

# **Real Estate Management:: The key to the Construction of a Social Housing Market.**

-Monitoring recent tendencies in the City of Buenos Aires-

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## **1. Summary**

*This paper analyses how real estate management can play a major role in the challenge of creating a social housing market within an urban planning strategy in a metropolitan city in the developing world. The need for affordable housing for low and lower-middle income groups has been evaluated taking into account especially the lack of available vacant land and the shortage of public funds. Different housing initiatives by the Government of Buenos Aires focussed on different income groups are presented showing both advantages and disadvantages of the efforts to increase competitiveness and equity for the whole city. Both aspects indicate the need for a strategic land use plan, locating activities to generate employment and encourage local economic growth, providing affordable habitat for vulnerable groups.*

*Public-Private Partnership (PPP) has become a key component in such programs, as this strategy is internationally adopted by local governments. Over and above the advantages, such as using private lands and investments to solve public problems, some extremely important disadvantages have been identified as main obstacles and these need to be taken into account. In the first place, the structure of PPP itself is a crucial factor in evaluating the particular rules of a local real estate market. The potential and impact of microenterprises as a strategy for development of vulnerable groups are analysed, from an urban and real estate perspective.*

## **2. Buenos Aires: The Equitable & the Competitive City.**

There are three million people in the city of Buenos Aires and a further nine million in the surrounding metropolitan area. In the wake of globalization the metropolitan city is facing very important demographic and spatial changes, affecting both its productive and social structure.

The Government of Buenos Aires has been autonomous since 1996, making it legally independent from the National Government, and thereby simplifying the decision-making process. In the field of urban planning this change has led to the formulation of a new master plan of the city called "Plan Urbano-Ambiental" (Environmental-Urban Plan) focussed particularly on the revival of the southern area of the city. This area has historically been the poorest in the city due to various epidemics in the 19th century, which saw the wealthier inhabitants moving to the northern districts of the city, closer to the river, and with healthier habitat conditions. Thus, at the beginning of the 20th century the southern area was inhabited by the lower income groups, largely made up of immigrants and marginalised groups who tended to move to better neighborhoods as their incomes improved. Today the southern area is still inhabited by lower and lower-middle

classes and their living conditions are poor. Although the area is very close to the centre, and occupies a third of the total area of the city, it now resembles a shanty town.

Currently, there are approximately 500.000 persons, 15% of the population of Buenos Aires, who are inadequately housed. Of this 15%, 51% are from the low socio-economic bracket (income below \$1000<sup>1</sup> monthly), 34 % from the lower-middle bracket (income between \$1000 and \$2000 monthly) 15% from medium level (between \$2000 and \$3000 monthly).<sup>2</sup>

Like any modern city in the world, Buenos Aires faces the challenge to become more competitive and at the same time to develop strategies to be more equitable. The government of the city recognises this and defines two main objectives, included in the master plan of the city, aimed at integrating and reviving the southern area of the city. The first, called "Buenos Aires, the equitable city", provides facilities such as habitat for the vulnerable groups; the second, called "Buenos Aires, The competitive city", and also aimed at the southern area, proposes a number of plans to attract investments to generate business and commercial centers, which in turn create jobs and produce local development for the global market.

The local government believes that the southern area is big enough for some parts to be allocated for businesses, with expensive office towers and luxurious apartments for higher income groups attracted from the metropolitan area, whilst other parts can be set aside for lower income group housing, without causing conflict. It is supposed that the market will naturally encourage these developments, following the general planning regulations increasing population densities and locating social housing in certain areas under PPP schemes.

The results of initial research of the implementation of such programs show a tendency towards social conflict. This indicates that the ideal of a competitive city, attracting investment and generating employment and wealth, must overcome many problems in order to make it compatible with the ideal of the equitable city, where the vulnerable groups improve their habitat, get better jobs, and start a step-by-step process towards social development. These problems occur due to the fact that currently most of the areas planned as business centers are occupied by low income groups who, through changes in land use, are gradually displaced.

The strategy implemented by the local government to encourage the creation of a social housing market involves PPP and the innovative use of public funds in the southern area. PPP is implemented through the building of high-rise housing for lower-middle income groups, using different financial schemes under two programs, "Casa Propia" and "Terreno, proyecto y Construcción". The innovative use of public funds subsidizes housing schemes for the resettlement of low income groups in "villas miserias" and the recovery of "conventillos", two typical habitats for vulnerable groups. Although it is hoped to reduce the housing deficit through these four housing programs, preliminary results tend to show overlapping and contradictions, which must be taken into account when re-orientating the programs.

