing programme was designed to help households with an urgent housing need but with insufficient savings for a deposit. The family signs a 15- or 20-year contract with a financing company. The monthly payment includes two components: the rent and a savings contribution. By the end of the contract, the accumulated savings and the interest earned on those savings provide the funds to purchase the house. This system differs from an ordinary mortgage insofar as the finance company continues to own the house until the final payment is made. To encourage residential mobility the tenant can transfer the house to another family and take out a new agreement for a different home.

*“Lease-purchase agreements with private leasing companies receive government assistance through subsidies covering between 5 per cent and 8 per cent of the final cost, disbursed in up to 240 instalments as lessors progress in paying off their lease-purchase agreement”* (Rojas, 2001: 467).

The scheme did not begin very auspiciously because of disinterest on the part of the banking system. However, in 1998, the Minister of Housing and Urban Development claimed that 88,000 savers had opened savings accounts with *Administradoras de Fondos para la Vivienda* (AFV) and promised US\$100 million to support the programme (*La Tercera*, 10 October 1997). By the end of 2002, however, only 1.1 per cent of the total number of families registered on the Chilean housing subsidy programme had opted for a leasing option (Dinero, 2003).

Apart from the doubts of bankers and households about the advantages of the system, leasing also poses a problem for the State. In the context of the highly subsidized Chilean housing system, leasing cannot flourish without a State subsidy. But, because any subsidy is offered over a period of 15 or 20 years, the leasing programme means that the State is committing itself to a long-term budgetary expense. If the leasing scheme were to become really popular, this would severely reduce any flexibility in the housing budget in the future. In sum, therefore, the Chilean experience with leasing has not so far been very successful.

## **Brazil**

The Federal Savings and Loan Bank created the Residential Rental Programme in July 1999. Its initial funds came from three existing programmes that were being wound up. It is a form of rent with the option to buy at the end of 15 years. The housing can be either new or renovated. The rent charged is one per cent of the value of the property, with an annual correction rate of 80 per cent of the index applied to Brazilian government bonds (FGTS). It was aimed particularly at the low-income population living in the largest urban centres, with households earning up to six times the minimum wage being eligible for the programme.<sup>a</sup> The financing is described as “*not onerous*”. By the end of 2001, 59,000 families had signed up, but it is too early to really evaluate the programme.

## **Colombia**

The Colombian government announced a new leasing scheme in April 2003 and offered a number of tax benefits to support it. The principal aim is to help rescue the construction industry from the severe recession that it entered in 1997.

The leasing contract gives the tenant the option to buy for a period of normally ten years. At the end of the contract if the tenant opts to buy, the cost is the difference between the price of the home and the amount already paid towards the purchase. The tenant agrees at the beginning of the contract on the proportion of the final value of the house that is being paid and the total monthly payment is calculated on that basis. At the end of the loan agreement, the tenant can opt whether to buy or not. The tenant must live in the house throughout the period of the contract and sub-letting is not permitted. However it is possible to transfer the right to purchase to a third party.

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a. Information provided by Ricardo Farret and Andrea Ribeiro Gomes.

Unlike an ordinary mortgage, the lump-sum payment is made at the end of the contract. As the price of the house is established at the end of the contract, the higher the proportion of the monthly payment going toward the purchase, the more the borrower will be the principal beneficiary of any capital gains. Since prices are currently very low, this suggests that buyers should opt for a high percentage of their monthly income to go towards the purchase.

Banks that lease housing for at least ten years will be freed from making income tax payments on the profits and the buyers will also benefit from a tax reduction (El Tiempo, 2003b). Leasing is supposedly meant to benefit households at every level of income although tax relief is only available to individuals who have income tax retained at source (that is, those who earn more than US\$760 per month). This means that most advantage will go to middle-income families with a regular job, although the Ministry of Finance argues that families that do not pay tax at source already receive an important tax benefit. For a person earning 5 million pesos a month, leasing a 50 million-peso house over 15 years and opting to pay for 30 per cent of the value of the house, the total tax relief at current rates would be 28.6 per cent of the monthly payment (El Tiempo, 2003c). The tenant will also be free of property tax because during the contract period the property belongs to the finance company.

The target population is those who have regular incomes but who lack the savings to put down the deposit to obtain a mortgage. It is also aimed, and some would argue principally aimed, at those people who lost their house during the economic and housing crises of 1997-2002 because they could not pay their mortgage. As many as 600,000 families fell behind in their mortgage repayments, creating a major problem for the banks and the government as well as for the families themselves. Leasing allows such households to move back into their original home or, if the bank has already sold that house, to lease another. The banks currently hold 10,500 homes, worth some US\$166 million, which they are anxious to dispose of as quickly as possible (El Tiempo, 2003c).

