

HOUSING POLICY IN ARGENTINA:  
PRELIMINARY DIAGNOSIS AND GUIDELINES FOR ACTION

Prepared by

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for

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and the Government of Argentina

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## HOUSING POLICY IN ARGENTINA: PRELIMINARY DIAGNOSIS AND GUIDELINES FOR ACTION<sup>1</sup>

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### EXECUTIVE SUMMARY

*The Aim of the Study:* This study is a preliminary assessment of the conditions in the housing sector and the status of housing policy in Argentina at the present time. Its practical and immediate goal is to inform and facilitate the current negotiations between the Government of Argentina and the Inter-American Development Bank (IDB) on a National Housing Program for Argentina: (a) a loan of \$500 million to be transferred to the Federal Government, subject to agreed-upon housing-sector reforms, and (b) a housing investment loan of \$150 million, to be accompanied by \$100 million counterpart funds from the Government of Argentina, for implementing the agreed-upon reforms in a National Housing Program.

*The Specific Objectives:* The five specific objectives of this study are: (a) to examine the economic, social and demographic context of the housing sector; (b) to assess the current conditions in the sector; (c) to evaluate the status of housing policy and the housing programs undertaken by the Government; (d) to propose a preliminary matrix of the guidelines for action necessary to secure the \$500 million sector loan; and (e) to propose a set of housing sector studies in preparation for the National Housing Program.

*The Structure of the Report:* The report is divided into five sections: (a) the economic, social, and demographic context of the housing sector; (b) conditions in the housing sector; (c) the status of housing policy; (d) proposed guidelines for the National Housing Program; and (e) proposed terms of reference for six housing sector studies.

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*SECTION 1 - The Economic, Social, and Demographic Context:* Conditions in the housing sector in Argentina are largely the reflection of economic, demographic, social, cultural, political, and environmental factors that are external to the housing sector. Six of these factors have particularly strong effects on the sector: (a) population growth, urbanization, and household formation; (b) economic growth and the level of economic development; (c) the distribution of income; (d) inflation and government fiscal policy; (e) conditions in the financial sector; and (f) conditions in the construction sector.

*Population Growth, Urbanization, and Housing Production:* The population of Argentina amounted to some 37 million in 2000. In 1998, more than 89% of its population resided in urban areas. Between 1991 and 1997, the population of the country grew at 1.5 % per annum, while the number of households grew at 1.6% per annum. By 1997, the annual increase in the number of households was of the order of 150,000. In parallel, the net annual increase in the housing stock (new additions minus demolitions and replacements) amounted to some 160,000, and the net annual increase in the number of occupied dwelling units amounted to some 140,000. Given a 0.5% rate of stock replacement, we estimate the total number of dwelling units constructed every year in Argentina to be of the order of 210–220,000.

*Economic Development and the Distribution of Income:* Argentina is not a poor country. In 1997, for example, its Gross National Product (GNP) amounted to US\$305.7 billion and its GNP per capita was US\$8,570. The annual rate of economic growth in Argentina between 1990 and 1999 fluctuated but averaged 3.0%, and GDP per capita grew by 32% during this period. In parallel, the unemployment rate has been increasing steadily, from 4.4% in 1984 to 15.5% in 2000. Three important observations characterize the distribution of income in Argentina: first, it is highly skewed—urban households in the highest-income decile had 31 times the per capita incomes of lowest-income decile of urban households in 2000; second, it is becoming more skewed over time—that multiple was only 19 in 1991; and third, there are serious income differentials among different cities.

*Inflation and Government Fiscal Policy:* Inflation and government fiscal policy have had several critical effects on the performance of the housing sector in Argentina. The five most important effects are: (a) the harnessing of inflation: hyperinflation in Argentina was gradually contained by the Convertibility Plan of 1991, which pegged the Argentinian peso to the dollar. Inflation was reduced to 4.2% per annum by 1994, and has been kept below 1% since; (b) fiscal decentralization: provinces are already fiscally responsible for the provision of basic public services—primary and secondary education, health services, and housing—and therefore have considerable discretion in the conduct of policies, including housing policy; (c) deficit spending: public deficits increased from 0.5% of GDP in 1995 to 1.8% of GDP in 2000, and the fiscal discipline now required to harness these deficits and to reduce public debt will likely limit expenditures on social services, including housing; (d) privatization: the State Reform Law of 1989 initiated the process of privatization in Argentina. Among the public companies privatized were the National Mortgage Bank, the water utility and several public gas companies, important components of government intervention in the housing sector; and (e) the Federal Agreement: In November, 2000 the Government negotiated an agreement with the provinces, supported by the IMF, to use half of the earmarked funds transferred by the national government—including those earmarked for housing—at their discretion.

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*Conditions in the Financial Sector:* A strong and efficient financial sector is a precondition for the development of mortgage finance and for the maintenance of a robust residential construction sector. The Convertibility Plan of 1991 made it possible for the Argentinian financial sector to become more efficient and more profitable. Loans in financial institutions increased at the annual rate of 9.5%, from \$48.2 billion to \$76.6 billion between 1994 and 1999, and remained at 1999 levels until late 2000. Real estate loans grew at an annual rate of 18.4% during 1994–99, and housing loans grew at an annual rate of 16.2% during this period. The housing credit portfolio continued to grow at moderate rates in 1999 and 2000, increasing its share of the total portfolio from 10.2% in 1994 to 14.1% in 2000.

*Conditions in the Construction Sector:* During the 1980s and 1990s, domestic investment, construction investment, and private construction investment in Argentina have undergone four full cycles, at approximately 4-year intervals, with highs in 1980, 1988, 1994 and 1998 and lows in 1985, 1990, 1995. The year 2000 was a new low – Between the third trimester of 1998 and the first trimester of 2000, domestic investment and total construction investment declined by 22% and 14% respectively. Fluctuations in the construction sector as a whole reflected domestic investment closely and moved almost in parallel to domestic investment fluctuations. Interestingly, housing investment has been considerably less volatile. There was virtually no construction cost inflation in Argentina following the Convertibility Plan. Between January 1993 and January 2001 for example, total construction costs actually decreased by 1%. Surely, there are at present no serious supply bottlenecks in the construction sector. In fact, there is excess capacity in the sector, as well as high levels of unemployment—some 60–70,000 construction workers in the formal sector and 40–50,000 in the informal sector lost their jobs between 1998 and 2000.

*SECTION II – Conditions in the Housing Sector:* Other than the contextual factors discussed in the previous section, there are three principal conditions, within the housing sector itself, that affect housing supply and demand: (a) the availability of land; (b) conditions in the residential construction sector; and (c) the availability of mortgage finance. The actual performance of the housing sector can be summarized by examining four of its key dimensions: (d) house prices, rents, and affordability; (e) dwelling units and living space; (f) the quality of housing; and (g) Tenure.

*The Availability of Land:* The availability of ample land for urbanization resulted in the expansion of the built-up area that was roughly proportional to the population increase, without a corresponding increase in densities. The average annual increase in urban densities was of the order of 0.1%. As a result of low densities, average urban land consumption per person was of the order of 220 m<sup>2</sup>. No systematic information is currently available on land prices on the urban fringe. If we take \$40 per m<sup>2</sup> to be an average value, then the serviced land price-to-income ratio in Greater Buenos Aires should be of the order of 0.4%, not high in relative terms. Typical lot size in urban areas in Argentina is of the order of 250–300 m<sup>2</sup>. Partially-serviced lots (with unpaved roads, water supply and electricity) are now available on the market for \$4–5,000 (\$16 per m<sup>2</sup>). If financing (or “Leasing Habitacional”) were available, a serviced site valued at \$3,000 would be affordable by the first decile of the urban household income distribution, with monthly payments of \$40 (approximately 16% of monthly household income) for ten years.

*The Residential Construction Sector:* Good data on the structure of the housing delivery system in Argentina—data that brings together information on overall levels of housing investment, the relative size of the four principle sub-markets (private sector developers, public-sector-assisted housing, individually-built houses on owned land, and informal-sector housing), and the average values and sizes of such units—is sorely lacking. In broad terms, annual housing production in Argentina at present may be of the order of 215,000 units per year—74,000 produced by the formal sector (34%), 48,000 dwelling units (22%) and 10,000 housing solutions (5%) produced by the public sector, and 83,000 units (39%) produced without permits by the informal sector. The average cost per m<sup>2</sup> of new residential construction in 1999 was of the order of \$510. This cost is relatively high in comparative terms, suggesting that the residential construction industry is not sufficiently competitive. Non-Government Organizations (NGOs) can build a minimum house of 40 m<sup>2</sup> for \$9,000 (\$225 per m<sup>2</sup>). Building materials for self-built houses in informal settlements now cost approximately \$100 per m<sup>2</sup>.

*The Availability of Housing Finance:* There is no question that in recent years, in the absence of inflation, mortgage credit availability in the private sector has increased substantially—between 1994 and 1999, the annual growth of the housing loan portfolio averaged 16.2%. Most mortgage loans are dollar-denominated. The average peso-denominated and Dollar-denominated variable interest rates in 2000 were 14.3% and 12.5% respectively. The average loan size was of the order of \$35,000. Loans are aimed mostly at upper-middle-income households—with monthly incomes of \$1,500–2,000 (8th and 9th income deciles), rather than at low- and middle-income households or very high-income households (10th decile). A median-income household in Greater Buenos Aires, for example, earns \$9,140 a year, or \$760 per month. A mortgage payment of 25% of monthly income will amount to \$190. With this payment, it is possible to obtain a loan of only \$19,000 at 11.7% interest for a 30-year term. Such a loan will still require a down payment of 52% of the price of the lowest-priced new dwelling unit now offered by the private sector—\$40,000. The lowest annual income needed to qualify for a mortgage loan is \$10,800 in Banco Rio and \$12,000 in Banco Galicia. It is roughly estimated that the annual number of mortgage loans issued by the private banking system in recent years is of the order of 50,000 for both new and used housing, for a total of some \$2 billion.

*House Prices, Rents, and Affordability:* Data on the distribution and dynamics of house prices and rents for different cities in Argentina is lacking, making it difficult to assess levels of housing affordability, and therefore difficult to design programs of housing assistance. Good recent data on house prices and rents is available for the City of Buenos Aires: between 1980 and 1999, average rents decreased in real terms by 44%. Between 1995 and 1999, average rents decreased in real terms by 20%, while average house prices decreased by 3%. The average price of a dwelling unit in the City of Buenos Aires in 1999 was \$70,800, while the median house price was of the order of \$44,700. The average monthly rent was \$440 and the median monthly rent was \$335. These median values allow us to calculate two important measures of affordability: the house price-to-income ratio—defined as the ratio of the median house price to median income—and the rent-to-income ratio—defined as the ratio of median rent to median income. Given our estimate of the median annual household income in the city—\$12,440—the house price-to-income ratio should be of the order of 3.6 (not high in comparative terms), and the rent-to-income ratio of the order of 32% (still very high in

comparative terms, but not consistent with the estimated 6% in recent household expenditure surveys).

*Dwelling Units and Living Space:* In 1997 there were some 11 million dwelling units in Argentina housing 9.8 million households, in other words 12% more dwelling units than households. Overall, therefore, there was no shortage of dwelling units. However, 15% of the dwelling units were vacant. As a result, the number of households actually exceeded the number of *occupied* dwelling units in 1997, by 4.7% in the country as a whole and by 4.1% in Greater Buenos Aires. Assuming that households are sharing a dwelling unit against their will and would prefer to live independently, this indicates that there was a quantitative deficit of some 460,000 dwelling units in the country in 1997. In total, 613,000 households required resettlement to new units. Overcoming this deficit during the next 10 years will require increasing production by one-quarter (54,000 units a year) or reducing the vacancy rate gradually from 15% to 10% of the total housing stock. The bulk of the housing deficit in Argentina is qualitative rather than quantitative: it estimates that some 2.1 million households (21.2% of the total) can improve and extend their existing housing units on site. To eliminate (or, rather, minimize) overcrowding, some 1.6 million rooms need to be added to existing overcrowded houses. Given the structure of the housing deficit, it becomes clear that government intervention in the housing sector must shift its emphasis from its almost total commitment to the production of completed units toward the improvement of the existing housing stock—where the housing deficiencies of the country are clearly concentrated.

*The Quality of Housing:* On some dimensions—such as the percentage of homes with piped water and piped sewerage—the quality of housing in Argentina has, no doubt, been improving. In the country as a whole, the percentage of homes with piped water increased from 52% to 61% between 1960 and 1980. It stood at 72% by 1991 and at 80% by 1997. The percentage of homes with piped sewerage increased from 62% to 77% between 1960 and 1980 and stood at 86% by 1991. Some data are also available for the amount of deficient housing in each province, but it was not possible to determine from these data whether the share of deficient housing increased or decreased during the 1960–1991 period. It is important to note that 90% of the houses in the country are permanent houses with concrete outside walls and firm floors—in other words, houses that are likely to last twenty years or more with proper maintenance. The large percentage of zinc roofs—31% in the country as a whole and 21% in Greater Buenos Aires—is typical of the region and easily improvable over time. On the whole, it can be safely said that housing in Argentina is of comparatively high, and possibly increasing, quality.

*Tenure:* Argentina has one of the highest rates of owner-occupancy in the world—in 1997 the owner-occupancy rates in the country as a whole and in Greater Buenos Aires were 86% and 84% respectively. Land and cadastral registration are well developed, and an estimated 90 percent of the properties in Greater Buenos Aires, for example, have full title registration (even though some of them are illegally occupied). Still, some 1.56 million households in the country (15.9% of all households) still do not have proper legal titles. There is a great variety of households without proper titles: squatters in organized “asentamientos” as well as squatters in spontaneous “villas,” on both public (Federal, provincial and municipal) land and private land; occupiers of private land in irregular subdivisions, as well as clandestine subdivisions; occupiers of undivided rural

lands; occupiers of public housing estates without title documents; and squatters in public and private buildings. Illegally occupied lands are often located in flood-prone or contaminated areas and lack basic infrastructure. There is ample evidence that the absence of proper titles inhibits families from investing more in their housing, prevents prospective buyers from obtaining mortgage credit for purchasing non-titled houses, suppresses the value of houses, and inhibits the development of a proper housing market.

*SECTION III - The Status of Housing Policy:* The paper reviews the status of housing policy in Argentina both in terms of its historical evolution, and along each one of its six key dimensions: (a) the property rights regime; (b) the housing finance regime; (c) housing subsidies; (d) residential infrastructure; (e) the institutional framework for government intervention in the sector; and (f) the legal and regulatory regime governing the housing sector.

*The Evolution of Housing Policy:* Housing policy in Argentina can be summarized in relatively simple terms. Since the first Peron Government (1946-1955), the State has been actively involved in the housing sector. Its main role over the years has been the financing and construction of completed housing units, usually aimed at middle-income households, and this continues to be its main role today, long after it has been abandoned by most governments elsewhere. Surely, over the years it has taken on a variety of housing-assistance programs of an enabling kind—title regularization, serviced sites, home improvements, or infrastructure upgrading, to cite a few examples—but always on a relatively small scale, consuming a very small share (7-8% at most) of the total housing budget. Between in 1976 and 1998, the Argentine government spent some \$18.5 billion to complete 725,000 dwelling units, at an average investment of \$29,000 per unit. Law 24.464, promulgated in 1995, established the Federal Housing System, mandating an automatic allocation of FONAVI funds to provinces based on an agreed-upon formula, and eliminating the possibility of Federal intervention in the formulation and conduct of housing policy.