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<sup>1</sup> 1000 pesos is equivalent (2001) to US\$1000

<sup>2</sup> Government of the City of Buenos Aires figures for 1998

On the other hand, contradictions related to the planning objectives of improving competitiveness and equity in the city have been identified. PPP projects encouraging profitable investments in business and real estate with the aim of creating employment and local economic development in the southern area tends to displace low income groups to other areas. This implies that competitiveness has priority over equity. The strategy claims to achieve its aim of economic dynamisation of the area by creating employment and development opportunities, whilst achieving equity through the provision of affordable housing and social infrastructures. But the tendency of construction in the area shows an important gap between the housing offer for middle-to-high and low income groups in the area, showing a definite tendency towards socio-economic changes in the population. The low and lower-middle income groups currently living in the area, are being replaced by middle and higher-middle income groups or businesses occupying high rise buildings as a result of the increase in land value.

Reacting to this situation, the local government attempts to create job opportunities for middle and lower-middle income groups. Microenterprises are a key factor in improving competitiveness whilst also working towards equity, since they help to avoid replacement of population by higher income groups. But although microenterprise initiatives are internationally promoted as highly recommendable for local development, their real potential and possible impacts from the perspective of urban quality and land prices is still unknown. In the case of a metropolitan city such as Buenos Aires, the business centre is invaded by informal trade and microenterprises, generally managed by illegal immigrants and low income groups seeking to survive. Attempts to expand these initiatives are not necessarily welcomed by the average citizen.

However, there is a need to provide space for microenterprises which will generate resources for low income groups. This is in turn a priority in order to build a social housing market, which will improve competitiveness as well as equity in the southern area. A strategic social and economic land use zoning, introducing the need for microenterprises and foreseeing its environmental impact, is needed to encourage the location of different markets without conflicts and overlappings.

### **3. Strategies to build a social housing market.**

Different ways to create a social housing market which will encourage public-private partnership for different income groups have been implemented by the government of Buenos Aires city.

In order to solve the problem of informal settlements, inhabited mainly by low income people, a program of "Recuperacion de villas" (recovery of illegal settlements) has been created. This includes the demolishing of existing unsafe constructions and the building of row housing with low income apartments, fully financed by the State, (through FONAVI: National fund for Housing) with very minimum investment payback. This is known as "lost funds" as the investments are not recoverable and only justified because of the social and environmental benefits. The program operates as a traditional public plan, looking to reduce construction costs through industrialization, regularisation of plots and release of land which is currently illegally occupied .

A further program, also aimed at low-income groups, is the recovery of "conventillos" (rent houses) in a traditional neighborhood, which preserves the architectural typology of the city. This consists in redesigning existing buildings and infrastructure for the current inhabitants. This program is also totally financed by the State (FONAVI) with an efficient ratio of monthly paybacks, which would hope to enable the original population to remain in their habitat.

For low-middle income, a program called "Terreno, Proyecto y Construcción" (plot, projects and construction) was created. This program calls for private proposals to be financed by public funds according to certain regulations. Private investors design efficient proposals to produce social housing for beneficiaries who would pay small monthly installments to the state. In this program, the private contractors provide the land and project which, on approval, is granted financing for construction. A lottery system is used to define the beneficiaries from a waiting list coordinated by the city government.

At the lower-middle income level, another program called "Casa Propia" aims to create a financially sustainable market, subsidizing the beneficiaries directly and calling upon private investors to present their proposals in a showroom, in such a way that the target population can choose their future housing freely, as in the "normal" market. Free elections and private co-finance are crucial to understand the PPP implementation. In this program, private investors face investment risks, basically the cost of land and its development, so that, if it fails to produce the results which the beneficiaries hope for, i.e. if there are not potential users, construction does not go ahead. Central principles are: to subsidize the demand, increase the supply, allow freedom of choice, reactivate the southern area, to avoid the risk of providing "housing complexes" isolated from the rest of the city, limiting the number of units per project, thus improving its administration.

The comparison of the main variables of the four programs provides certain clues re. the research of their social, economic, financial and environmental sustainability -table 1-.

Table 1

	Programs			
	Casa Propia	Terreno, Proyecto y Construcción	Recuperación conventillos	Urbanización de villas
Income (\$/month)	2000	1800	1200	850
Financial strategy	PPP	PPP-FONAVI	FONAVI	FONAVI
Location	South	South	La Boca	South
Adjudication conditions	Free election	Lottery	Direct	Direct
Maximum selling price (\$/m <sup>2</sup> )	825-775-750	700	600	400
Average monthly payment (\$/mes)	450	350	250	200
Interest ratio applied (%)	8	4	4	4
Payback time period (years)	20	20	20	20-30
Housing typologies	High rises	High rises	Row building	Row building
Densities (inhabitants per hectarea)	1500	1500	600	800
Urban impact	Exclusion	Negative	Improvement	Enclave

The income range clearly involves different social groups: from middle income groups with stable and reasonably profitable jobs, to extended family groups with unemployed members. In this context, PPP is mostly targeting lower-middle income groups, which constitute the smaller percentage of the housing deficit. The reason is that low-income groups cannot generate profits so must be financed by the State. The financial strategy involves public resources, such as FONAVI associated with private funds. FONAVI, in the case of Casa Propia, provides 20% of the financial resources, and 80% is financed by private banks offering a special interest rate. Terreno, Proyecto y Construcción, on the other hand is fully financed by FONAVI.