Early doubts about the success of the new scheme include:

- Whether the banks will continue to sell the property acquired from mortgage defaulters rather than enter the leasing scheme.
- The rules on leasing, for example, does a lessee lose the house if he/she fails to pay one month's payment? (El Tiempo, 2003c).
- Whether either banks or households will be prepared to take on a contract when they have no idea what the state of the housing market will be in ten or fifteen years time?
- The financial sector reacts and whether it will design leasing packages that will appeal to the public? (Dinero, 2003).





## Appendix 4. The accelerated repossession procedure in the United Kingdom

The government introduced the accelerated possession procedure in November 1993 for cases where the landlord had incontrovertible evidence of entitlement to possession.

*“It was developed in response to a concern that the possession of privately rented properties was expensive and time consuming – for the landlord, tenant and the courts” (DETR, 1998b: 1).*

The advantages of the scheme are that it has speeded up many decisions and that it has reduced the cost of going to court. *“On average, hearings took place about five weeks after the case had initially been considered by the judge. Just over half of these cases were subsequently granted an order for possession” (ibid: 5).* For this reason many landlords have used it when they feel they have a cast iron case and when they are resigned to losing any rent owed to them. *“The accelerated procedure offered the quickest way of cutting their losses” (ibid: 3).*

The major limits to the procedure in the United Kingdom are that landlords cannot recover any rent owed to them by the tenant. In addition, should the tenant ignore the repossession order, the landlord had to request the use of court bailiffs and to incur a further fee. The real problems have come with local authority tenants who have been encouraged to stay in their accommodation until the council could find them alternative shelter!

The procedure can be used for any assured shorthold tenancy, providing that there is a written tenancy agreement, the landlord has served the correct notices on the tenant and where it was a fixed term tenancy, the fixed term has expired. If the landlord wants to claim back unpaid rent a separate court process is required (ibid: 2).

*“The landlord supplies the court with copies of the tenancy agreement, the relevant notices and a completed application form (the latter serves as an affidavit and a summons). The tenant is given two weeks to respond to the information supplied by the landlord using a ‘form of reply’. If the tenant does not reply, the landlord has to complete a further form requesting an order for possession and costs. The case is then considered. If all the paperwork is in order, the judge grants possession and the tenant is given a date by which they should leave the property. If there are doubts or queries, the judge is likely to order a court hearing” (ibid: 3).*

Most landlords seek possession because their tenants are in arrears with the rent or because they wish to sell their property or move back into it themselves. They are prepared to forego the lost rent, because they consider that the tenant is unlikely to pay and the accelerated procedure offers the quickest way of cutting their losses (ibid: 3).

*“Possession orders under the accelerated procedure were nearly always obtained more quickly than they would have been under the ordinary procedure and, consequently, at less cost to landlords, tenants and the judicial system. Where there was no need for a hearing, the majority (80 per cent) reached a conclusion within six weeks. Six in ten cases granted an order for possession following a hearing, took less than 10 weeks from start to finish”* (ibid: 2).

In the vast majority of cases (86 per cent), the accelerated procedure was much faster and cheaper than the ordinary one:

*“Six out of ten landlords were able to obtain possession without a hearing and in these instances the procedure was undoubtedly cheaper than the ordinary procedure”* (ibid: 4).

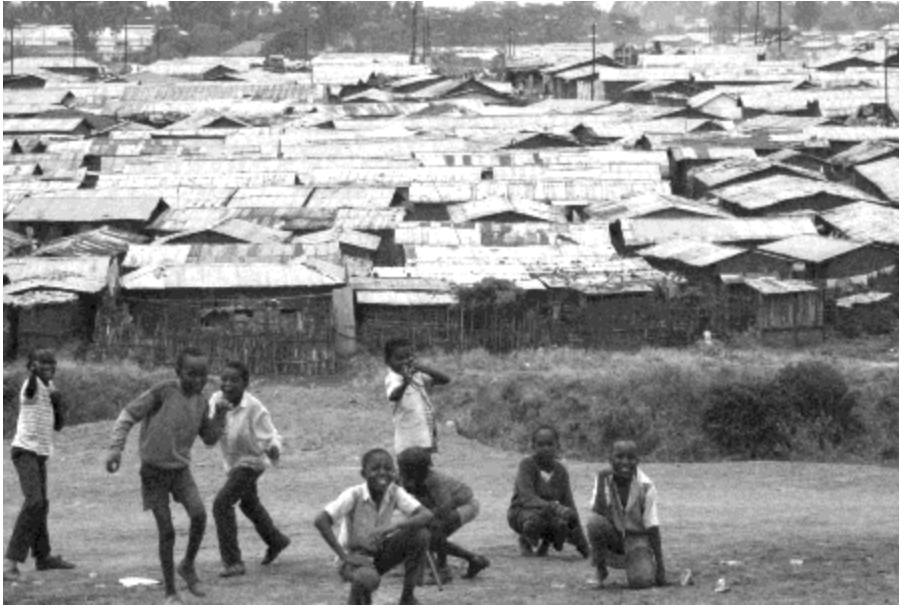
The two main reasons for not using the procedure were the inability to pursue rent arrears and the need to make sure that *“every single piece of paper is in order”* and that it will only work if the tenant is not disposed to delay the whole process (ibid: 3).