*The Property Rights Regime:* Regularization of title is a relatively new housing policy in Argentina. The two Menem governments, introduced between 1989 and 1997 a corpus of laws and decrees that aim to legitimize the peaceful and undisturbed occupation of lands and buildings, while at the same time criminalizing any further squatting. The variety of different situations that require legalization, the variety of owners of public lands, the variety of agencies involved in regularization, the variety of laws and decrees, and the absence of a unified legal procedure for regularization have made progress slow and cumbersome. There are no good data on overall progress in granting titles, and while the process has been initiated in many communities, very few titles were granted to-date. The legalization program in Argentina suffers from shortages of qualified personnel, shortages of funds, lack of adequate coordination, legal complexities, and, in some locations, lack of affordability on the part of beneficiaries.

*The Housing Finance Regime:* There is no doubt that considerable progress has been made in modernizing Argentina's housing finance regime. Argentina now has a modern banking system, the peso is pegged to the dollar and its inflation rate is under control, mortgage interest rates are relatively low in historical terms, and mortgages are readily available in commercial banks. The National Mortgage Bank has been successfully privatized. Mortgage-backed securities can now be issued by the bank, as well as by

commercial banks, and there does not appear to be a shortage of funds for mortgage lending. Unfortunately, mortgage finance in the Federal Housing System operated by FONAVI is not sustainable—average interest rates, in 1999 for example, denominated in pesos, varied between 1.9% and 9.5%, compared to the prevailing fixed interest rate of 15.9%. On average, interest rate subsidies amount to some 56% of FONAVI costs. In other words, provincial housing institutes lost more than half of the value of their annual investment in interest-rate subsidies. The Federal Housing System has been moving in recent years toward greater participation of other intermediaries—commercial banks (including the privatized Banco Hipotecario Nacional), municipalities, and individual households—in financing FONAVI-assisted housing. For example, the percentage of fully-financed housing units (“Demanda libre”) declined from 85% in 1993 to 48% in 1999.

*Housing Subsidies:* Housing subsidies in Argentina form a significant part of the government budget, both at the Federal and at the provincial levels, but most of them are implicit—rather than explicit—subsidies, and therefore quite difficult to estimate. The housing budget of the Federal Government has been of the order of \$850 million during the past few years, forming 1.7% of the Federal Budget. These are very substantial public resources, and, used effectively, they are sufficient to generate considerable improvement in housing conditions in the country. Unfortunately, preliminary observations suggest that: (a) most housing subsidies in Argentina are regressive—targeted at higher-income groups and largely ignoring lower-income ones; (b) subsidies for individual recipients are very large, preventing their broad distribution to large segments of the population; (c) the great bulk of subsidies is focused, almost exclusively, on supporting the construction of completed dwelling units rather than on partial or progressive housing solutions; and (d) most subsidies are not transparent—for example, free land transfers or the sale of land below its market value, an incomplete accounting of actual construction costs, sale of units at below-cost prices, financing of housing at below-market interest-rates, and high levels of default on loan repayments. Yet provincial housing institutes (IPVs) have been unwilling to redirect housing resources to more efficient, more equitable, and more sustainable housing solutions.

*Residential Infrastructure:* There are key infrastructure deficiencies that pertain to households living in irregular unplanned neighborhoods—“villas miserias” and “asentamientos irregulares”—where 2.6% of the urban population resided in 1997, and where there are serious shortages of paved streets and sidewalks, sewerage, drainage, and gas networks. Paved streets and sidewalks and drainage and sewerage networks are also in very short supply in neighborhoods with urban deficiencies, which contained 25.7% of the urban population in 1997. All in all, one-third of the urban population of Argentina does not live on paved roads and sidewalks, and does not enjoy proper drainage and sewerage. These needs are gradually being met, but not necessarily at the required scale. Over and above the routine involvement of municipalities in infrastructure investment, maintenance and repair, there are eight programs, most of them administered at the Federal level, that focus (either totally or partially) on urban infrastructure improvement. Total public investment and total private investment required to meet all infrastructure needs in existing settlements are both estimated to be of the order of \$5 billion each, but there were no significant allocations for these needed investments in the recently announced national infrastructure plan.

*The Institutional Framework for Government Intervention in Housing:* As it stands, there are two central characteristics of the institutional framework for government intervention in the housing sector in Argentina: (a) the advanced state of decentralization of the Federal Housing System; and (b) the institutional focus on the production of completed housing units, and hence the absence of a unified institutional framework for incorporating all the elements of a national housing policy. The decentralization of public responsibilities for housing to the provinces culminated in Law 24.464 of 1995 that created the Federal Housing System and shifted the power to formulate, regulate, implement, and oversee housing policy from the Federal government to the provincial governments. Needless to say, this law has shriveled the power of the national government to formulate and conduct housing policy and, in effect, led to its collapse. This is a major cause of concern for two reasons. First, because at this historical juncture, the Federal government attends to progressive housing solutions that focus on the needs of low-income households, while provincial housing authorities serve mainly middle-income households, largely ignoring the needs of lower-income ones. And because, on the whole, provincial housing institutes insist on continuing to finance housing construction in an inefficient, inequitable, and unsustainable manner and are under no pressure from any quarter to reform their practices. At this time, the complete decentralization of housing policy in Argentina is, therefore, counter-productive.

*The Legal and Regulatory Regime:* An ongoing legal and regulatory reform program for the housing sector must be one of the cornerstones of national housing policy. Important priorities for legal reform in the housing sector in Argentina are: (a) the creation of a unified legal procedure for title regularization; (b) the creation of a legal framework for bringing mortgage credit down-market including “leasing habitacional,” guarantees for micro-credit, and up-front capital subsidies to accompany loans; (c) the revision of Law 24.464 governing the allocation of Federal housing resources, so as to change the permitted use of resources, the minimum shares of resources allocated for different types of programs, the use of resources as subsidies rather than investments, and the permitted per-unit level of subsidies; (d) the re-introduction of municipal, provincial and Federal regulations that allow for the progressive development of land subdivisions and houses; and (e) the restructuring of the institutional framework for government intervention in the housing sector, so as to make it possible to conduct a national housing policy at the Federal level—as well as at provincial and municipal levels—based on a broad representation of all the key stakeholders in the sector.

*SECTION IV – Proposed Guidelines for a National Housing Program:* Having reviewed the status of housing policy in Argentina and having outlined the necessary policy reforms required along each one of its key components, these reforms are translated into a new National Housing Program. Fourteen key guidelines form the core of the proposed program:

1. Because a decent house is a national priority, and because markets cannot ensure decent housing for everyone, a regular housing budget must continue to be a part of the Federal budget, but need not necessarily rely on earmarked taxes.
2. There is a need to develop and sustain a national housing policy at the Federal level, grounded in the real conditions prevailing in the housing sector, coordinated with provincial and municipal levels, and backed by sufficient regulatory and budgetary instruments to ensure its proper implementation.

3. Government intervention in the housing sector must gradually shift away from a focus on direct housing investment on a limited scale by the public sector to an enabling role focused on monitoring, guiding, supervising, supporting and managing the housing sector as a whole.
4. The legal structure for government intervention in the housing sector must be modified so as to empower the Federal Government and the provincial governments acting together to investigate, plan, coordinate, implement, monitor, and redirect national housing policy.
5. The agency responsible for Federal intervention in housing must be upgraded to a secretariat level agency, incorporating existing programs of public intervention in the legalization of property rights and infrastructure upgrading now located in other ministries.
6. Federal housing policy must be informed and coordinated among all the key stakeholders in the sector, acting together in a reformed National Housing Council, which will function as the governing board of the housing secretariat.
7. Federal housing policy must incorporate—in addition to a regulatory framework that mandates compliance—an incentive framework that conditions the release of Federal funds on provincial compliance with national housing priorities and objectives.
8. All government-supported housing programs must be subject to auditing by independent and impartial agencies, in a systematic manner, so as to ensure compliance with national housing priorities and objectives.
9. A Housing Intelligence Unit—that can organize data collection in the housing sector, and feed the National Housing Council with regular and consistent data for monitoring the sector and for ongoing policy-making—must be created within the Housing Secretariat.
10. Housing policy must be redefined and expanded to combine, in an integrated manner, government intervention in property rights, housing finance, housing subsidies, residential infrastructure, the regulatory regime governing the housing sector, and institutional reform.
11. Federal agencies engaged in title regularization must become a part of the Housing Secretariat, the laws and decrees governing regularization must be streamlined, regularization efforts at all levels of government must be better coordinated, and resources for regularization must be significantly increased.
12. Lending at below-market rates should be terminated. Provincial authorities should discontinue mortgage lending, and gradually divest themselves of their mortgage portfolios. A legal and institutional framework should be created to facilitate “leasing habitacional,” so as to facilitate mortgage lending for lower-income households.
13. The Federal Government should expand the current efforts of upgrading municipal infrastructure, and initiate a national program of urban upgrading. Program implementation should be undertaken by municipalities, overseen by

the Housing Secretariat, supported by NGOs, and focused on settlements inhabited by low-income families.

14. Land subdivisions regulations at the municipal and provincial levels should be reformed, so as to allow the development of progressive subdivisions, where a full-complement of services only develops over time. Municipal, provincial, and Federal regulations that affect the housing market need to be studied with a view to reforming them so as to ensure the development of efficient, equitable and sustainable housing markets.

*SECTION V: Proposed Terms of Reference for Six Housing Studies:* This preliminary diagnosis provides us with a broad overview of the housing sector and housing policy in Argentina, and now permits us to focus more precisely on areas where data is lacking or where its quality is unsatisfactory. Instead of conducting a more traditional housing sector study, it is proposed that six specific and complementary studies be undertaken to complement the findings described here, focusing on: (a) The structure of the housing delivery system; (b) the availability and price of land for urban expansion; (c) the structure of implicit subsidies in the Federal Housing System; (d) the potential for expanding housing finance; (e) the legal and institutional framework for title regularization; and (f) the prospects for a national urban upgrading program.

## INTRODUCTION

This study is a preliminary assessment of conditions in the housing sector and the status of housing policy in Argentina at the present time. Its practical and immediate goal is to inform and facilitate the current negotiations between the Government of Argentina and the Inter-American Development Bank (IDB) on a National Housing Program for Argentina. The discussion now centers on two loan components to be provided by the Bank: (a) a loan of \$500 million to be transferred to the Federal Government, subject to agreed-upon housing-sector reforms, as part of the \$39.7 billion rescue package recently negotiated between the Government of Argentina and the International Monetary Fund (IMF), the IDB and others; and (b) a housing investment loan of \$150 million, to be accompanied by \$100 million counterpart funds from the Government of Argentina, for implementing the agreed-upon reforms in a National Housing Program.

The five specific objectives of this report are: (a) to examine the economic, social and demographic context of the housing sector; (b) to assess the current conditions in the sector; (c) to evaluate the status of housing policy and the housing programs undertaken by the Government; (d) to propose a preliminary matrix of the guidelines for action necessary to secure the \$500 million sector loan; and (e) to propose a set of housing sector studies in preparation for the National Housing Program.

The report is divided into five sections:

1. The economic, social, and demographic context of the housing sector;
2. Conditions in the housing sector;
3. The status of housing policy;
4. Proposed guidelines for the National Housing Program; and

5. Proposed terms of reference for six housing sector studies.

## I THE ECONOMIC, SOCIAL, AND DEMOGRAPHIC CONTEXT

Conditions in the housing sector in Argentina are largely the reflection of economic, demographic, social, cultural, political, and environmental factors that are external to the housing sector. Six of these factors have particularly strong effects on the sector, and will be discussed in this section in greater detail:

1. Population growth, urbanization, and household formation;
2. Economic growth and the level of economic development;
3. The distribution of income;
4. Inflation and government fiscal policy;
5. Conditions in the financial sector; and
6. Conditions in the construction sector.

Table 1 below presents basic economic, social, and demographic indicators that summarize these contextual factors in Argentina. It also compares them to other countries in the region, to conditions in Latin American and the Caribbean as a whole, to other upper-middle and high-income countries with per capita Gross National Product (GNP) similar to that of Argentina, and to conditions in the world at large.

### *1. Population growth, urbanization, and household formation:*

The population of Argentina amounted to some 37 million in 2000, the fourth largest population in Latin America (after Brazil, Mexico, and Colombia) and the 28th largest population in the world at large. In terms of land area, it was the second largest in Latin America (after Brazil) and the 7th largest in the world at large. Because of its size, Argentina has one of the lowest population densities in the world. In 1997, its population density was 13 persons per km<sup>2</sup>, the second lowest in Latin America (after

Table 1: Basic Economic, Social and Demographic Indicators, 1990–2000

Indicator	Argentina	Ecuador	Venezuela	Latin America and the Caribbean	Lower-Middle Income Countries	Upper-Middle Income Countries	High-Income Countries	The World, 1990
Country Population (millions), 1997	37.0 <sup>1</sup>	12.0	23.0	494	2,283	571	927	5,820
Annual Population Growth Rate, 1997–2015 (%)	1.2 <sup>1</sup>	1.5	1.5	1.3	0.9	1.2	0.3	1.1
Urban Population (%), 1997	89 <sup>3</sup>	60	86	74	42	74	76	46
Labor Force in Agriculture, 1990 (%)	10.4 <sup>1</sup>	33	12	25	58	25	6	49
Household Size, 1990	3.6 <sup>2</sup>	4.7	4.4	4.3	4.6	4.0	2.6	4.1
Annual Urban Population Growth (%), 1990–2010	1.40 <sup>1</sup>	3.13	2.11	2.15	–	2.7	0.7	2.55
Country GNP (\$ billions), 1997	278.3 <sup>1</sup>	18.4	78.7	1,196.8	2,817.9	2,584.0	23,802	29,925
GNP per Capita (\$), 1997	7,516 <sup>1</sup>	1,570	3,450	3,940	1,230	4,540	25,700	5,130
Annual GDP per Capita Growth (%), 1990–98	3.0	1.0	5.3	2.0	–	–	–	–
Income Distribution Gini Index (1985–95)	48.4 <sup>1</sup>	46.6	46.8	51.6	–	–	30.4	39.1
Annual Inflation (%), 1990–97	1.6 <sup>5</sup>	37.7	52.0	106.2	–	–	–	14.4
Under-5 Mortality Rate per '000, 1996	22 <sup>3</sup>	40	28	41	44	37	7	73
Female Life Expectancy (years), 1996	77 <sup>3</sup>	73	76	73	71	73	81	69
Female Adult Illiteracy (%), 1995	3.4 <sup>3</sup>	12	10	15	27	17	<5	38
Access to Safe Water (%), 1995	86.7 <sup>2</sup>	70	79	73	–	–	–	78
Access to Sanitation in Urban Areas (%), 1995	60.3 <sup>2</sup>	60	74	80	75	–	–	–
Government Revenues as % of GDP, 1996	19.7 <sup>4</sup>	15.7	19.7	21.6	24.1	24.1	28.7	26.6
Government Budget Deficit as % of GDP, 1996	*-1.7 <sup>4</sup>	0.0	1.4	-3.3	-3.4	-3.4	-3.3	-3.1
Debt as percent of GDP (%), 1997	48.3 <sup>3</sup>	75.0	39.9	33.6	–	32.6	–	–
Gross Domestic Investment as % of GDP, 1997	19.1 <sup>4</sup>	20.2	18.8	24.4	27	–	21	22
Value Added by Construction as % of GDP, 1997	5.8 <sup>4</sup>	3.2	5.2	5.3	–	–	–	–
Gross Domestic Savings as % of GDP, 1997	17.4 <sup>4</sup>	19.2	30	20	27	22	21	22
Banking Sector Credit as % of GDP, 1997	27.3	29.0	19.9	35.7	65.6	44.9	157.8	139.1
<i>Institutional Investor</i> Credit Rating, 1998	43.0	19.1	34.9	33.0	–	–	85.0	34.8
Corruption Perceptions Index (lowest=99), 1999	71	82	75	61	–	–	13	49

Sources: The World Bank, *World Development Report – 1998/9*; Instituto Nacional de Estadística y Censos (INDEC), 2000, *El Ingreso y El Gasto de Los Hogares*; Shlomo Angel, *Housing Policy Matters: A Global Analysis, 2000*; Shlomo Angel, various housing sector assessments (see References); Inter-American Development Bank, IDB Statistics and Quantitative Analysis Unit, [www.iadb.org](http://www.iadb.org); Transparency International, *The Corruption Perceptions Index–1999*; <sup>1</sup> Data for 2000. <sup>2</sup> Data for 1997. <sup>3</sup> Data for 1998. <sup>4</sup> Data for 1999. <sup>5</sup> Data for 1994–1999.