The above constitutes an important starting point in interpreting PPP: Firstly, in one scenario the private sector must accept the challenge of co-financing the housing projects, whilst in the other, the private sector merely manages projects financed with public funds. Secondly, in PPP, there is the issue of investment risks and adjudication conditions. Here, in the first scenario, the private sector has investment risks to take into consideration, as the beneficiaries are invited to choose their project thus allowing for an individual investor's project to fail for lack of "clients". In the second scenario housing is built irrespective of beneficiaries' choice, financed by the State, and adjudicated through a lottery system to wait-listed beneficiaries.

The maximum selling price per square meter shows important variations, when calculating the total cost of the housing units, representing a broad range of housing possibilities for different income populations. In the same way, the differences in the average allowance per month, calculated at 30% set aside for housing costs, reflects the different income groups.

The analysis of the interest ratio, considering the income differences of the target population, in each case is double, between "Casa Propia" and "Terreno, Proyecto y Construcción", and a constant rate applied to "Terreno, Proyecto y Construcción" and the other programs. This implies that "Terreno, Proyecto y Construcción" is getting financial advantages over the other programs, even although there are important income differences.

#### **4. The results: Sustainability Vs Profitability?**

The analysis of the different programs raises the question: "Is it possible to generate a sustainable social housing market through certain strategies of real estate?"

The answer depends basically on the PPP interpretation. For those who are optimistic about PPP the simple fact of finding private investors offering their land for public purposes is already an achievement. For the more orthodox, the need for PPP to succeed implies certain private investment risks rather than leaving the burden to the public side of the partnership only. In addition, PPP is also criticized for being applied only to those income groups that easily generate profit, and not to all the spectrum of the housing deficit, where cross subsidies, for instance, could be applied. Exponents from both sides of the dilemma accept that PPP schemes which are successful in developed countries do not necessarily work in the developing world. The main reason behind this is that in developing economies the capacity of the private sector to make

business is very limited, and also there are no prior experiences in working with the public sector. Also, in extreme cases there is a danger of PPP suffering from political corruption. The evaluation of the urban impact in each case implies the sustainability of the program for the whole city. "Casa Propia" tends to produce buildings whose impact, although fulfilling current urban regulations, creates negative urban impacts. It locates high rises for middle income people in low rise, low income neighbourhoods, which increases population densities and creates social tension between the old and the new inhabitants. This in turn encourages extreme sophisticated security systems. "Terreno, Proyecto y Construcción" also tends to produce negative impacts. However there are less negative social problems because the old and new inhabitants tend to come from the same income group. In the case of the Program for "Recuperacion de Conventillos", the urban impact tends to be optimal, measured in terms of community integration, townscape improvement, better environmental and living conditions, whilst preserving the historical heritage of the city. The Program of "urbanización de Villas" tends to create enclaves inside the city increasing population densities through housing complexes which, although they provide social housing units eliminating shanty towns, nevertheless reduce the quality of valuable urban areas of the city.

Considering the financial sustainability of the programs, it is clear that "Casa Propia" presents a viable approach to building a social housing market through PPP. But in terms of urban sustainability, the Program of "Recuperación de Conventillos" is possibly the more sustainable, considering how it encourages community development. The implementation of this public financial scheme, although ideologically opposite to PPP and difficult to replicate from a financial perspective, is a popular alternative tending to create a sustainable social housing market with a positive urban impact. This raises ideological issues related to the role of State and civil society which are outside the scope of this paper, although crucial to evaluate the program's results.

Besides the dilemma between financial, social and environmental sustainability, there is that of the paradigm of "competitive city" and "equitable city", which evaluates the sustainability of land management strategies, particularly in the southern zone.

A public-private corporation for development of the southern area has been created to carry out investment projects; having already identified a number of specific projects in traditional neighborhoods. This will produce different impacts, according to the location of planned social housing and business projects, which may, or may not, lead to conflicts. A particular zoning concept of land uses and densities needs to be developed, in order to avoid future urban problems generated by the free supply and demand of projects in an area only partially occupied by low income groups housing. It is important to consider the foreseeable cycle of exclusion and expulsion of the low income groups, already identified in some of the programs.