*“If tenants remained in the property after expiry of the order for possession it was necessary for the landlord to request the use of court bailiffs and to incur a further fee. This caused much frustration amongst landlords and affected their views to the effectiveness of the accelerated procedure”* (ibid: 4).

All tenants subject to the accelerated procedure are supposed to be sent an explanatory leaflet and a list of advice agencies by the court. However, around half do not seem to receive this assistance (ibid: 2).

## Appendix 5. The rental slums of Kenya

In general terms, this report has argued that renting is a form of tenure that should be encouraged. The worst aspects of renting have been exaggerated and the disadvantages of ownership played down. Most landlords are not as bad as they are painted and most tenants gain many advantages from their tenure. In a few cities in the world, however, it is much more difficult to support that case. One of the worst cases in this regard is Nairobi.



Photograph 11: Nairobi's informal rental housing

*“Nairobi hosts some of the most dense, unsanitary and insecure slums in the world”* (Warah, 2003). The informal settlements that accommodate three-fifths of the city’s 2.5 million people *“have failed to provide adequate shelter”* (GOK and UNCHS, 2001: 37). Living conditions in these areas are ‘revolting’; *“few households have more than a single room and sanitary facilities are, in many cases, completely absent”* (Andreasen, 1996: 362). Ninety per cent of households in the informal settlements of Nairobi occupy single rooms of between 9 and 14 square metres. The occupancy rates are from 3-5 persons (Syagga and others, 2002: 10) and, in places:

*“as many as 1,200 people live on one square kilometre, sometimes in shacks as small as 10 feet by 10 feet ... Water, electricity, cooking*

*fuel, education, health care, adequate shelter, and financial services are also in short supply*" (GOK and UNCHS, 2001: 1).

In 1994, 95 per cent of the residents lacked adequate sanitation and in some areas up to 50 people were using one pit latrine (GOK and UNCHS, 2001: 54-55). What makes a listing of these terrible housing conditions relevant to this report is that *"most slum dwellers are tenants"*. In some settlements more than 90 per cent are renting and many are paying what have been described as *"exorbitant rents"*.

It has often been claimed that landlords in Nairobi are truly exploitative. They profit from the lack of housing by charging high rents for awful accommodation. *"Maintenance is non-existent and the owners' procedures to collect rent are pitiless"* (Andreasen, 1996: 362). Such business practices mean that renting is highly profitable, one of the *"most lucrative investments in modern Kenya"* (Amis, 1987: 259). Annual capital returns in the Mathare valley were once estimated to average between 50-100 per cent per annum. In one case, returns were as high as 142 per cent, implying that the cost of building a room for rental purposes could be recuperated within less than 9 months (Amis, 1984, Syagga and others, 2002).

In recent years, profits appear to have fallen because the real level of rents has clearly declined. This is surprising given the 'bogey-man' image of Nairobi landlords and has been used by one observer to demonstrate that they are not *"exploitative"* (GOK and UNCHS, 2001: 44). That interpretation is difficult to accept given that rents seem to have fallen only because people's wages have fallen. *"The evidence is clear that over the period (1980-92) there was a decline in real terms in both wages and rent levels"* (Amis, 1996: 277). Hence, it is not the generosity of the landlords that explains the fall. Rather, *"it seems that rents may be constrained by the sheer poverty of the inhabitants. In a nutshell, it is simply not possible to extract higher rents."*

What has allowed this unhealthy situation to develop? The basic explanation seems to rest with the limitations on access to urban land. In Nairobi, much of the land used for informal settlement was once public land. The politicians and public officials who controlled that land have frequently been among the beneficiaries who have received allocations. For example, *"out of a sample of 120 landlords interviewed, 57 per cent were public officials (government officers and politicians)"* (Mugo, 2000).