Bolivia), and the 23rd-lowest in the world at large [World Bank, 1999, table 1.1, 12-14]. Land for urbanization in general, and for housing in particular, is therefore not in short supply.

Argentina is now one of the most urbanized countries in the world. In 1998, for example, more than 89% of its population resided in urban areas. Only 5 countries (Singapore, Belgium, Kuwait, Israel, and Uruguay) had higher levels of urbanization during that year [World Bank, 2000, table 3.10, 150-152]. Housing problems in Argentina are, therefore, largely urban housing problems. Because of its high level of urbanization, its housing sector can be expected to grow at a relatively slow rate. Argentina had one of the lowest population growth rates in the world during 1980-1997. It ranked the 7th-lowest among 96 countries that were neither in the OECD nor in Eastern Europe, nor belonged to the former Soviet Union. Its annual population growth rate between 1980 and 1997 was only 1.4%, the 3rd-lowest in Central and South America (after Uruguay and Cuba) [World Bank, 1999, table 2.1, 42-44]. And because the country is so highly urbanized, the urban population growth rate in Argentina between 1990 and 1999 was similar to the growth rate of the population as a whole. This is the 4th-lowest urban growth rate in Latin America and the Caribbean (after Uruguay, Trinidad and Tobago, and Barbados), and much lower than the regional average of 2.8% for Latin America and the Caribbean as a whole [IDB, 2000].

The overall quantitative demand for new housing is, in large part, a function of new household formation, which, in Argentina, is largely proportional to the overall population growth rate. It is only mildly affected by the gradual reduction of household size associated with economic development and urbanization. Population, Household, and Dwelling Unit Growth in Argentina between 1980 and 1997 is shown in table 2 below. Between 1991 and 1997, for example, the population of the country grew at 1.5 % per annum, while the number of households grew at 1.6% per annum, as average household size declined slightly from 3.66 to 3.64. By 1997, the annual increase in the number of households was of the order of 150,000. In parallel, the net annual increase in the housing stock (new additions minus demolitions and replacements) amounted to some 160,000, and the net annual increase in the number of occupied dwelling units amounted to some 140,000. If we assume, conservatively, that approximately 0.5% of the housing stock (55,000 units) is demolished and replaced every year, then we can estimate the total number of dwelling units constructed every year in Argentina to be of the order of 210-220,000.<sup>1</sup>

While the great majority of the population in Argentina resides in cities, the distribution of the population among these cities is highly skewed. Greater Buenos Aires is clearly a "primate" city, eclipsing all other cities in the country. In 1996, for example, it was the 9th largest metropolitan area in the world, after Tokyo, Mexico City, Sao Paulo, New York, Mumbai (Bombay), Shanghai, Los Angeles, and Calcutta [World Bank, 2000,153]. In 1997, it had a population of some 12 million, 33% of the population of the country. Its population in 1991, the date of the latest census, was 9.4 times that of the second largest city in the country—Greater Córdoba, that had a population of only 1.2 million at that time. It was 2.3 times that of all metropolitan areas with populations greater than 500,000, and 1.3 times that of all metropolitan areas and cities with populations greater than 100,000 [calculated from INDEC, 1991, 41].

Table 2: Population, Household, and Dwelling Unit Growth in Argentina

## and in Greater Buenos Aires, 1980-1997

Zone	1980	1991	1997	Annual Growth 1980-91		Annual Growth 1991-97	
				Number	%	Number	%
Argentina Total							
Population	27,949,480	32,615,528	35,671,894	428,025	1.4	514,914	1.5
Households	-	8,927,289	9,812,501	-	-	149,494	1.6
Dwelling Units	8,196,284	10,062,731	11,009,411	171,869	1.9	159,075	1.5
Occupied Units	7,104,016	8,515,441	9,351,314	129,728	1.7	140,507	1.6
Greater Buenos Aires							
Population	9,766,033	10,934,727	11,774,007	106,906	1.0	140,810	1.2
Households	-	3,196,180	3,467,127	-	-	45,491	1.4
Dwelling Units	3,015,894	3,503,636	3,829,213	44,727	1.4	54,703	1.5
Occupied Units	2,674,035	3,076,742	3,329,751	36,905	1.3	42,469	1.3

Source: Calculated by the Housing Policy Directorate of the Under-Secretariat of Urban Development and Housing from the 1980 and 1991 Census of Population and Housing and the Social Development Survey of October, 1997.

Urban growth in Argentina is not evenly distributed. As table 3 shows, between 1980 and 1991, for example, the 19 cities with populations between 100,000 and 500,000 grew at the rate of 3.0% and accommodated one-quarter of all urban growth. At this rate, these cities will double their populations and their built-up areas in 20 years. Larger cities and metropolitan areas in other size ranges grew at slower average rates—the larger the city, the lower its growth rate. Greater Buenos Aires grew at only 1.1%,

Table 3: The distribution of city size, urban growth, and dwelling unit growth in Argentina, 1980-1991

Metropolitan/City Size Range in 1991	Population 1980	Population 1991	Number of Settlements in 1991	Share of 1991 Urban Population	Share of Urban Growth 1980-1991	Annual Growth Rate (%) 1980-1991	Annual Net Dwelling Unit Growth Per City*
1,200,000+	9,969,547	11,255,618	1	39.7%	28.4%	1.1%	38,530
1,000,000-1,200,000	1,958,670	2,293,832	2	8.1%	7.4%	1.4%	5,120
500,000-1,000,000	2,066,667	2,555,958	4	9.0%	10.8%	2.0%	3,850
100,000-500,000	2,906,467	4,031,966	19	14.2%	24.9%	3.0%	1,980
50,000-100,000	1,506,112	1,941,780	28	6.9%	9.6%	2.3%	500
10,000-50,000	3,187,000	3,845,000	185	13.6%	14.5%	1.7%	110
2,000-10,000	2,219,000	2,417,000	546	8.5%	4.4%	0.8%	10
Total Urban	23,813,462	28,341,154	785	100.0%	100.0%	1.6%	180

Source: INDEC, 1991, 49 and INDEC, 2001. \* Estimated as an average value, using the ratio of dwelling units to population in 1991 in table 2.

but accommodated 28.4% of all urban growth during this period. Smaller cities also grew at slower rates—the smaller the city, the lower its growth rate. The 546 cities in the 2,000–10,000 size range grew at only 0.8% and absorbed only 4.4% of total urban growth.

The last column in table 3 provides a gross estimate of net dwelling unit growth (new units minus demolitions and replacements) as a function of city size: Greater Buenos Aires added almost 40,000 dwelling units annually to its housing stock in the early 1990s; Greater Córdoba and Greater Rosario added, on average, some 5,000 units each; Greater Mendoza, Greater La Plata, San Miguel de Tucumán, and Mar del Plata added, on average, some 4,000 units each every year; and cities in the 100–500,000 range added, on average, some 2,000 units each every year.

## 2. *Economic Growth and the Level of Economic Development:*

There is no doubt that housing conditions are, first and foremost, a function of the level of economic development. Measured across the globe, the size of houses, their monetary value, and their quality are all highly correlated with the level of economic development [Angel, 2000f]. When looking at housing conditions in Argentina, therefore, it is important to remember that Argentina is not a poor country. It is a modern market economy, posed to compete effectively in global markets. The World Competitiveness Yearbook, for example, ranked Argentina 28th among the 46 countries surveyed, 8th among the 18 non-OECD countries surveyed, and second (after Chile) among the six Latin American countries surveyed [IMD, 1997, 19–21]. In 1997, for example, its Gross National Product (GNP) amounted to US\$305.7 billion—the 18th highest in the world and the third in Latin America (after Brazil and Mexico); its GNP per capita was US\$8,570—the 28th highest in the world and the highest in Latin America; and its GNP per capita measured in Purchasing Power Parities was US\$9,950—the 30th in the world and the second in Latin America (after Chile) [The World Bank, 1999b, table 1, 190–191]. Its level of economic development was clearly reflected in its overall socio-economic profile: in 1996, for example, its under-5 mortality rate was 25 per 1,000 (22 in 2000), the third-lowest in Latin America and the Caribbean (after Chile and Jamaica); female life expectancy at birth was 77 years, the second-highest in Latin America (after Chile); and adult illiteracy rates were of the order of 4%, the second-lowest in Latin America (after Uruguay). In general, housing conditions in Argentina can be expected to mirror its level of economic development.

Economic growth in Argentina over the past decade has been substantial, although rather unsteady. Measured by the growth of Gross Domestic Product (GDP) per capita, for example, the average annual rate of economic growth in Argentina between 1990 and 1999 was 3.0%—the third highest in Latin America (after Guyana, which grew at 4.6% and Panama, which grew at 3.1%). It was considerably higher than the average for Latin America and the Caribbean as a whole—2.0%. But economic growth in Argentina was by no means smooth. GDP per capita growth rates fluctuated wildly from -2.6% in 1990 to a high of +8.6% in 1992, to a low of -4.2% in 1995 (the Tequila Crisis), to a high of +6.7% in 1997, and to yet another low of -4.2% in 1999 [IDB, 2001]. It was expected to be of the order of -0.5% in 2000 [calculated from IDB, 2000,13].

While the fluctuations in economic performance did result in an overall expansion of the Argentinian economy over the past decade—GDP per capita grew by 32% between 1990 and 2000—economic expansion, market liberalization, privatization of public

services, foreign investment, and integration into global capital markets have been accompanied by increased levels of unemployment. The unemployment rate has been increasing steadily since the advent of market liberalization reforms that accompanied the democratic reforms of late 1983. In 1984, it stood at 4.4%. It increased steadily to 7.5% in 1990, declined slightly to 7.0% in 1992, climbed to a high of 17.5% in 1995, declined to 13.8% in 1999, and climbed to 15.5% in 2000. Unemployment rates were even higher in the larger metropolitan areas—16.4% in Greater Buenos Aires and 17.5% in Greater Rosario in 2000. Moreover, it was estimated that of the new jobs created during the last decade, some 72% were in the informal sector; and that temporary employment increased by some 26% between 1995 and 2000 [IDB, 2000 and IDB, 2001, 13-14]. The severe fluctuations in economic growth and the persistence of unprecedented levels of unemployment, under-employment, informal-sector employment, and temporary employment have resulted in a worsening of the income distribution in Argentina (see next section), as well as in high levels of economic uncertainty, which in turn have clearly affected both the demand for housing and the demand for housing finance. Such economic uncertainty clearly discourages Argentinian households from investing their savings in housing, or from shouldering the long-term debts associated with obtaining a mortgage.

### 3. *The Distribution of Income:*

Household income typically determines how much can be spent on housing, and, in turn, what quantity and quality of housing can be purchased. While overall housing conditions in Argentina are clearly a function of median household incomes, the specific housing conditions of different households cannot be understood without reference to the distribution of income in the country. Three important observations characterize the distribution of income in Argentina: first, it is highly skewed; second, it is becoming more skewed over time; and third, there are serious income differentials among different cities. Table 4 below presents the distribution of average annual household incomes, household sizes, and average per capita incomes in all urban areas in Argentina and in Greater Buenos Aires for October 2000.

Median annual household incomes in 2000 were of the order of \$7,550 and \$9,150 in all urban areas and in Greater Buenos Aires respectively. The table shows that, on average, urban households in the highest-income decile earn more than 13 times the income of households in the lowest-income decile. And, because average household size in the highest-income households (2.3) is less than half that of the lowest-income households (5.4), average *per capita* incomes are considerably more skewed: households in the highest-income decile had 30.8 and 31.6 times the per capita incomes of lowest-income households in all urban areas and in Greater Buenos Aires respectively. The household income *\*\*Gini* Index, a common measure of income disparity, was 48.4 for all urban areas in Argentina and 49.1 for Greater Buenos Aires in 2000.<sup>2</sup> This level of disparity is higher than that of Ecuador and Venezuela, and smaller than that of Latin America and the Caribbean as a whole (see table 1).

Table 4: The Distribution of Annual Household Income, Household Size, and Per Capita Income in All Urban Areas and in Greater Buenos Aires, October 2000.

Per Capita	All urban Areas in Argentina	Greater Buenos Aires
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Income Decile	Household Size	Household Income	Per Capita Income	Household Size	Household Income	Per Capita Income
1st	5.4	2,584	480	5.1	2,995	593
2nd	4.7	4,553	963	4.6	5,346	1,165
3rd	4.1	5,541	1,365	3.7	6,171	1,668
4th	3.7	6,597	1,807	3.6	7,998	2,215
5th	3.3	7,545	2,307	3.3	9,140	2,736
6th	3.3	9,395	2,856	3.1	10,912	3,509
7th	3.0	10,922	3,641	2.9	13,160	4,522
8th	2.8	13,062	4,750	2.8	16,800	5,915
9th	2.7	17,938	6,669	2.6	21,797	8,448
10th	2.3	33,577	14,792	2.2	40,440	18,722

Source: Dirección Nacional de Coordinación de Políticas Macroeconomicas, Secretaria de Política Economica, Ministerio de Economía, based on INDEC, *Encuesta Permanente de Hogares for Argentina*, October 2000.

Table 5: The Distribution of Annual Household Income, Household Size, and Per Capita Income in All Urban Areas and in Greater Buenos Aires, October 1991.