Paradoxically, "Casa Propia" received heavy pressure from inside and outside the local government until it was finally halted. "Terreno, Proyecto y Construcción" is still operational, producing a large volume of constructions per year. "Programa de Recuperación de Conventillos" is very prestigious, although its impact in terms of construction volume tends to be limited, and the

Program of “Recuperación de Villas”, is successful in terms of construction volume, and social integration in that it prevents the tension created by erradicating illegal settlements.

## **5. Conclusions and recommendations.**

The various points discussed in this research raise a number of key issues.

In the first place, there is a need to develop clear urban planning regulations as a framework for real estate management rules aimed at private involvement in building a social housing market. In order to achieve this, traditional planning needs to update its method and strategies. It needs to influence the market rules by its own actions as the major actor in this process. Thus the State has the opportunity to take the first step in creating a sustainable social housing market, to be followed by the private sector so as NGO's.

If the public sector only accepts PPP conditions which benefit the private sector, without consideration of a large percentage of the deficit, this obstructs the creation of a sustainable market. Although it is clear that with low income target group is not able to produce significant profit, it is also clear that correctly implemented PPP needs to work on a holistic design to build social housing market which will integrate the different level income groups involved. The private sector, together with the NGO's, needs to work with the public sector in a shared commitment to solving the larger housing problem, rather than considering only its own benefits. Traditionally NGO's have played this role: sharing responsibilities with the public sector. But NGO's have limited capacities to achieve certain objectives related to habitat. They need to become partners with the public sector, with special terms of reference in order to avoid distorting their original objectives. A more holistic approach to the struggle for creating a social housing market would indicate the need to design public strategies of partnership without dividing it into income levels.

A second issue to be taken into account is that local government provides each program with financial facilities related to the income target population. This gives the private sector the chance to participate in public biddings following a planned strategy which considers the whole problem and gives advantages to the more vulnerable groups. When this is not the case, the private sector tends to operate only in the more profitable programs, targetting the highest income groups permitted, and leaving the lower income without housing alternatives. It is important not to provide financial advantages to certain income groups, in order to maintain equity in the resources provided for each program. On the other hand, it is important to provide certain stimulus to encourage proposals aimed at the lower income groups to avoid the tendency to concentrate on the more profitable, higher income brackets.

A third issue is related to the potential dilemma between the aims of competitiveness and equity, which are both focussed on the southern area of the city. The southern area, designated for the location of housing projects is too big to control possible impacts, making it necessary to create microzones for investments, in the framework of competitive and equity. A land management plan including new regulations, tax reductions and advantages for those projects oriented to social

benefits needs to be developed. Geographic information systems (GIS) and different management tools play a key role in achieving objectives to redesign the southern area to minimize overlapping between housing and productive activities as well as between housing for different social income levels.

The possible social and activities overlapping and the conflicts, together with a shortage of available vacant land force the local government to apply the paradigm of "compact city". This approach applied to certain microzones generates rapid urban renewal increasing densification. Urban densification with highly permissive standards tends to create conflicts between the interest of the community, both in social and environmental terms. High rise projects, under these circumstances, do not improve living conditions for the population of the areas to be renewed but produce conflicts between different social income groups living in the same area.

These contradictions force a consideration of sustainable development from the perspective of the target population. It is necessary to work with a double paradigm of sustainability. For middle income levels a concept of "weak sustainability" or economic sustainability is applicable, where the emphasis is on allocation of resources and the financial aspect is a key element in the quality of the system. That is typically the case of "Casa Propia". However, in the case of low income groups, it is important to apply the concept of "strong sustainability", giving priority to social and urban-environmental aspects over financial ones – (Bell & Morse, 1999). This implies that real sustainability for low-income population justifies public subsidies in the struggle to build, together with the private sector, a social housing market.

Thus, it seems recomendable as a sustainable local policy to encourage the creation of microenterprises as a key to build a low income social housing market, in the context of the paradigm of competitive and equitable city. The experiences from other Latin American metropolis show that their business centres are invaded by informal activities which create "slums", reducing the economic potential of the city. This needs to be taken into account when developing urban strategies whilst avoiding negative impacts.

The expected results of these microenterprises on land costs will largely depend on the urban regulations applied, and their ability to create microzones with different activities and social groups avoiding conflicts which would lead to a particular model of compact city. This particular model must respect local culture and features of the different income groups already living in the area, aiming to integrate informal activities into the formal market.

Whether strong or weak sustainability is applied to a particular "Compact City" model, as a pre-requisite for building a "social housing market" through certain holistic PPP and NGO's policies to address urban development orientated towards competitiveness and equity, remains a key issue for further research.

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