The presence of so many tenants in Nairobi has a similar explanation. Since few wield any influence with the power brokers of the city, they cannot gain access to cheap land in the way that occurs in so many other developing country cities. If the migrants arriving in the city cannot get a foothold into 'ownership', lacking relations in town, their only option is to rent. They are

welcome to the absentee landlords, who are “*only interested in optimising the income from ‘their’ land*” and constructing “*as many rooms for rent as possible*” (Wegelin-Schuringa and Kodo, 1997: 182).

The government is currently involved in a major slum-upgrading programme in Nairobi that it is hoped will address some of the problems in the city.<sup>a</sup> But some doubt whether the offer of greater security of tenure will actually improve the situation rather than simply leading to higher rents. Equally, it seems difficult to improve people’s access to land, the real bottleneck to reducing housing densities. After all, why should those members of the elite who currently benefit from the existing system welcome the introduction of a more transparent land allocation system? Why should today’s absentee landlords run the risk of lower profits as a result of increased competition from other potential rental housing developers? (Syagga and others, 2002).

Occasionally, the uneasy relations between landlords and tenants can even lead to violence. Towards the end of 2001, former President Moi encouraged tenants in Kibera not to pay such high rents with the result that mainly Luo tenants fought with mainly Nubian landlords.<sup>b</sup> More recently, in June 2003, conflict between a landlord and his tenants caused the deaths of 13 members of a hired eviction squad.<sup>c</sup>

Renting in Nairobi currently represents a worst possible case scenario, in terms of living conditions offered to tenants; it is a classic example of what rental housing should not be like. It should be noted, however, that these rental units provide affordable housing to a considerable share of the labour force. This situation helps keeping wages at a low level in many sectors of the economy. The unholy combination of low wages, poverty, unequal access to power, public ownership, absentee landlordism, poor service provision and rapid in-migration have conspired, in Nairobi, to produce some of the world’s worst living conditions. Perhaps, the current upgrading initiative will manage to change things; by improving living conditions for tenants as well as providing a sustainable mechanism for the Nairobi City Council to invest in infrastructure and basic services, funded by income from the use of public land, which is currently exploited almost exclusively by landlords. Perhaps the arrival of a new democratically elected national government will help? It is certainly to be hoped so.

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a. The Collaborative Nairobi Slum Upgrading Initiative, a joint initiative by the Government of Kenya and UN-HABITAT.

b. Economist, 2002a.

c. Warah, 2003.



## Appendix 6. The family dimension: Sharing West African style

The quality of much housing in West African cities is very poor. Occupancy rates average over 2.5 persons per room in many cities (Peil and Sada, 1984), infrastructure provision is very poor and a recent survey in Kumasi found that only 10 per cent of households have indoor plumbing. Access to water is usually through shared taps or standpipes, so long waits and queues are common (UNCHS, 2001a: 124). Although the lack of recent census information makes comparison with other places difficult, few would contest that housing conditions in most West African cities are very poor.<sup>a</sup>

One of the reasons why housing conditions are so bad is that many people rely on their relations to provide them with shelter. A homeowner in most West African societies is expected to accommodate every member of the extended family. In West African cities, *“the very fact of even remote kinship has proved able to invoke free accommodation for the poor”* (Korboe, 1992: 1160). These *“rent free consumers”* often find space in what are known as ‘family houses’, *“an essential part of the housing scene in urban West Africa”* (Amole and others, 1993: 369). This traditional form of accommodation has absorbed many of the new migrants arriving in the cities and may even be growing in importance relative to other forms of shelter. In Kumasi (Ghana), for example, the incidence of ‘family housers’ increased from 13 per cent in 1980 to 25 per cent in 1986 (Tipple and Willis, 1991).

Family houses develop in part because they cannot be sold. In Nigeria, *“traditionally, it is taboo to sell a family house, or indeed any house, compound or residential plot, where a head of family was buried. To sell such a property would be regarded as a humiliation by members of the extended family, who would most probably put pressure on the eldest son to abandon such plans”* (Ogu, 1999: 324). But local customs vary within West Africa.

Box 6 provides one example of how traditional family housing emerged in the city of Bamako in Mali. It also shows how it has developed over time to absorb different generations of family members. While this particular case is not wholly typical, for modern variations of this kind of accommodation are emerging all the time, it demonstrates clearly the kind of family logic on which the family house has developed.

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a. See Amole and others, 1993; Tipple, 1987; Tipple and Willis, 1991.