Per Capita Income Decile	All urban Areas in Argentina			Greater Buenos Aires		
	Household Size	Household Income	Per Capita Income	Household Size	Household Income	Per Capita Income
1st	5.3	2,725	517	4.8	2,995	620
2nd	4.2	3,651	869	4.0	4,011	1,010
3rd	4.1	4,733	1,146	4.1	5,434	1,338
4th	4.0	5,768	1,456	3.0	4,871	1,651
5th	2.7	4,744	1,738	2.9	5,402	1,882
6th	3.6	7,312	2,060	3.7	8,667	2,343
7th	3.3	8,391	2,574	3.1	9,024	2,949
8th	2.9	9,448	3,280	2.8	10,679	3,787
9th	2.8	12,374	4,500	2.4	12,853	5,289
10th	2.4	24,310	9,963	2.3	28,840	12,378

Source: Dirección Nacional de Coordinación de Políticas Macroeconomicas, Secretaria de Política Economica, Ministerio de Economía, based on INDEC, *Encuesta Permanente de Hogares for Argentina*, October 1991[?].

There are also serious indications that the income distribution in Argentina has become more skewed, and that income gaps between the rich and the poor are now wider than before. A comparison between table 4 and table 5 below shows that, between October 1991 and October 2000, the ratio between the *per capita* incomes of the

Table 6: Median Annual Household Incomes and Income distribution Characteristics in 27 Urban Agglomerations in Argentina, 1998

Urban Agglomeration	Median Annual Household Income (\$)
Concordia	4,800
Jujuy	5,400
Corrientes	5,760
Formosa	6,000
Tucumán	6,240
Resistencia	6,300
Posadas	6,480
Santa Fe	6,600
Salta	6,600
San Juan	6,600
San Luis	6,960
Rosario	6,960
Paraná	7,080
Santiago del Estero	7,200
Bahía Blanca	7,200
Mendoza	7,320
La Plata	7,440
Mar del Plata	7,800
Santa Rosa	7,800
La Rioja	8,280
Catamarca	8,400
Córdoba	8,400
Neuquén	8,400
Gran Buenos Aires	8,892
C. Rivadavia	10,800
Rio Gallegos	12,000
Ushuaia-R. Grande	15,600

Source: Calculated from table 1.1, 11 and table 1.2, 12 in Secretaría de Programación Económica y Regional, 1998. *Niveles de Vida, Pobreza e Ingresos en los 27 Aglomerados Relevados por la Encuesta Permanente de Hogares.*

highest and lowest income deciles increased from 19.3 to 30.8 in all urban areas and from 20.0 to 31.6 in Greater Buenos Aires. In parallel, the Gini coefficients of the household income distribution increased from 44.4 to 48.4 in the urban areas of the country, and from 45.8 to 49.1 in Greater Buenos Aires during this period.

It is important to note that there are considerable differences in income among different cities and regions in the country as well. Table 6 provides data for median annual household incomes in 27 urban agglomerations in Argentina for 1998. Incomes were generally much lower in the Northeast and Northwest provinces than in the rest of the country. Median annual household incomes varied between \$4,800 in Concordia, for example, and \$15,600 in Ushuaia–Rio Grande—they were 3.25 times higher in the latter than in the former.

#### 4. *Inflation and Government Fiscal Policy:*

Inflation and government fiscal policy have had, and will have, several critical effects on the performance of the housing sector in Argentina. The six most important effects are: (a) the harnessing of inflation; (b) fiscal decentralization; (c) deficit spending; (d) privatization; (e) the Federal Agreement; and (f) the Rescue Package.

(a) The harnessing of inflation: Hyperinflation in Argentina—which reached 2,314% in 1990—was gradually contained by the Convertibility Plan of 1991, which pegged the Argentinian peso to the dollar. Inflation was reduced to 4.2% per annum by 1994, and has been kept below 1% since (inflation was negative, -1.2%, in 1999) [IDB, 2000, 8]. The Plan “has proven to be Argentina’s most successful economic program in decades, and its achievements, durability and continued public support [are] a testament to its success” [The World Bank, 1998, i]. The harnessing of inflation has opened the possibilities for a rapid expansion of the mortgage market, a critical requirement for improving housing conditions in the country. Yet, the memory of the long inflationary period, coupled with the anxiety that convertibility will be abandoned sooner or later, has tended to slow down this expansion.

(b) Fiscal decentralization: National government transfers to the provinces have been increasing regularly, as provinces have taken on more responsibilities and have acquired more discretion in the allocation of funds. Between 1995 and 1999, for example, transfers to provinces increased—at an annual rate of 7.2%—from \$12.7 billion to \$16.8 billion. In 1999, transfers formed 50% of provincial revenues. Provincial budgets in 1999 totaled \$36.4 million and amounted to 39.3% of all public spending in that year. Negotiations are under way to increase the co-participation of provinces in the collection of taxes, and thereby to further increase their discretionary spending. Provinces are already fiscally responsible for the provision of basic public services—primary and secondary education, health services, and housing—and therefore have considerable discretion in the conduct of policies, including housing policy. In general, it can be safely said that fiscal decentralization has greatly diminished the national government’s role in the conduct of housing policy.

(c) Deficit spending: Unfortunately, the convertibility of the peso was not accompanied by the fiscal discipline necessary to bring public spending under control. Throughout the 1990s (with the exception of 1992–93), deficit spending by both the federal and the provincial governments continued unabated, both in times of economic expansion and in times of economic contraction, resulting in mounting public debt. Public deficits increased from 0.5% of GDP (3% of total revenues) in 1995 to 1.8% of GDP (9% of total revenues) in 2000. Deficits plagued the national government as well as provincial governments: In 1999, for example, the provincial governments’ annual deficit amounted to some \$4.1 billion, and their cumulative deficit amounted to some \$24

billion (78% of their annual income that year). The increasing levels of public sector deficits required accelerated borrowing, both locally and abroad. Between 1995 and 2000, the national government borrowed abroad at an average rate of \$8.4 billion a year, as its debt increased to \$123.7 billion (43% of GDP). In parallel, total external debt increased from \$57 billion in 1991 to \$98 billion in 1995, and to \$144 billion in 2000 (50% of GDP), of which \$86 billion, or 60%, was public debt. Servicing this external debt now amounts to 40% of total exports. Interest on the public debt increased from \$5.9 billion in 1995 to \$9.9 billion in 2000, and is expected to increase to \$10.9 million in 2001. The fiscal discipline now required to harness these deficits and to reduce public debt will likely limit expenditures on social services, including housing, in the coming years.

(d) Privatization: The State Reform Law of 1989 initiated the process of privatization in Argentina. By the end of the 1990s, 75 public sector entities – including airports, the post office, petrochemical industries, hydroelectric power plants, electric utilities, and oil fields – were privatized. Proceeds from their sale amounted to some \$31 billion. Among the public companies privatized were the National Mortgage Bank, the water utility and several public gas companies, important components of government intervention in the housing sector. Privatization has drastically reduced public-sector employment (from one million to less than half a million by 1998), has lowered public investment levels (especially in infrastructure), and has generated additional income from the sales that moderated the pressure to balance public budgets.

(e) The Federal Agreement: The government that came into power in late 1999 was faced with a recession and with high unemployment on the one hand, and with fiscal deficits and a mounting foreign debt on the other. The commitment to convertibility made it difficult for the government to increase public spending significantly in order to revive the economy and to attend to urgent social programs. In November, 2000 it negotiated an agreement with the provinces, supported by the IMF, to use half of the earmarked funds transferred by the national government—including those earmarked for housing—at their discretion, so that they can be used for debt reduction during the next five years.

(f) The rescue package: By the end of 2000, it became clear that investor and consumer confidence were sagging, that convertibility was threatened, and that external borrowing at preferential interest rates was endangered. At the end of December, 2000 the government announced a rescue plan totaling \$39.7 billion in loans, negotiated by the International Monetary Fund (IMF). The rescue plan stabilized financial markets, and increased investor and consumer confidence—both critical to reviving the residential construction sector and residential real estate sales.

##### *5. Conditions in the Financial Sector:*

A strong and efficient financial sector is a precondition for the development of mortgage finance and for the maintenance of a robust residential construction sector. The Convertibility Plan of 1991 made it possible for the Argentinian financial sector to become more efficient and more profitable, and it was able to expand rapidly until 1994. In early 1995, as a result of the Mexican Crisis, local and foreign investors withdrew some 16% of total deposits, leading to sharp increases in interest rates and high rates of bank insolvency. The privatization of banks since the early 1990s, and the banking reforms of 1995, led to bank closures and mergers and resulted in the reduction in the

number of financial institutions—from 205 in late 1994 to 117 in late 1999. The financial sector resumed its growth between 1995 and 1998. Its efficiency increased as well: the cost of intermediation was reduced from 6.2% in mid-1996 to 4.2% in mid-2000, lowering lending-to-deposit margins by more than 2%. As table 7 below shows, loans in private- and public-sector financial institutions increased at the annual rate of 9.5%, from \$48.2 billion to \$76.6 billion between 1994 and 1999, and remained at 1999 levels until late 2000. Real estate loans grew at an annual rate of 18.4% during 1994-99, and housing loans grew at an annual rate of 16.2% during this period. The housing credit portfolio continued to grow at moderate rates in 1999 and 2000, increasing its share of the total portfolio from 10.2% in 1994 to 14.1% in 2000. Conditions in the housing finance sector will be discussed in greater detail in the next section.

By January 2001, total loans in the financial system amounted to \$76.6 billion (27.5% of GNP, and still low in comparative terms) and total deposits amounted to \$84.6 billion. Fifty percent of all loans and 62% of deposits were in foreign currency, mainly in dollars. Interest rates, after rising steeply in October 2000, were back to their earlier levels. By the end of January 2001, the prime interest rate was 10.1% for peso-denominated loans

Table 7: Financial Sector Development and the Growth of the Housing Credit Portfolio, 1994-2000

Year	Total Loans in Banking System (\$Billions)	Real Estate Loans incl. Housing (\$ Billions)	Housing Loans (\$ Billions)	Housing Loans as % of Total Loans	Annual Growth of Housing Loans (%)
1994	48,190	5,110	4,910	10.2	-
1995	51,230	6,120	5,910	11.5	20.4
1996	53,980	7,330	6,530	12.1	10.5
1997	61,980	9,400	7,560	12.2	15.8
1998	72,060	11,500	9,650	13.4	27.6
1999	75,960	11,880	10,400	13.7	7.7
2000	76,590	12,320	10,790	14.1	3.8

Source: Calculated by Departamento de Economía y Finanzas de UADE y Secretaria de Política Económica from Banco Central data. Data corresponds to average annual values.

and 9.1% for dollar-denominated loans (2.7% higher than LIBOR rates). Saving book deposit rates were 2.5% in local currency and 2.7% in foreign currency. Interest rates on short-term certificates of deposits were 7.6% in local currency and 7.2% in foreign currency. The Argentinian financial sector appeared to have recovered quickly, as the rescue plan took effect. Its continued stability and increased efficiency are now essential for the growth of the housing credit portfolio, itself an essential prerequisite for a well-functioning housing sector.

#### 6. Conditions in the Construction Sector:

Residential construction activity is generally influenced, to a significant extent, by conditions in the construction sector. First, the volume of residential construction is usually affected by the cyclical ups and downs in the construction sector, which are themselves affected by the overall economic and investment climate. Second, the

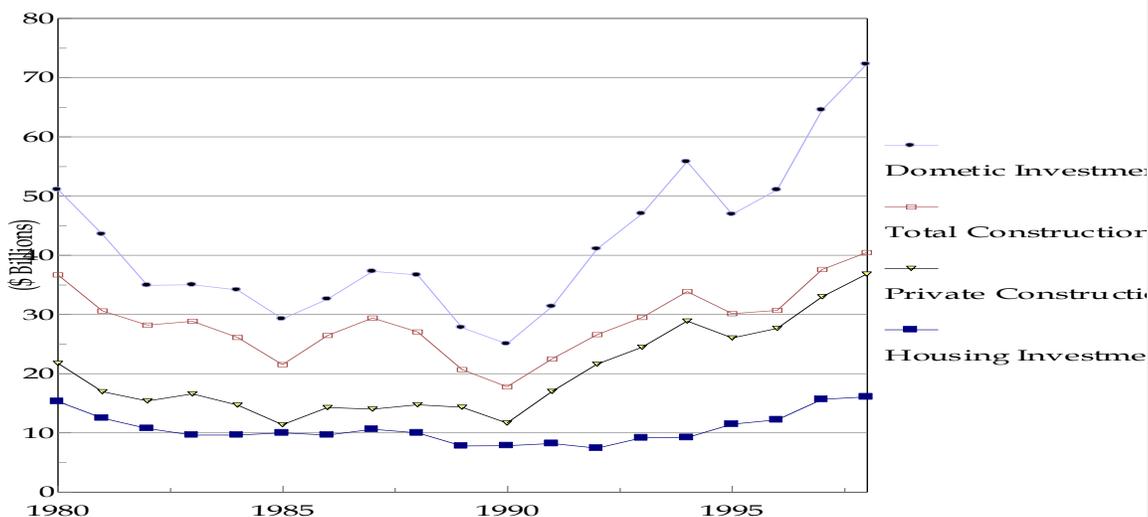
character of residential construction is affected by the organization and the division of labor in the sector as a whole, by its level of sophistication and competitiveness, and by its business practices. Third, residential construction costs are affected by the costs of construction labor and materials in the sector as a whole. The residential construction sector will be discussed in greater detail in the following section. We limit our discussion here to conditions in the construction sector as a whole.

As Graph 1 below shows, during the 1980s and 1990s, domestic investment, construction investment, and private construction investment in Argentina have undergone four full cycles, at approximately 4-year intervals, with highs in 1980, 1988, 1994 and 1998 and lows in 1985, 1990, 1995. The year 2000 was a new low – Between the third trimester of 1998 and the first trimester of 2000, domestic investment and total construction investment declined by 22% and 14% respectively. The graph demonstrates clearly that the construction sector as a whole reflected domestic investment closely and moved almost in parallel to domestic investment fluctuations. However, by 1990 a new pattern emerged: as privatization began and the peso became convertible, domestic investment—fueled by international investment—began to increase at a much faster rate than that of the construction sector. In parallel, by 1990 privatization began to significantly decrease the overall share of public construction, while increasing the share of private construction. By extension, the reduced share of public construction now makes it inherently more difficult for government to increase investment in public construction projects to fuel the stagnant economy.

Surprisingly, housing investment was considerably less volatile than either domestic investment or construction investment. It did decline between 1980 and 1985 and remained relatively flat thereafter. It began to increase steadily after 1992—following the convertibility plan, responding to the ample availability of affordable mortgage finance and bridge financing for residential construction, while remaining unaffected by the Tequila Crisis of 1995. It is not entirely clear why housing investment was less volatile, but the rapid increase in housing investment when finance did become available suggests that Argentina had suffered from chronic under-investment in housing in the absence of mortgage credit, and that there was a latent demand for housing in the country that was not satisfied. At present, however, households should not be expected to seek long-term mortgages in a climate of high unemployment and income insecurity.

The construction sector in Argentina is still in the middle of a transition. At one end, there are highly-developed construction firms, using the latest technology and connected to international firms, and at the other end there are small builders—both highly skilled ones and less skilled ones—who build for themselves, who assist other households in building their houses, and who contract their labor to construction firms as the need arises. Less than two-thirds of construction workers are formally employed. The sophisticated organization that is necessary for the construction of large public works projects—such as dams or airports—is not necessary for the construction of single-family homes. The construction of apartments, which is an important part of formal housing production in the country, falls in between these two extremes. There is no question that the urban construction sector is able to manage apartment construction effectively, at any scale, and at a lower cost than single-family units. Still, less than 10 companies produce more than 200 dwelling units annually.<sup>3</sup>

Graph 1: The Evolution of Domestic Investment, Total Construction Volume, Private construction and Residential Construction in Argentina, 1980-1998



Source: Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, Dirección Nacional de Políticas Habitacionales, 1999. "Evolución del Sector: Construcciones en el Período 1980-1998."

Finally, there was virtually no construction cost inflation in Argentina following the convertibility plan, except for a minor increase—of the order of 5%—during the 1994 construction boom. INDEC (Instituto Nacional de Estadística y Censos) statistics for Greater Buenos Aires confirm that between January 1993 and January 2001 for example, total construction costs actually decreased by 1%, building material costs decreased by 2%, labor costs decreased by 3%, and the cost of other inputs to construction remained the same. Surely, there are at present no serious supply bottlenecks in the construction sector. In fact, there is excess capacity in the sector, as well as high levels of unemployment—some 60-70,000 construction workers in the formal sector and 40-50,000 in the informal sector lost their jobs between 1998 and 2000.<sup>4</sup> An important question now facing housing policy makers is whether a change in the form of government intervention in the housing sector—and more specifically a change in the use of housing subsidies—can help reverse the present slump in the construction sector and reduce the high levels of unemployment in the sector. This question will be discussed in greater detail in Section III below.

\* \* \*

## II CONDITIONS IN THE HOUSING SECTOR

This section presents a broad perspective of the housing sector in Argentina, concentrating on housing conditions in Greater Buenos Aires, where more than 35% of the population of the country and more than 40% of its urban population now resides. It is important to focus on the metropolitan region of Buenos Aires because this is where, along numerous dimensions, housing problems are most severe. This does not mean,

however, that the housing problems of other provinces can be ignored. Surely, they need to be addressed, and will be addressed to the extent possible in this preliminary analysis.

Other than the contextual factors discussed in the previous section, there are three principal conditions, within the housing sector itself, that affect housing supply and demand:

1. The availability of land;
2. Conditions in the residential construction sector; and
3. The availability of mortgage finance.

The actual performance of the housing sector can be summarized by examining four of its key dimensions:

4. House prices, rents, and affordability;
5. Dwelling units and living space;
6. The quality of housing; and
7. Tenure.

These seven aspects of the housing sector, in Argentina in general and in Greater Buenos Aires in particular, will be discussed in greater detail below. Table 8 below presents basic indicators that summarize these aspects and compares them with other capital cities in the region, with conditions in cities in Latin American and the Caribbean as a whole, with housing conditions in countries with similar per capita incomes to that of Argentina, and with housing conditions in the world at large.

#### 1 *The availability of land:*

As noted earlier, there is no overall shortage of land for housing in urban Argentina. As table 9 below shows, *urban* population densities in Argentina—which were of the order of 4,000–6,000 persons per km<sup>2</sup> in 1991—are not high by Latin American standards. The average density in Greater Buenos Aires—4,800 persons per km<sup>2</sup> in 1991—is similar to that of high-income countries. The availability of land for urbanization resulted in the expansion of the built-up area that was roughly proportional to the population increase, without a corresponding increase in densities. The average annual increase in urban densities was of the order of 0.1%. As a result of low densities, average urban land consumption per person was of the order of 220 m<sup>2</sup>, varying from a high of 320 m<sup>2</sup> in La Plata to a low of 180 m<sup>2</sup> in Tucumán.

Is residential land in Argentina affordable? Unfortunately, no systematic information is currently available on land prices on the urban fringe. According to the

Table 8: Selected Housing Indicators, 1990–1998

Indicator	Buenos Aires, Argentina	Santo Domingo, Dominican Republic	Panama City, Panama	Guatemala City, Guatemala	Quito, Ecuador	Caracas, Venezuela	Latin America & Caribbean Cities, 1990	Lower-Middle Income Countries	Upper-Middle Income Countries	High Income Countries	The World 1990
Dwelling Units per 1,000 People	283	242	250	214	239	236	221	195	225	446	229
Median House Size (m <sup>2</sup> )	48 <sup>5</sup>	54	67	38	33.6	78	67	47	67	75	62
Floor Area per Person (m <sup>2</sup> )	13.7 <sup>6</sup>	14	16	8	8.6	16	15.6	9.4	15.9	31.5	15.3
Urban Density (persons per km <sup>2</sup> )	4,814	9,500	5,835	6,400	9,200	6,000	5,700	6,300	6,600	4,600	6,600
Land Registration (%)	90 <sup>7</sup>	60	80	50	55	35	70	78	100	100	100
Permanent Structures (%)	93.4	89	90	87	71.3	89	90	94	97	100	97
Water Connection (%)	82.6 <sup>8</sup>	96.5	90	88	94.1	90	91	87	98	100	95
Journey to Work (minutes)	55	30	60	45	56	49	56	40	40	30	37
Infrastructure Expenditure-to-income Ratio (%)	-	2.3	7.2	8.9	9.1	-	4.1	7.9	4.9	7.2	5.9
Public Housing (%)	6.1 <sup>9</sup>	0	0	0	0	38	10	12	22	18	12
Unauthorized Housing (%)	15.8	60	15	44	30.0	-	26.4	27.1	9	0	15
Squatter Housing (%)	4.9	40	12.2	29	7.5	40	25	16	4	0	4
Homelessness per 1,000 people	<1 <sup>10</sup>	<1	<1	3.9	0.6	5.0	2.1	0.2	1.1	1.3	0.9
Owner Occupancy (%)	83.8	60	77	61	79	67.6	65	59	57	59	55
The Median House Price (\$)	44,700	9,100	27,000	7,742	6,767	29,000	11,818	16,205	23,646	134,137	20,315
The House Price-to-Income Ratio	3.6	1.1	1.4	1.6	2.4	5.7	2.4	4.5	4.4	4.6	5.0
The Rent-to-Income Ratio (%)	32.0	21.1	25.0	22.0	12.5	15.0	19.8	16.2	14.6	18.1	16.2
Lowest-Priced Private-Sector House (\$)	40,000	15,150	14,000	-	6,040	3,800	33,000	14,400	17,600	75,800	14,100
Down-Market Penetration	2.7	2.0	0.8	1.2	2.1	6.7	3.9	3.6	3.4	2.6	3.4
Cost of Serviced Land on Urban Fringe (\$ per m <sup>2</sup> )	40	26	25	21	35	30	-	14	41	125	69
Serviced Land Price-to-Income Ratio	0.4	0.3	0.1	0.3	0.7	1.1	-	0.5	0.8	0.7	0.9
Construction Cost per Square Meter (\$)	510 <sup>11</sup>	156	140	180	155	225	171	156	203	870	171
The Housing Credit Portfolio (%)	9.4	13.4	22.8	7 <sup>1</sup>	20.1	<10	20	8	18	23	14
The Mortgage-to-Prime Difference (%)	6.0	-2.0	2.0	3.0	-20	14	3.2	0.5	-0.4	0.5	0.2
The Mortgage Arrears Rate (%)	1-4	2.4	<1	5	3	5.8	6	10	5	1	5
New Household Formation (%)	1.2	3.5	2.55	3.0	4.2	1.56	3.1	3.9	2.7	1.4	3.1
Housing Production per 1,000 people	6.3 <sup>12</sup>	7.9	9.4	6.2	9.3	5.8	6.0	7.7	6.1	6.5	6.5
Residential Mobility (%)	-	-	-	1.5	3.4	5.6	3.4	5.0	4.4	10.4	7.1
The Vacancy Rate (%)	15.0	7.7	11.4	-	1.6	8.3	4.2	2.8	3.8	5.4	3.5

Sources: Dirección de Control de Gestión de FONAVI, 2000, "Auditorías FONAVI 1999: Conclusiones Generales"; Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, 1999, "El Mercado Inmobiliario en la Ciudad de Buenos Aires"; Instituto Nacional de Estadística y Censos (INDEC), 1993, *Censo Nacional de Población y Vivienda – 1991*; Jimenez, Lydia Mabel, 2000[?], "La Política de Vivienda en La Argentina: Del Estado Bienestar al Estado Post-Ajuste"; Shlomo Angel, *Housing Policy Matters: A Global Analysis*, 2000; Shlomo Angel, various housing sector assessments (see References).

Argentina Chamber of Real Estate, the minimum price per m<sup>2</sup> for fully-serviced land on the urban fringe of Greater Buenos Aires is of the order of \$30-40. Land in well-urbanized subdivisions costs \$60 per m<sup>2</sup>, and land in high-density suburbs costs \$100 per m<sup>2</sup>. At the urban fringe of Buenos Aires—in Moreno, for example, 35-40 kms from the center of the city—raw land can be bought for \$2-3 per m<sup>2</sup> and minimally-serviced land can be bought for \$7-8 per m<sup>2</sup>.<sup>13</sup> If we take \$40 per m<sup>2</sup> to be an average, then the serviced land price-to-income ratio<sup>14</sup> in Greater Buenos Aires should be of the order of 0.4%. As table 8 shows, this ratio is not high in relative terms. It is slightly lower than the median value for Latin America and the Caribbean, 0.5%, and it is lower than the ratios for countries with similar incomes to that of Argentina and for the world at large. Typical lot size in urban areas in Argentina is of the order of 250-300 m<sup>2</sup>. Partially-serviced lots (with unpaved roads, water supply and electricity) are now available on the market for \$4-5,000 (\$16 per m<sup>2</sup>). Several Non-Government organizations active in land development for low-income families have indicated that they can deliver 250-300 m<sup>2</sup> serviced-sites for \$3-4,000 (\$12-13 per m<sup>2</sup>). If financing (or “Leasing Habitacional”) were available, a serviced site valued at \$3,000 would be affordable by the first income decile, with monthly payments of \$40 (approximately 16% of monthly household income) for ten years.

Table 9: Increases in Population, Built-Up Areas, and Density in Major Urban Agglomerations in Argentina, 1980-1991

Agglomeration	1980			1991			Annual Increase in Built-Up Area (km <sup>2</sup> )	Annual Increase in Density (%)	Land Consumption per Person, 1991 (km <sup>2</sup> )
	Population	Built-Up Area (km <sup>2</sup> )	Density (persons per km <sup>2</sup> )	Population	Built-Up Area (km <sup>2</sup> )	Density (persons per km <sup>2</sup> )			
Greater Buenos Aires	9,969,826	2,071	4,814	11,255,618	2,353	4,784	27.5	-0.1	209
Greater Córdoba	983,969	232	4,241	1,197,926	290	4,131	5.9	-0.2	242
Greater Rosario	957,301	233	4,109	1,095,906	253	4,332	1.9	0.5	231
Greater Mendoza	605,623	207	2,926	773,559	243	3,183	3.6	0.8	314
Greater La Plata	564,750	190	2,972	640,344	204	3,139	1.3	0.5	319
Greater Tucumán	498,579	99	5,036	622,348	111	5,607	1.2	1.0	178
Total/Average	13,580,048	3,032	4,479	15,585,701	3,454	4,512	41.2	0.1	222

Source: INDEC, Census of Population and Housing, 1980 and 1991.

Do low-income families have ready access to serviced land? There are some indications that there are now serious bottlenecks to the supply of affordable serviced land in Argentinian cities. Until 1977, it was possible to sell subdivided land without servicing it. Law 8192 of 1977 prohibited the sale of land subdivisions without a full complement of urban services. Since then, land subdivided before 1976 has been bought and developed, and partially-built subdivisions were populated. There are indications that existing subdivisions are densifying, as well as instances where a second home is built on a single-unit plot. These forms of scattered densification do not square with the earlier evidence on minimal densification presented in table 9, and may be a new phenomenon. There is also scattered evidence that land prices have been increasing, which could not be corroborated with available data. There is, therefore, a need for a

more detailed study of recent land consumption in Argentinian cities. The terms of reference for such a study will be outlined in Section V below.

## 2. *Conditions in the residential construction sector:*

The two aspects of the residential construction sector that are crucial to the formulation of housing policy are the structure of the housing delivery system and the dynamics of construction costs. Good data on the structure of the housing delivery system in Argentina—data that brings together information on overall levels of housing investment, the relative size of the four principle sub-markets (private sector developers, public-sector-assisted housing, individually-built houses on owned land, and informal-sector housing), and the average values and sizes of such units—is sorely lacking. In fact, the sources of data on each of these aspects of the residential construction sector are inconsistent. This makes it very difficult to get a robust and simple overview of the residential construction sector. In the absence of consistent data, we must satisfy ourselves with a broad overview, noting the inconsistencies and the need for additional information to remove them.

In broad terms, as we noted earlier in our discussion of table 2, annual housing production in Argentina at present is of the order of 215,000 units per year. This includes units of all quality—from the worst to the best—produced by any and all means, both formally and informally, both by construction firms and by individual households.

What is the total annual investment in housing in Argentina? In the national accounts, there are two figures given for housing investment: (a) the aggregated value of housing investment in producer prices (VAB); and (b) the gross value of housing production in sale prices (VBP). In a typical year, the second value is roughly double the first one. In 1993, for example, where data is available, the first value (VAB) was 53% of the second value (VBP). Graph 1 presented earlier charted the second value. We note here that neither value includes the price of raw land (which is of the order of 10-15% of the sale price, depending on location).

Table 10 below presents the data on which Graph 1 was based, including additional data on housing investment as a percent of the Gross Domestic Product (GDP). In general, it shows that housing investment as a percent of GDP gradually declined from a high of 6.7% in 1980 to a low of 3% in 1992 and then climbed consistently to 5% by 1998. Its share of overall domestic investment was of the order of 30% during the 1980s. It declined to 18% in 1992, and since then has been less than 25% of domestic investment. Its share of total construction investment has been rather consistent, of the order of 40%. And its share of private construction investment decreased with the onset of privatization in 1991, from an average of 75% prior to privatization to an average of 45% thereafter.

In 1999, for example, construction investment (VPB) was of the order of \$35 billion. We can assume, in the absence of more precise data, that housing investment (VPB) was of the order of 45% of that value, namely \$15.75 billion. If we add to that the price of raw land, assumed to be of the order of 12.5%, then the sale value of housing investment in 1999 was of the order of \$17.7 billion. If 215,000 units were produced, then the average sale value of a new housing unit would be \$82,500. On first inspection, this

value appears to be too high, much higher than expected. We can examine it in greater detail by looking at the main housing sub-markets in the country.

Table 10: The Evolution of Housing Investment and its relation to GDP, Domestic Investment, Construction Investment, and Private Construction Investment, 1980-1998

Year	Housing Investment in Sale Prices (\$ millions)	As percent of the Gross Domestic Product	As % of Gross Domestic Investment	As % of Total Construction Investment	As % of Private construction Investment
1980	15,320	6.7	30.0	41.7	70.4
1981	12,522	5.8	28.7	40.9	73.8
1982	10,753	5.2	30.8	38.1	69.7
1983	9,653	4.5	27.5	33.5	58.2
1984	9,657	4.4	28.3	36.9	65.6
1985	10,011	4.9	34.2	46.5	87.9
1986	9,634	4.4	29.5	36.4	67.4
1987	10,630	4.7	28.5	36.1	75.7
1988	10,007	4.5	27.3	37.0	67.7
1989	7,798	3.8	28.0	37.6	54.3
1990	7,842	3.8	31.3	44.1	67.1
1991	8,248	3.6	26.3	36.7	48.4
1992	7,421	3.0	18.1	27.9	34.3
1993	9,206	3.5	19.6	31.2	37.6
1994	9,260	3.3	16.6	27.3	32.0
1995	11,484	4.3	24.5	38.1	44.0
1996	12,252	4.4	24.0	39.9	44.3
1997	15,682	5.1	24.3	41.7	47.5
1998	16,109	5.0	22.3	39.8	43.7

Source: Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, Dirección Nacional de Políticas Habitacionales, 1999, "Evolución del Sector: Construcciones en el Período 1980-1998."