## Box 6. Family housing in Bamako, Mali

*“In 1920, the imam of Miarela was given a plot bordering the small square where the neighbourhood mosque stands. At present, this compound is still home to many of his descendents. In addition to the incumbent imam, Brahima, who has two wives and nine children, his five brothers, with spouses and children, also live in this same concession, 82 people altogether.*

*The Coulibaly family is a good example of a traditional African ‘extended family. Although each of the Coulibaly brothers is in the first place responsible for his own nuclear family (wives and children), together they also operate as a super-household, under the unquestioned authority of the elder brother, the imam. Five out of the six brothers’ sub-households take care of their own expenses for food, clothing and the like, while other expenditure is dealt with collectively. For instance, one of the brothers, Seydou, takes care of the electricity for the entire compound. The Coulibalys enjoy great prestige as the imam’s family, which also yields considerable income in gifts from many devotees. The family income is generated from so many different sources, that the clan as a whole commands a high level of material security.*

*The physical layout of the compound reflects the subdivision of the extended family into six sub-households. There are six small interior yards, each of which is the dwelling space of one of the brothers and his nuclear family. These open spaces are the actual focal points of daily life. The yard is where everybody meets and chats, where children play, domestic work is done, where chickens and a few goats are kept. The more senior men keep somewhat aloof from this crowd: they tend to withdraw to their verandas, where they drink small glasses of strong, sweet tea which is prepared and served by some of the older boys. Apart from the half-open verandas, the indoor spaces of the compound are used only as bedrooms and for storage. There are no rooms specifically equipped to serve as ‘living rooms’, as in the common Western practice, which is also gaining popularity among the Malian elite. Two spacious covered passages (one serving as entrance to the entire complex, the other separating the first two yards from the other yards in the back) are also being used for Koranic classes, where neighbourhood kids are taught to read and write religious texts on flat wooden panels. Two rooms with direct access to the street are rented out to traders as shophouses.*

*The built environment of the compound has always been adapted to the circumstances. From a large plot with just a couple of simple rooms, the Coulibaly compound has during two generations gradually developed into a dense complex of open and indoor spaces. The physical quality of the structures is diverse, though generally not very high. Some parts have retained a traditional style, with unplastered mud walls and terraced mud roofs. More rooms now have cement-plastered mud walls, and corrugated tin sheets as roofs, supported by a wooden frame. Most floors are made of cement. As yet, no construction in completely durable materials has been carried out here. Although they could afford it, the Coulibaly family so far attaches relatively little importance to the physical appearance and characteristics of their dwelling space. This is also reflected in the lack of ornaments and landscaping. Only the front of the*

*(continues...)*



## Box 6. (continued).

*imam's quarters is somewhat decorated with arches and open cement blocks. The Coulibalys' sense of dignity and self-esteem is defined in terms of family life and of their customary position as a prominent family in an ancient Bamako community. It has nothing to do with the way they live, and therefore does not compel them to spend much money and efforts on their housing. In this respect, they retain a basically traditional attitude to housing.*

*Although plans for new additions have been made, it is clear that the process of densification that has marked this compound for over two generations is reaching its physical limits – unless radically new approaches are chosen, by opting for multi-storey construction. Younger members of the clan have already left the compound for other sites in Bamako, and this process of decentralization – and dissolution into more households – is likely to gain strength.”*

*Source: Van Westen, 1995: 145-146.*

What implications does this kind of ‘family house’ have for shelter policy? The big advantage of the system, of course, is that few West Africans are homeless. Migrants have somewhere to stay when they move to the city. Adult children have somewhere to live when they grow up and raise their own children. In poor societies this is a major advantage. As such, *“family houses provide accommodation for many of the poor and disadvantaged members of long-established families at almost no cost to themselves or to the state; a major resource in social welfare”* (Amole and others, 1993: 369).

Perhaps the price to be paid is the poor quality of much of the accommodation. In Ghana, family houses form part of *“the most neglected housing”*. This is not only because occupants are poor, *“but also because - being jointly-owned - family housing tends to behave as a public good, with each title-holder leaving the responsibility for improvement to others”* (Korboe, 1992: 1168). However others argue that, *“there is no conclusive evidence”* to show that the condition of family houses *“is worse than other houses in multiple occupation”* (Amole and others, 1993: 369). It has also been recognized that, in general:

*“such non-paying households are relatively well provided for: they were found to consume more than their pro rata quota of rooms whereas tenants occupied less”* (Korboe, 1992: 1160).