We first look at the formal private sector. The Argentinian Institute of Statistics and Census (INDEC) publishes data on the number of permits given for housing each year. As table 11 below suggests (if we use permits as a proxy for the number of houses actually built), the total number of units produced by the formal private sector in 1999 was of the order of 74,000, of which approximately half were single-family homes, and half were apartments. According to this table, the average floor areas of a newly-built single-family house and a newly-built apartment were 120 m<sup>2</sup> and 88 m<sup>2</sup> respectively. Given the national average sale value of 1 m<sup>2</sup> in 1999 (\$711 according to the Banco Hipotecario Nacional), the average sale values of a single-family house and a newly-built apartment were \$85,300 and \$62,600 respectively. This would imply that the total

sale value of formal-sector privately-built housing in Argentina in 1999 was of the order of \$5.4 billion.

Table 11: Permits Granted for New Unit Construction and Residential Additions in Argentina, 1999

Category	New Construction			Additions			Total		
	Units	Rooms	Area (m2)	Units*	Rooms	Area (m2)	Units	Rooms	Area (m2)
Single family Houses	24,348	93,504	2,938,631	10,737	41,232	1,346,774	35,085	134,736	4,285,405
Without Businesses	22,556	85,964	2,685,143	10,075	38,398	1,260,805	32,631	124,362	3,945,948
With Businesses	1,792	7,540	253,488	674	2,834	85,969	2,466	10,374	339,457
Multiple-family Apt's	31,829	89,789	2,800,572	4,759	13,426	438,336	36,588	103,215	3,238,908
Without Businesses	23,868	69,685	2,063,647	3,127	9,131	290,111	26,995	78,816	2,353,758
With Businesses	7,961	20,104	736,925	1,701	4,295	148,225	9,662	24,399	885,150
Other	723	2,328	59,203	343	1,105	37,943	1,066	3,433	97,146
Total	56,900	185,621	5,798,406	17,094	55,763	1,823,053	73,994	241,384	7,621,459

Source: INDEC, 2000. "Permisos de Edificación Otorgados y Superficie Cubierta Autorizada por Destino de la Obra," Año 1999. \* Additions only refer to rooms, but not to complete units. For the purpose of estimated the total number of units produced by the formal sector, the number of units was estimated by using the ratio of units to rooms in new unit construction.

How many houses were produced by the public sector? According to the latest auditing report of the National Housing Fund (FONAVI), 48,359 dwelling units and 10,055 housing solutions we completed in 1999.<sup>15</sup> The average floor area of a dwelling unit was 58 m<sup>2</sup> [Dirección de Control de Gestión de FONAVI, 2000]. The total public investment in housing (VAB) in 1999 was \$1.03 billion. The total sale value of these units, including the price of land, should be of the order of \$2.08 billion.<sup>16</sup> The average sale value of a unit was, therefore, \$43,000, and the average sale value of 1 m<sup>2</sup> was \$742. This value corresponds very closely to data on residential sales published by the National Mortgage Bank (BHN): As we noted earlier, in 1999 the average sale value for 1 m<sup>2</sup> in the country as a whole was \$711.

How many houses were produced by the informal sector, namely without building permits? If the formal private sector produced some 74,000 units and FONAVI was responsible for 48,000 units and 10,000 housing solutions, then some 83,000 units were produced without building permits, or 39% of the total. Assuming, in the absence of better data, that these units were of the same size and value of FONAVI units—averaging 58 m<sup>2</sup> and valued at \$43,000, then the total value of house produced by the informal sector would be of the order of \$3.6 billion.

This brings the total sale value of all housing produced in 1999 to \$11.2 billion, only 63% of the \$17.7 billion estimated from the national accounts. Additional data that may shed some light on this discrepancy is provided in table 12 below. In this table, the share of informal-sector housing or non-registered housing investment in 1993 is estimated to be 36%, very similar to that calculated for 1999. Its value in 1999—\$3.6 billion—is 72% of its value in 1993, suggesting again that there is a discrepancy between national accounts and observed average sale values. This discrepancy is difficult to resolve without further study. The terms of reference for such a study will be outlined in Section V below.

Table 12: The Structure of the Residential Construction Sector in Argentina, 1993

Category	Registered		Not-Registered		Improvements		Total Construction	
	(\$ Million)	(%)	(\$ Million)	(%)	(\$ Million)	(%)	(\$ Million)	(%)
Residential	5,751	40.9	5,065	36.0	3,261	23.2	14,077	100.0
Single-Family	2,478	27.6	4,327	48.2	2,165	24.1	8,971	100.0
Multiple-Family	2,347	58.5	675	16.8	989	24.7	4,010	100.0
Fonavi	926	100.0	-	-	-	-	926	100.0
Sub-Standard	-	-	63	37.2	107	62.8	170	100.0
Non-Residential	4,918	44.2	6,205	55.8	-	-	11,123	100.0
Total Construction	10,669	42.3	11,270	44.7	3,261	12.9	25,200	100.0

Source: Ministry of Economy, *Sistema de Cuentas Nacionales Argentina, Año Base 1993*, Table 86. Note: Amounts shown are sales prices, rather than production costs.

Data on the overall structure of construction costs was provided in the previous section. In the absence of more precise data, we estimated the average cost per m<sup>2</sup> of new residential construction in 1999 to be of the order of \$510 (see table 8). This cost is relatively high in comparative terms, suggesting that the residential construction industry is not sufficiently competitive. Non-Government Organizations (NGOs) can build a minimum house of 40 m<sup>2</sup> for \$9,000 (\$225 per m<sup>2</sup>). Preliminary investigations suggest that building materials for self-built houses in informal settlements now cost approximately \$100 per m<sup>2</sup>. This information indicates that house values in the informal sector may be considerably lower than those of FONAVI houses, in contrast to what we assumed earlier. More detailed information on housing costs and prices in the different housing sub-markets in the country is needed for the conduct of housing policy, and, more specifically, for the future design of housing assistance programs.

### 3. Conditions in the housing finance sector:

Argentina has made two important steps in the development of its housing finance regime: ensuring the convertibility of the peso to the dollar in 1991, and the privatization of the National Mortgage Bank (BHN) in 1999. The first move enabled the rapid development of private-sector housing finance, while the second move created a modern second-tier institution for the securitization of mortgages and the sale of mortgage-backed securities in capital markets. Still, the privatization of housing finance is incomplete, as the provincial housing institutes (IPVs) continue to issue mortgage credit—usually at below-market interest rates and with high rates of default—financed by the annual allocation of FONAVI funds to the provinces. The total value and the structure of the mortgage loan portfolio of provinces is unclear, but according to the FONAVI audit of 1999, loan repayments amounted to \$217 million (16% of the total 1999 budget). At a 12.5% interest rate (the average variable interest rate for dollar-denominated mortgage loans in 2000, see table 13 below), the present value of 15–25 years of these repayments is of the order of \$1.5–1.7 billion. Given that the annual allocation of funds by FONAVI to the provinces is of the order of \$0.9 billion, the present value of this portfolio is less than two annual allocations, suggesting that the housing finance provided by FONAVI funds is very highly subsidized. More information is

needed about FONAVI-supported loans and about the structure of the FONAVI-supported credit portfolios of the provincial housing institutes. The terms of reference for obtaining this information will be outlined in Section V below.

There is no question that in recent years, in the absence of inflation, mortgage credit availability has increased substantially. As we saw earlier (see table 7), between 1994 and 2000, the annual growth of the housing loan portfolio averaged 14%. The mortgage market expanded at 7.0% in 2000 as well, despite the recession [Banco Rio, 2001, 2], mostly to take advantage of the overall reduction of house prices, to be discussed at greater length below. Mortgage credit is now more affordable than ever before. Credit is now available for longer periods, extending up to 30 years, although borrowers often prefer shorter-term loans—the average terms of loans at Banco Rio, for example, is 11 years. Most mortgage loans are dollar-denominated (90%, for example, in Banco Rio). Dollar-denominated variable interest loans at the Banco Rio, for example, are given at an annual interest rate of 8.95% and at Banco Galicia at 10.5% (LIBOR+5). Maximum loan-to-value ratios are 70–75% for new housing, and higher ratios are possible for used housing. The average loan size is \$38,000 at Banco Rio, \$32,000 at Banco Galicia, and \$30,000 at the National Mortgage Bank (BHN). Minimum loan size varies from as low as \$10,000 at Banco Galicia to \$15,000 in other banks. Average interest rates for 1994–2000 are given in table 13 below.

Table 13: Mortgage Interest Rates for 5–10 year loans in Argentina, 1994–2000

Year	Fixed Interest Rate (%)		Variable Interest Rate (%)	
	(Pesos)	(US\$)	(Pesos)	(US\$)
1994	11.6	15.22	17.9	12.9
1995	12.8	17.1	19.2	15.9
1996	13.3	14.9	17.2	14.5
1997	14.6	13.1	13.8	12.3
1998	14.5	13.1	13.2	11.6
1999	14.2	12.7	14.1	12.8
2000	15.9	11.7	14.3	12.5

Source: Informe de Economía y Finanzas de la UADE, based on data from Banco Central.

Loans are aimed mostly at upper-middle-income households—with monthly incomes of \$1,500–2,000 (8th and 9th income deciles), rather than at low- and middle-income households or very high-income households (10th decile). They are given to salaried employees as well as to independents (55% and 45% respectively in Banco Rio, for example). The lowest monthly income needed to qualify for a mortgage loan is \$900 in Banco Rio and \$1,000 in Banco Galicia, suggesting that 55% the households in Greater Buenos Aires and 65% of the households in urban Argentina do not qualify for a mortgage loan, although the minimum loan (at Banco Galicia, for example) is only \$10,000. It is roughly estimated<sup>17</sup> that the annual number of mortgage loans issued by the banking system in recent years is of the order of 50,000 (excluding some 45,000 FONAVI-assisted loans<sup>18</sup>), for both new and used housing, for a total of some \$2 billion. It is not clear what percentage of these loans is for new housing, but even if two-thirds are for new housing, then less than one-half of buyers of new housing in the formal sector and less than one-fifth of all buyers (or builders) of all new housing (excluding

FONAVI-financed housing) now have access to housing loans. A recent study [Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, 1999, table II.2] showed that in the City of Buenos Aires in 1999, for example, only 19,649 of a total 76,371 registered housing transactions (25.7%) were accompanied by a mortgage transaction.

Low-income families that do not have access to mortgage finance often resort to short-term loans or to micro-credit loans to finance house construction at exorbitant interest rates. For example, store credit for building materials in Lugano—a suburb of Buenos Aires—was 21% per month, or 33% for six weeks.<sup>19</sup> The Fundación Provivienda Social in Moreno, an outlying suburb in Greater Buenos Aires, now provides micro-credit to 4,000 families for home construction at 4% per month. Loans vary between \$500 and \$2,000, and a complete house improvement project may entail a total of \$8–10,000 in loans. The average value of a completed house in Moreno, improved with the aid of micro-finance, is of the order of \$25,000.

There does not seem to be a shortage of funds for mortgage lending. The National Mortgage Bank (BHN) has already sold some \$123 million of mortgage-backed medium-term bonds in secondary markets. Other private banks that are owned by larger foreign banks can easily obtain funds abroad. The expansion of the mortgage market is limited, at present, on the demand side rather than on the supply side. It is limited by the continued fear of taking on long-term liabilities, by the anxiety regarding the continued convertibility of the peso, and by insufficient incomes. The latter constraint is, at present, the most difficult one to overcome. A median-income household in Greater Buenos Aires, for example, earns \$9,140 a year, or \$760 per month. A mortgage payment of 25% of monthly income will amount to \$190. With this payment, it is possible to obtain a loan of only \$19,000 at 11.7% interest for a 30-year term. Such a loan will still require a down payment of 52% of the price of the lowest-priced new dwelling unit now offered by the private sector—\$40,000. And this level of down payment will require an unusually high level of prior savings. Access to mortgage credit, as well as micro-credit, at affordable terms is still the exception rather than the rule in Argentina. Expanding it and bringing it further down-market requires a more detailed investigation of conditions, constraints and potentials in the mortgage credit market. The terms of reference for such a study will be outlined in Section V below.

### 3. *House prices, rents, and affordability:*

Data on the distribution and dynamics of house prices and rents for different cities in Argentina is sorely lacking, making it difficult to assess levels of housing affordability, and therefore difficult to design programs of housing assistance. Good recent data on house prices and rents is available for the City of Buenos Aires [Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, 1999], where prices as well as incomes are generally higher than in the rest of the country.<sup>20</sup> In the absence of countrywide data, we shall limit the discussion to Buenos Aires. When we examine price and rent data for the City of Buenos Aires it becomes evident that rental values, and to a much lesser extent sale prices, have decreased rather than increased in real terms over time. Table 14 below traces the changes in house prices and rents in the City during the 1980s and the 1990s. It shows that between 1980 and 1999, average rents decreased in real terms by

44%. Between 1995 and 1999, average rents decreased in real terms by 20%, while average house prices decreased by 3%. Recent observations suggest that, because of excess supply, the prices of new housing units in the city (as well as the number of housing transactions) have declined by as much as 20% between 1999 and 2001.<sup>21</sup>

Table 14: Changes in Housing Prices and Rents  
in the City of Buenos Aires, 1980-1999

Year	Sale Price (\$)	% Change from 1995	Monthly Rent (\$)	% Change from 1980	% Change from 1995
1980	-	-	943	0	-
1986	-	-	772	-18	-
1990	-	-	300	-68	-
1995	70,445	0	657	-30	0
1996	67,067	-5	517	-45	-21
1997	66,265	-6	498	-47	-24
1998	67,080	-5	541	-43	-18
1999	68,006	-3	527	-44	-20

*Source:* Calculated from Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, 1999. "El Mercado Inmobiliario en la Ciudad de Buenos Aires," tables I.2, II.12, and II.15. Sale prices are given for a three-room dwelling unit. Rents are average rents for all units. Prices and rents are in pesos of December 1998.

The average price of a dwelling unit in the City of Buenos Aires in 1999 was \$70,800, while the median house price was of the order of \$44,700. The average monthly rent was \$440 and the median monthly rent was \$335. These median values allow us to calculate two important measures of affordability: the house price-to-income ratio—defined as the ratio of the median house price to median income—and the rent-to-income ratio—defined as the ratio of median rent to median income. Given our estimate of the median annual household income in the city<sup>22</sup>—\$12,440—the house price-to-income ratio should be of the order of 3.6, and the rent-to-income ratio of the order of 32%. The value of 3.6 for the house price-to-income ratio is not high when compared to median values in Latin America and the Caribbean as a whole or to values in countries with similar household incomes, both of which are of the order of 4.5. House prices in Buenos Aires, and most probably in the country as a whole are not exorbitantly expensive, but are less than affordable because of the general absence of affordable housing finance.

Rents, however, although they have been in decline, still appear to be very high in comparative terms. Ratios in Latin America and the Caribbean as a whole or in countries with similar household incomes are of the order of 16-18% of monthly incomes. High rents in the city are also reflected in the high rent-to-value ratios shown in table 15 below—9.5%—almost double the value in countries with similar household incomes. We should note, however, that the observed high rent-to-income ratio is not consistent with the results of the latest household income survey of 1996-97: According to the survey, Argentinian households spent only an average of 12.8% of per capita incomes on housing and its associated services, with the percentage varying between 12.1% in the poorest quintile of the income distribution and 13.0% in the richest one

[INDEC, 2000, table 4, 52]. Approximately half of these expenditures were allocated to water, gas and electricity charges [INDEC, 2000, table A, 88], implying that direct expenditures on rents were of the order of only 6% of per capita incomes. The resolution of this discrepancy requires further study. Table 15 also provides more detailed information on the variation in prices and rents in the city as a function of the number of rooms in the dwelling unit. It also provides information on the distribution of unit sizes—both in terms of the number of rooms and in terms of floor area—which will be discussed in greater detail below.

Table 15: Prices and Rents for Houses and Apartments on the Market in the City of Buenos Aires, 1999

Number of Rooms	Units for Sale				Units for Rent				Rent-to-Value Ratio
	% of Total	Unit Price (\$)	Area (m <sup>2</sup> )	Price (\$ per m <sup>2</sup> )	% of Total	Monthly Rent (\$)	Area (m <sup>2</sup> )	Rent (\$ per m <sup>2</sup> )	
1	8	33,348	30	1,108	18	290	30	9.6	10.4
2	30	43,996	40	1,100	49	359	40	9.0	9.8
3	39	68,012	60	1,134	26	529	60	8.8	9.3
4	20	112,934	100	1,129	7	860	100	8.6	9.1
5	3	194,077	170	1,142	1	1,456	170	8.6	9.0
Average	100	70,800	63	1,125	100	440	49	8.9	9.5

Source: Calculated from Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, 1999. "El Mercado Inmobiliario en la Ciudad de Buenos Aires," various tables. Note: The area, price and rent for 5-room houses, as well as the average prices and rents, are independent estimates based on partial data.

Another question that concerns housing affordability is: Has the formal private sector penetrated down market, producing more affordable housing? Good data on this question is not available, as of this writing, but it appears that the cheapest new housing unit presently produced in the City of Buenos Aires is an apartment priced at some \$40,000, or 3.2 times the median annual household income. As table 7 shows, this is a similar value to that prevailing in high-income countries. It is higher than in numerous cities in Latin America, but lower than the median value for the region as a whole and for upper-middle income countries—3.5. These numbers do suggest that there is still considerable room for improving efficiency and competitiveness in the residential construction sector and moving down market. The informal sector in the city (in Lugano, for example) now sells 60–80 m<sup>2</sup> apartments for as low as \$12,000, or 1.0 times the median household income.<sup>23</sup>

##### 5. Dwelling Units and Living Space:

The discussion of the available number of dwelling units is critical for our understanding of the presence (or absence) of quantitative, as well as qualitative, housing deficits in the country. And both the number of dwelling units and the amount of floor area per person (or the number of persons per room) are necessary to understand the degree of overcrowding. As we saw earlier (see table 2), in 1997 there were some 11 million dwelling units in Argentina, housing 9.8 million households, in other words 12% more dwelling units than households. In parallel, there were 10%

more dwelling units than households in Greater Buenos Aires. Overall, therefore, there was no shortage of dwelling units. However, many of the dwelling units in Argentina are vacant, and the vacancy rate in the country is exceedingly high in comparative terms—1.65 million (15% of all units in the country) were unoccupied in 1997 compared to a median of 2.8% in the cities of Latin America and the Caribbean. As a result, the number of households actually exceeded the number of *occupied* dwelling units in 1997, by 4.7% in the country as a whole and by 4.1% in Greater Buenos Aires. Assuming that households are sharing a dwelling unit against their will and would prefer to live independently, this indicates that there was a quantitative deficit of some 460,000 dwelling units in the country in 1997, a deficit that can be overcome, at least partially, by reducing the vacancy rate.

Table 16 below summarizes the structure of the quantitative and qualitative housing deficits in the country. The quantitative deficit refers only to households requiring resettlement in new dwelling units, which in 1997 amounted to some 613,000, or 6.3% of all households. It included all households sharing a dwelling unit, as well as half the households in flood-prone areas (assuming the other half could stay in place with appropriate infrastructure improvements) and all the households in chaga-infested areas that will need to be resettled. Given that new housing production in the country is of the order of 215,000 units per year, overcoming this deficit during the next 10 years will require increasing production by one-quarter (54,000 units a year) or reducing the vacancy rate gradually from 15% to 10% of the total housing stock.

All the other types of housing deficiencies facing Argentinian households do not require a net increase in the number of new dwelling units, and are not, therefore, part of the quantitative housing deficit in the country. Some 280,000 overcrowded households (2.9% of the total) may need to move to larger dwellings, assuming that an equal number of overcrowded households can extend their present dwellings to reduce overcrowding. But they do not require a net increase in the number of dwelling units. As table 16 shows, it is clear that the bulk of the housing deficit in Argentina is qualitative rather than quantitative: it estimates that some 2.1 million households (21.2% of the total) can improve and extend their existing housing units on site. Overcoming this qualitative deficit in 10 years will require improving and extending some 210,000 units per year, an amount equivalent to the total annual housing production in the country. Given the structure of the housing deficit, it becomes clear that government intervention in the housing sector must shift its emphasis from its almost total commitment to new housing production toward the improvement of the existing housing stock—where the housing deficiencies of the country are clearly concentrated.

Table 16: Quantitative and Qualitative Housing Deficits in Urban Argentina, 1991–1997

Type of Household	1991		1997	
	Number	Percent	Number	Percent
Households Requiring Resettlement in New Dwelling Units	428,510	4.8	613,300	6.3
<i>Households in a Shared Dwelling Unit</i>	428,510	4.8	461,188	4.7
<i>Households in Areas Subject to Flooding</i>	-	-	55,971	0.6
<i>Households in Chaga-infested Areas</i>	-	-	94,142	1.0
Households that Need to Move to Larger Dwelling Units	241,037	2.7	279,656	2.9

Households in Dwelling Units that Can Be Rebuilt/Improved/Extended On Site	2,463,932	27.6	2,080,231	21.2
<i>Households in Dwelling Units that Need to Be Rebuilt On Site</i>	651,692	7.3	192,737	2.0
<i>Households in Earthquake-Prone Areas</i>	-	-	50,554	0.5
<i>Households in Areas Subject to Flooding</i>	-	-	55,971	0.6
<i>Households in Dwelling Units that Need to Be Improved On Site</i>	1,571,203	17.6	1,501,313	15.3
<i>Overcrowded Households in Dwelling Units that Need to Be Extended</i>	241,037	2.7	279,656	2.9
Households in Acceptable Dwelling Units	5,793,811	64.9	6,839,313	69.7
Total Households	8,927,289	100.0	9,812,501	100.0

*Source:* Calculated from data provided by the Dirección Nacional de Políticas Habitacionales, and based on information of the 1991 Census and on the Encuesta de Desarrollo Social SIEMPRO-INDEC of October 1997. Note: It was assumed that half of the overcrowded households will need to move and that half can extend their dwellings. It was also assumed that half the houses in flood-prone areas can stay put with adequate infrastructure improvements.

To what extent are Argentinian households subject to overcrowding? While no recent data are available, table 17 below shows several measures of overcrowding for the country as a whole in 1991. The estimated median floor area of a dwelling unit was of the order of 48 m<sup>2</sup>, a value quite similar to the median for Latin American and Caribbean cities, but considerably smaller than comparative values in countries with similar incomes to that of Argentina (see table 8). Median floor area per person in the country was 13.7 m<sup>2</sup>, higher than that of the region as a whole because household sizes in Argentina are smaller, but smaller than the prevailing values in countries with similar incomes to that of Argentina.

As table 16 above indicated, there were some 560,000 households living in overcrowded conditions (defined as having more than 2 persons per room). That number is further refined in table 17 for 1991. As the table shows, overcrowding is particularly acute in single-room units, where 13% of all households live. To reduce overcrowding—assuming that only a small number of households will move to larger units—single-room dwelling units need to be extended, and additional rooms need to be built to accommodate larger households. More specifically, to ensure that there are no more than two persons per room, some 800,000 rooms need to be added, to no less than 70% of single-room units. Similarly, some 600,000 rooms need to be added to 2-room dwelling units, and some 200,000 rooms to 3-room units. All together, to eliminate (or, rather, minimize) overcrowding, some 1.6 million rooms (amounting to 36.3 million m<sup>2</sup>, or 6.5% of the total residential floor area in the country)<sup>24</sup> need to be added to existing overcrowded houses. This is clearly a high policy priority, and one which can be facilitated by providing small construction subsidies, possibly coupled with micro-credit, involving local authorities, non-government organizations (NGOs), and community-based organizations (CBOs) in the process.

Table 17: Measures of Overcrowding in Argentina, 1991

No. of Rooms	Unit Area (m <sup>2</sup> )	Household Size	Persons Per Room	Floor Area Per Person (m <sup>2</sup> )	% of all Households	Total No. of Rooms	Room Deficiency	Area Deficiency (m <sup>2</sup> )	Percent Deficiency
0	0	2.70	-	-	0.2	-	25,934	573,377	100.0
1	25	3.14	3.14	8.0	13.1	1,142,147	796,631	17,612,778	69.7

2	40	3.45	1.72	11.6	23.8	4,144,182	587,876	12,997,405	14.2
3	60	3.58	1.19	16.7	32.1	8,375,235	185,258	4,095,875	2.2
4	90	3.90	0.98	23.1	18.5	6,438,532	37,749	834,585	0.6
5+	130	4.12	0.82	31.6	12.2	5,290,775	7,526	166,382	0.1
Average	65	3.62	1.24	17.9	-	-	-	-	-
Median	48	3.50	1.50	13.7	-	-	-	-	-
Total	-	-	-	-	100.0	25,390,871	1,640,972	36,280,403	6.5

Source: INDEC, National Census of Population and Housing, 1991, table V7, 89. Note: Dwelling unit areas are gross estimates based on Dirección de Control de Gestión de FONAVI, 2000, "Auditorias 1999: Conclusiones Generales"; and on Dirección de Desarrollo Territorial y Urbano y Situación Habitacional, 1999. "El Mercado Inmobiliario en la Ciudad de Buenos Aires," various tables.

#### 6. The quality of housing:

On some dimensions—such as the percentage of homes with piped water and piped sewerage—the quality of housing in Argentina has, no doubt, been improving. This can be clearly seen in table 18 below. In the country as a whole, the percentage of homes with piped water increased from 52% to 61% between 1960 and 1980. It stood at 72% by 1991 and at 80% by 1997. The percentage of homes with piped sewerage increased from 62% to 77% between 1960 and 1980 and stood at 86% by 1991. Some data are also available for the amount of deficient housing in each province, but it was not possible to determine from these data whether the share of deficient housing increased or decreased during the 1960–1991 period.

The Social Development Survey of 1997 provides some more recent data on housing quality in the country as a whole and in Greater Buenos Aires. This data is summarized in table 19 below. It is important to note that 90% of the houses in the country, and more than 93% in Greater Buenos Aires, are permanent houses with concrete outside walls and firm floors—in other words, houses that are likely to last twenty years or more with proper maintenance. The large percentage of zinc roofs—31% in the country as a whole and 21% in Greater Buenos Aires—is typical of the region and easily improvable over time. On the whole, it can be safely said that housing in Argentina is of comparatively high, and possibly increasing, quality. It is also clear that many houses do not yet have a full complement of services and amenities, either inside or outside the house. This suggests that important improvements in the housing stock can be achieved by upgrading urban services, as well as by improving the quality of existing houses.

Table 18: Improvements in Piped Water and Piped Sewerage in Argentina, 1960–1991

Province/Region	Percent with Piped Water			Percent with Piped Sewerage		
	1960	1980	1991	1960	1980	1991
Greater Buenos Aires	68	67	69	87	90%	94
Federal Capital	100	99	100	97	99	98
Rest of B.A. Province	39	52	65	63	85	93

Catamarca	55	63	87	28	50	71
Chaco	17	34	62	16	32	54
Chubut	61	81	91	48	69	76
Córdoba	50	65	78	58	78	88
Corrientes	30	47	71	21	41	64
Entre Ríos	44	61	79	35	65	81
Formosa	22	38	59	14	32	53
Jujuy	56	71	86	27	52	65
La Pampa	17	36	67	39	76	85
La Rioja	49	74	89	26	57	68
Mendoza	61	71	82	56	80	86
Misiones	15	23	42	16	26	50
Neuquén	43	75	90	36	67	80
Río Negro	35	64	83	37	61	72
Salta	57	71	83	30	52	65
San Juan	53	73	86	42	67	80
San Luis	51	66	80	40	66	83
Santa Cruz	48	83	94	45	70	83
Santa Fe	43	56	73	59	79	89
Santiago del Estero	27	40	58	17	35	52
Tierra del Fuego	79	80	94	61	73	85
Tucumán	52	67	83	34	54	76
Country as a Whole	52	61	72	62	77	86

Source: INDEC, Census of Population and Housing – 1991, 67–68.

Table 19: Parameters of Housing Quality in Argentina and Greater Buenos Aires, 1997

Components	Argentina		Greater Buenos Aires	
	Units	%	Units	%
Outside walls of brick, stone, or concrete blocks	8,406,831	89.9	3,109,987	93.4
Outside walls made of wood	607,835	6.5	169,817	5.1
Roof made of tiles or asphalted concrete	6,377,596	68.2	2,513,962	75.5
Zinc roofs	2,945,639	31.5	702,577	21.1
Firm floors (concrete, tile etc.)	9,098,828	97.3	3,296,453	99.0
Piped water supply	7,490,402	80.1	2,750,347	82.6
Electrical connection	9,257,800	99.0	3,309,772	99.4
Indoor bath with piped sewage disposal	7,929,914	84.8	3,050,052	91.6

Municipal garbage collection	8,752,829	93.6	3,163,263	95.0
Total number of units	9,351,314	100.0	3,329,751	100.0

*Source:* Calculated by the Dirección Nacional de Políticas Habitacionales de la Subsecretaría de Desarrollo Urbano y Vivienda, based on the Encuesta de Desarrollo Social 1997.

Government intervention, especially in infrastructure improvements—which will be discussed in greater detail below—is usually cost-effective and can be expected to generate substantial multiples of investment in housing improvements by individual households.

#### 7. Tenure:

There is no question that Argentina has one of the highest rates of owner-occupancy in the world. As table 20 below shows, in 1997 the owner-occupancy rates in the country as a whole and in Greater Buenos Aires were 86% and 84% respectively, considerably higher than in comparable countries. The median value for Latin American and Caribbean cities, for example, was 59% in 1990. Land and cadastral registration in Argentina are well developed, and an estimated 90 percent of the properties in Greater Buenos Aires, for example, have full title registration (even though some of them are illegally occupied).