While the quality of the accommodation in family houses is undoubtedly poor, there are other explanations for the deficiencies found in most kinds of housing in West African cities. One is the tendency in many parts of West Africa for people to invest in property in their home villages.<sup>b</sup> Another is that

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b. See Ikejiofor, 1997: 410; Peil and Sada, 1984.

investing in certain kinds of property is often not a sensible economic option. In Ghana, for example, stringent rent controls reduced rents to derisively low levels in the 1980s and discouraged anyone from investing in rental housing (Tipple, 1988). Such controls also contributed to deterioration in the family housing because low rents also *“made it easier for owners to assign rooms to needy kin”* (Korboe, 1992: 1168). And, even in Abuja, where rent controls don't really operate, landlords perceive that the *“economic return from rental property in the settlements is low compared to alternative investment opportunities”*. The general economic and political environment is also important, for when people worry about the future they tend to invest little in housing. When people have little money, even those who want to invest have difficulty in doing so.

Family housing also raises important questions about the cultural values and attitudes of policy makers. In West Africa, the latter seem to be unimpressed by traditional housing, particularly when they are trying to build state-of-the-art cities. For example:

*“policy officials in Abuja perceive medium and high income housing to be more germane to the image of the new capital than low cost dwellings affordable by the majority of its citizens”*(Ikejiofor, 1997: 413).

Modern cities are not supposed to have mud walls, even though in Nigerian conditions:

*“an imaginative use of mud will not only reduce building costs drastically but, as an abundant traditional environmental element in Nigeria, will help in making Abuja a city that is truly Nigerian in style”* (Ikejiofor, 1997: 424).

Others concur with the idea that family houses make an important contribution to housing the poor. In urban Ghana, the housing deficit would be–

*“decidedly more acute without the contribution which family-housing continues to make. Given the harsh economic climate, this form of housing is too important to be ignored by researchers and policy-makers”* (Korboe, 1992: 1169).

This sentiment is echoed in the argument that–

*“policy makers should be mindful of the major contribution which family houses make in housing those on low incomes, and act to encourage and enable the maintenance and provision of such housing rather than acting as if it is a vestige of a bygone age, of little relevance to the modern city”* (Amole and others, 1993: 369).

A second general implication of family housing is that it begs us to ask questions about the nature of 'normal' lives, 'normal' families and 'normal' housing careers:

*"[T]he importance of these large polygamous families to some extent defies a blanket application of the straightforward couple-based life-cycle approach. In a sense, these African households carry the family cycle one or two steps further than common in the traditional European context. Firstly, the African family cycle need not be confined to the child bearing, rearing, and launching stages of a single couple, but may extend to include further spouses and their offspring. Secondly, the family cycle need not necessarily stop at the death of the husband: in several cases, the family unit continues to function as a large superstructure composed of the different sub-households around sons of the deceased patriarch, with the oldest surviving son to some extent assuming overall control. Thus, dwelling consolidation may also proceed well beyond the lifespan of the original couple who founded the compound, creating one of Bamako's 'grandes maisons' or 'family houses'. This helps to explain the apparent 'lack' of conversion of old central city housing into small, rental units: cycle stages of owners still left in the Latin America inner cities, where widows or aged couples have rented out the bulk of the house once occupied by their own families. In Bamako, their counterparts' households have never stopped expanding."* (Van Westen, 1995: 155).

Of course, attitudes change and even in West Africa, changing life styles are beginning to increase tensions within extended families. One result is that, in a survey of sharing families (Korboe, 1992: 1162), 45 per cent of owners describe the extended family as being 'parasitic'. That may well be the case but what is the alternative to the extended family? To put it crudely, do all people want to be left alone in old age, renting to strangers or to be responsible for putting up their kin? In developed countries, and increasingly in Latin America, the choice is being made; in West Africa the choice is arguably still open. Since this report has argued that tenure choice is important, does West Africa provide anything in the way of a relevant option?



## Appendix 7. Is the “American Dream” materialized in housing?

The sanitized version of housing experience in the United States of America has been so influential in determining housing policy in many other countries that the following quotes from a number of American observers are offered as some kind of antidote. The “American Dream” promises any citizen of the United States of America that they can achieve anything provided they work hard enough. The dream began with the opening up of the frontier and the frontier spirit has permeated the society ever since. Today, the ‘Dream’ promises material prosperity, equality and electoral representation.

Owning one’s home is part of that dream and no American can claim to have succeeded in life while remaining a tenant (Dreier, 1984; Heskin, 1983). Not only is ownership a sign of economic success but, compared with tenants, owners are thought to be:

*“better citizens, better neighbors, and even better persons. This belief can be traced to the very beginning of American culture. The dominant view of the colonists was that property ownership was a good indication of a person’s moral worth. In fact, tenants were not allowed to participate in federal elections until 1860”* (Rohe and Stewart, 1996: 38).

*“Tenancy has never been a desirable position for residents of the United States. The drive to own has obsessed the people from the yeoman farmer to the modern suburbanite. Being a tenant had never been part of the ‘American Dream’, and the status of tenants in this society has never been secure or comfortable. Tenants have been, in an essential way, the unpropertied in a society in which property is central. In that tenants’ immediate interests seem to lie in opposition to those of property, their issues appear to present conflicts basic to the ideological fabric of the country”* (Heskin, 1983: xi).

Owners have long been praised as the bastions of American society:

*“the man who has something to protect and improve - a stake of some sort in the country - naturally turns his thoughts in the direction of sane, ordered and perforce economical government. The thrifty man is seldom or never an extremist agitator. To him revolution is anathema.”* (Bellman, 1927: 54)

More recently Senator Charles Percy asserted:

*“ a man who owns his own home acquires with it a new dignity. He begins to take pride in what is his own, and pride in conserving and improving it for his children. He becomes a more steadfast and*

*concerned citizen of his community. He becomes more self-confident and self-reliant. The mere act of becoming a homeowner transforms him. It gives him roots, a sense of belonging, a true stake in his community and well being*" (Rohe and Stewart, 1996: 37-38).

Packard (1959: 61 and 69) showed how advertising and the growth of suburbia during the 1950s led to the home supplanting the car as the most favoured 'symbol of success' and the 'showcase for culture'.

Such beliefs have become so engrained that they have convinced one administration after another to expand homeownership as part of the federal commitment to achieve the "goal of a decent home and a suitable living environment for every American family".<sup>a</sup> "For half a century, the principal goal of federal housing policy has been to increase homeownership opportunities for all Americans" (Varady and Lipman, 1994: 492). It has not just been Republican governments for the Clinton administration promoted homeownership under the banner: "Make the American Dream a reality in the 21st century".

*"Enormous amounts of money, both public and private, are being invested in increasing the homeownership rate. From the \$2 trillion 'American Dream Commitment' of Fannie Mae to the multimillion dollar homeownership programs of the Enterprise Foundation, Local Initiatives Support Corporation, and Neighborhood Reinvestment Corporation to the millions of dollars of programs and incentives under HUD's control, a consistent view of homeownership as a 'silver bullet' has emerged"* (Harkness and Newman, 2002: 598).

*"In 1989, the amount of federal tax subsidy for owner-occupied housing is estimated at between \$49.7 billion and \$51.9 billion. ...including non-taxation of net implicit income in the measurement of home-owner tax expenditures adds substantially to the estimates of the aggregate tax expenditure on owner-occupied housing" and possibly reaches US\$109 billion a year* (Megbolugbe and Linneman, 1993: 673).

The one-third of households who rent do not benefit at all, because: *"there are no tax-saving advantages to renting. While tenants do not have landlords' maintenance and other burdens, they are not compensated for their contributions to what the landlords can deduct, often with depreciation schedules enhancing their investment"* (Kenison, 2002: 3).

Thus, tenants "have good reason to feel like second-class citizens" (Dreier, 1984: 261).

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a. Section 2 of the Housing Act of 1949, 42 U.S.C. 1441.

Under such an onslaught it is not surprising that surveys report that about 80 per cent of Americans view owning a home as a good investment (Fannie Mae, 1992). They also consider ownership to have been *“the most important method of wealth accumulation for low- and middle-income families in the post-war period”* (Kain and Quigley, 1975: 150).

The bulk of the federal subsidies have been directed to the wealthiest. In 1980, approximately three-quarters of tax relief on mortgage payments went to the 19 per cent of taxpayers with incomes above \$30,000 (Dreier, 1984: 261). There are also those who doubt whether the poor gain greatly from home-ownership:

*“buying a house is the single greatest investment made by most families. Though it is an asset, a house is a highly depreciable one. The value of the investment depends not only on how well the family cares for its home, but also the amenities of neighbourhood and the overall level of employment in the region in which the home is located. As a result, despite the high cost of the asset, there is little the individual family can do to protect its investment through independent action.”* (Edel, 1984: 7).

As a result:

*“the pattern of home ownership that has emerged over the course of American suburbanization has yielded at best very limited capital gains to most residents. Homes have been depreciating assets, sometimes absolutely and almost always relative to business and financial investments”* (Edel, 1984: 175).

*“When we turn our attention from the ghetto to the surrounding neighbourhoods of moderate or middle-income homeowners, we find a variety of problems besetting them: deteriorating structures, high maintenance costs, mounting taxes, blinding mortgage debt, inadequate transportation and public services, and fears of further deterioration or loss of homes”* (Edel, 1984: 179).

More recent research has come to a similar kind of conclusion:

*“those who buy homes in less desirable neighbourhoods or in housing markets that experience depreciation may not realize the economic or the social benefits of homeownership. Moreover, some homeowners may desire to move, but find themselves stuck in homes that they cannot sell.”* (Rohe and others, 2000: 31.).

Similarly, others argue that:

*“homeownership is not for everyone. Income and wealth constraints make owning a home difficult for the poor. Despite open housing laws, discrimination barriers restrict access to financing and real*

*estate markets for African Americans, Hispanics, and others. ... The considerable subsidies to homeownership afforded by federal and state income tax provisions are valuable to the relatively affluent but do not reach those households whose incomes are so low that allowable ownership-related deductions from gross income are not relevant. And, of course, some households prefer to rent.” (Rossi and Weber, 1996: 31).*

In fact, some authors warn that extending homeownership to the poor may be unhelpful for those households without:

*“a reasonable probability of stable or increasing property values and healthy social conditions. Many neighbourhood revitalization programs adopt homeownership as the central element of their revitalization strategy. They focus their efforts on increasing the homeownership rate in the target area. This is fine as long as other investments in infrastructure and services result in a neighbourhood that is a desirable place to live. Otherwise, the homebuyers may not realize either the economic or social benefits of homeownership. If people buy in areas characterized by depreciating property values and serious social problems, the American Dream could turn into the American Nightmare.” (Rohe and others, 2000: 31).*

In any event, many people’s chances of buying their own home seem to be diminishing. Despite all the help that homebuyers get:

*“the average age of first-time homeowners is rising - meaning people are staying renters longer - and the proportion of renters in traditional home-owning age categories, such as those 40 to 44 years old, is also on the increase” (Varady and Lipman, 1994: 497).*

The fact that 38 per cent of renters and 25 per cent of owners in the Chicago area pay more than 30 per cent of their income on housing, suggests that housing in the larger and more affluent cities is becoming unaffordable for many people (Economist, 2002b: 58).

If the young, even the affluent young, cannot afford to buy homes in the more expensive cities, the poor have real difficulty in gaining access, not only to ownership, but to any kind of decent home.

*“Whereas public housing was developed to help families move up and out of poverty during the Great Depression of the 1930s, in the intervening 60 years fundamental changes have occurred in social mores and conditions, with powerful economic impacts. Assisted housing recipients the are now frequently multi-generational single-headed female households ...Among other things, this makes for generally lower incomes of tenant families with accordingly higher*



*proportions of government subsidy paying the rent to private landlords*". (Kenison, 2002: 7).

If success in American society is measured partly in terms of ownership, those who are too poor to buy are clearly considered to be failures. Perhaps, the ghetto problems of cities like New York, Detroit and Los Angeles can be blamed on this?

Fortunately, it is becoming clear that many of those perceived failures are not really failures at all.

*"Varady and Lipman (1994), in their study of a National Association of Realtors data set of 2,000 renters, found that three groups of renters, constituting 57 percent of the sample, were not seeking homeownership. They labelled them as lifestyle renters (21 percent), recent college graduates (26 percent), and elderly life-cycle renters (10 percent). The stigma of parasite does not fit"*. (Krueckeberg, 1999: 26).

Perhaps, this group has realized that it is not the opportunity of making capital gains that is the predominant factor determining housing quality. As a survey of adult home-sharers in Milwaukee and Chicago found:

*"When referring to their ideal home, home-sharers gave higher ratings to home as a safe environment, as control and autonomy, as a place to which to bring friends and relatives, as a refuge, and as enough space for rooms for their daily needs. Statements with lower ratings had to do with home as a place to own, as a protection for one's savings, as financial investment and as social status."* (Després, 1993: 390).

If after so many years of very generous governmental support, people still answer in this way, it says something very emphatically about the real values that should be used as the basis for housing policy. Thus, it may be appropriate to consider whether Krueckeberg is right when he asks the following question:

*"We are the inheritors of a nasty and pervasive property bias in our society with roots that run deep, just as other strong biases of gender, race, and nationality still do in spite of our efforts to outlaw them. Our institutions and practices continue to embody and perpetuate the property bias, particularly in the tax system - in the subsidies given to owners but denied to renters and in many of the property tax laws that deny that renters are stakeholders in their communities. The celebration of homeownership in the US stigmatizes those who don't, can't, or won't buy property. What is needed, it seems, is a civil rights movement for renters."* (Krueckeberg, 1999: 26).