Still, there is a considerable population in the country without proper titles to the residential properties they occupy. Some 1.56 million households (15.9% of all households) still do not have proper legal titles. In parallel, some 550,000 households (15.8 percent of all households) in Greater Buenos Aires fall into the same category. There is ample evidence that the absence of proper titles inhibits families from investing more in their housing, prevents prospective buyers from obtaining mortgage credit for purchasing non-titled houses, suppresses the value of houses, and inhibits the development of a proper housing market. An active program of title legalization and registration, to be discussed in greater detail below, can therefore lead to rapid improvement in housing conditions for a substantial segment of the population in the country.

Table 20: Households by Tenure Category in Urban Argentina (Percent), 1991-1997

Household by Tenure Category	Argentina		Greater Buenos Aires	Other Urban Areas
	1991	1997	1997	1997
Legal Owner-Occupant	65.7	69.1	69.0	71.8
Tenant <sup>25</sup>	16.9	14.0	14.8	12.3
Occupying the Unit With permission, Free	9.5	10.7	10.0	11.0
Occupying the Unit Without permission, Free	7.8	5.2	5.8	4.9
Total Households	100.0	100.0	100.0	100.0

*Sources:* Dirección Nacional de Políticas Habitacionales de la Subsecretaría de Desarrollo Urbano y Vivienda, based on data from the Encuesta de Desarrollo Social 1997; and INDEC, Census of Population and Housing, 1991, table V9, 91.

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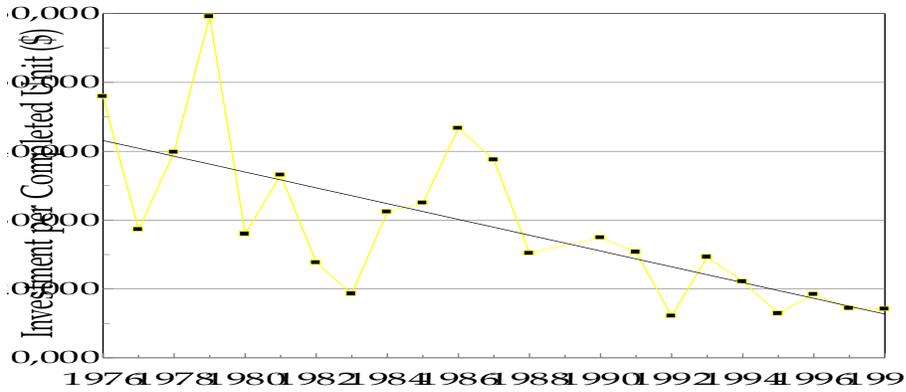
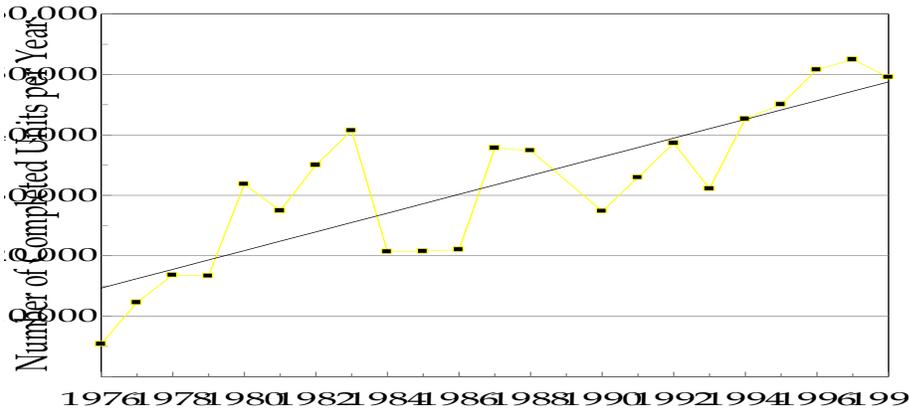
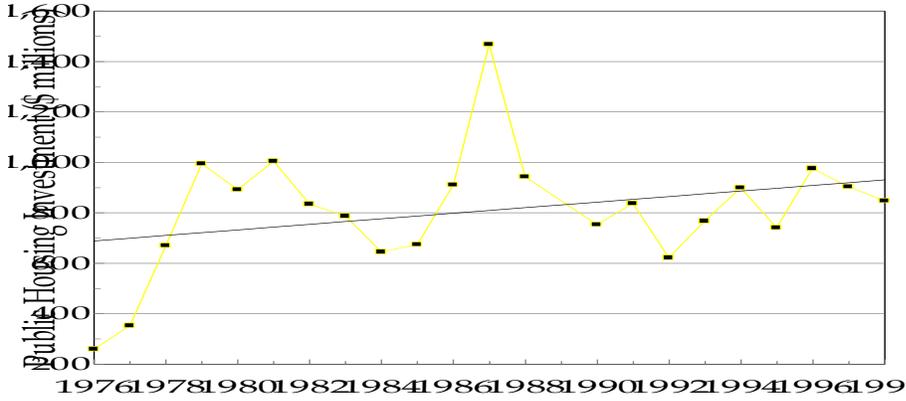
### III THE STATUS OF HOUSING POLICY

#### *The evolution of housing policy in Argentina:*

Housing policy in Argentina can be summarized in relatively simple terms. Since the first Peron Government (1946–1955), the State has been actively involved in the housing sector. Its main role over the years has been the financing and construction of completed housing units, usually aimed at middle-income households, and this continues to be its main role today, long after it has been abandoned by most governments elsewhere. Surely, over the years it has taken on a variety of housing-assistance programs of an enabling kind—title regularization, serviced sites, home improvements, or infrastructure upgrading, to cite a few examples—but always on a relatively small scale, consuming a very small share (7–8% at most) of the total housing budget.<sup>26</sup> Between in 1976 and 1998, the Argentine government spent some \$18.5 billion to complete 725,000 dwelling units, at an average investment of \$29,000 per unit. Graphs 2–4 below show the annual public housing investment, the number of completed dwelling units, and investment per completed unit in the country during this period.

On average, the public sector invested some \$850 million per year to construct 33,000 units. What was the share of public housing in total housing production during this period? From table 2 presented earlier, we estimated the average annual housing production during this period to have been of the order of 215,000. This implies that public housing contributed some 15% of total housing supply during this period, and now forms some 6.1% of the total housing stock (see table 8). The rest of the annual supply of housing was contributed with little or no government assistance—by developers of housing estates and apartment buildings in the formal private sector, by households building private homes on individually-owned lots, by illegal construction in informal land subdivisions, and by squatters on invaded land. Still, even though the public sector has consistently contributed only a relatively small share of total housing production in the country, housing policy has generally focused on that small share, largely ignoring the rest of the housing sector.

Graphs 2–4: Public Housing investment, the Number of Completed Dwelling units, and Investment per Completed unit in Argentina, 1976–1998.<sup>27</sup>



The important milestones in the evolution of housing policy in Argentina are summarized below, largely following Jimenez [2000]. The Peron period emphasized the development of subsidized mortgage loans through the Banco Hipotecario Nacional,

and established rent control. The constitutional reform of 1957 established the right to housing as one of the rights of workers (but not of citizens). During the early 1960s, the Housing Secretariat in the Ministry of Economy focused on the construction of Apartment complexes, as an instrument of the eradication of slums (“Villas de Emergencia”).

The military government that came to power in 1976 undertook a massive eviction of slum dwellers, estimated to number some 250,000, from the City of Buenos Aires [ref?]. Changes in the land subdivision regulations in 1977 (Law 8912) prohibited the sale of subdivided land without basic infrastructure, thus curtailing the access of low-income families to inexpensive urban land. The military government is also credited with reducing the role of the National Mortgage Bank and empowering the National Housing Fund (FONAVI)<sup>28</sup> as a mandatory savings fund for housing in 1977 (Law 21.581). With the empowerment of FONAVI, the process of decentralization of housing responsibilities in Argentina was initiated. The Federal government’s role was limited to overall goal setting and to project approval prior to the disbursement of FONAVI funds, while the provincial housing institutes (IPVs) were charged with the operational responsibilities of project planning and implementation. The emphasis on apartment construction remained, although on the whole projects became smaller.

The return to democracy in 1983 was characterized by further economic liberalization, accompanied by very high levels of inflation that stalled the development of commercial mortgage finance. As a measure of liberalization, the government moved to eliminate rent control in 1983. It reinstated the Banco Hipotecario Nacional, created a new Housing Secretariat, and nominated the president of the Bank as its head. The Bank, even though its mandate was restricted to issuing subsidized loans to middle-income families, initiated several important housing experiments during this period—credits for home improvement, serviced sites, historic center rehabilitation, core housing (“Programa Techo”), building-material packages, and self-help and mutual-aid projects. The new government also identified several problems with the past administration of FONAVI projects<sup>29</sup>—inefficient bureaucracy, undue attention to construction companies and lack of attention to people, targeting problems, extended construction periods, and high levels of default on loans. The Housing Secretary could not, however, overcome the resistance to change exhibited by the provincial housing institutes, and no major changes were implemented. In fact, housing secretaries lasted a year, on average, during the 1983–1991 period [Jimenez, fn. 38, 16 and fn. 63, 32].

It is important to note in passing that a structural adjustment loan negotiated with international organizations in 1987–88 included conditionalities for the reform of FONAVI. The structural adjustment loan mandated the reduction of per-unit construction cost, a transition from interest-rate subsidies to capital subsidies, and a preference in selection to be accorded to beneficiaries who can contribute a higher down payment. The proposed changes encountered serious resistance on the part of provinces, but some cost ceilings were eventually agreed upon, even though the \$300 million World Bank loan that mandated them was cancelled in 1992 [Jimenez, 17].

The Menem governments continued the program of market liberalization, and coupled it with a program of massive privatization. The Housing Secretariat was downgraded to a Under-Secretariat in 1990, as part of a general plan to eliminate secretariats. The Convertibility Plan of 1991 practically eliminated inflation and enabled commercial banks to start lending for housing at market rates. The national housing

bank (BHN) was transformed into a second-tier bank and privatized by 1998. The National Housing Fund (FONAVI) underwent a major transformation—its source of funds was changed, and the power to plan, administer and regulate its funds was further decentralized to the provinces.

Again, it is important to note in passing that a second attempt at diversifying the use of FONAVI funds was made in 1991 (Decree 690)—to include serviced lots, sanitary cores, urban upgrading and rehabilitation, and home improvement loans. The decree was designed to redirect FONAVI funds to lower-income households, but also allowed for the introduction of intermediaries into the housing process. In August of 1992, only several months after its passage, it was annulled by the Pacto Interestatal that determined that the use of FONAVI resources was to be at the discretion of the provinces.

Law 24.464, promulgated in 1995, established the Federal Housing System, mandating an automatic allocation of FONAVI funds to provinces based on an agreed-upon formula (initiated in Law 23.966 of 1991), creating the National Housing Council as an advisory body, and eliminating the possibility of Federal intervention in the formulation and conduct of housing policy. Historically, the decentralization of housing responsibilities to the provinces followed the decentralization of education and health services initiated during the reign of the military government. The Federal Housing System Law did not allow—let alone mandate—the adequate diversification of FONAVI programs. It still focused on the construction, sale, and financing of completed dwelling units, but incorporated various mechanisms for introducing private-sector intermediaries into the process. As a result, the number of completed units increased, while the investment per completed unit decreased substantially (see graphs 3 and 4). This process was also accompanied by a considerable decrease in the affordability of FONAVI dwelling units, as we shall see below.<sup>30</sup>

A third attempt to reform the FONAVI law was made in 1996, with a proposed law introduced by the National Housing Council. The proposal included a mechanism for combining a down payment, an up-front FONAVI subsidy and a market-rate mortgage loans; the allocation of a minimum of 20% of the funds for housing solutions other than completed dwellings; and a ceiling of 7% on operating costs.<sup>31</sup> The proposal did have the support of provincial governments and was approved by the Chamber of Deputies in February 1997. The Chamber of Senators introduced a number of changes into the proposed law—construction cost ceilings; a minimum of 30% (rather than 20%) of the funds for housing solutions; a 5% ceiling on operating costs; and a 15% ceiling on co-financing. The changes were unsatisfactory to provincial authorities and the proposal was abandoned in 1998.

The present \$500 million housing sector loan now being negotiated between the Federal Government and the Inter-American Development Bank (IDB) is the *fourth* attempt in the last ten years to transform housing policy in Argentina. It is an attempt to transform it from an over-emphasis on the design, production and financing of new dwelling units to a more enabling role; from a myopic view of public housing as the focus of housing policy to a more comprehensive management of the housing sector as a whole; from targeting housing to a relatively small number of middle-income beneficiaries, to targeting housing to a considerably larger number of lower-income, as well as middle-income households; from investing a large share of resources per unit to investing a smaller share of resources per-unit in housing subsidies while leveraging the

resources of households and commercial enterprises; and from an emphasis on housing construction to a broader view of all the key components of a modern housing policy – the property rights regime, the housing finance regime, housing subsidies, residential infrastructure, the regulatory regime governing the housing sector, and the institutional framework for government intervention in the sector.

This short review of the evolution of housing policy suggests that (a) housing policy in Argentina is now deeply entrenched and strongly resistant to change; (b) that housing policy in Argentina can no longer be formulated at the Federal level and implemented by provincial authorities; and (c) that housing policy in Argentina is in serious need of reform. How such a reform can be accomplished in practice is by no means a simple matter.

In the following pages, we shall briefly survey the status of housing policy in Argentina along each one of its six key dimensions:

1. The property rights regime;
2. The housing finance regime;
3. Housing subsidies;
4. Residential infrastructure;
5. The institutional framework for government intervention in the sector; and
6. The legal and regulatory regime governing the housing sector.

#### *1. The property rights regime:*

As we saw earlier (table 20) there is a considerable population in the country without proper titles to the residential properties they occupy. Some 1.56 million households (15.9% of all households) still do not have proper legal titles. In parallel, some 550,000 households (15.8 percent of all households) in Greater Buenos Aires fall into the same category. There is a great variety of households without proper titles: squatters in organized “asentamientos” as well as squatters in spontaneous “villas,” on both public (Federal, provincial and municipal) land and private land; occupiers of private land in irregular subdivisions, as well as clandestine subdivisions; occupiers of undivided rural lands; occupiers of public housing estates without title documents<sup>32</sup>; and squatters in public and private buildings. Illegally occupied lands are often located in flood-prone or contaminated areas and lack basic infrastructure. Needless to say, their illegality makes it difficult to obtain accurate numbers about the share of households in each category. It also makes intervention to legalize tenure and confer proper title documents complex and difficult.

Regularization of title is a relatively new housing policy in Argentina. The two Menem governments, introduced between 1989 and 1997 a corpus of laws and decrees that aim to legitimize the peaceful and undisturbed (yet illegal) occupation of lands and buildings, while at the same time criminalizing any further squatting. Key elements of legislation were Decree 2661 that established the Programa Arraigo in 1990 – authorizing the sale of public lands to their occupiers (through their transfer to community organizations); Law 23.967 of 1991 establishing the National Commission of Public Lands (tierras fiscales), and authorizing the transfer of “unnecessary” Federal

lands to provinces and municipalities for sale to their occupants; Law 24.146 of 1992 allowing for the conferring of title on subdivided private lands; and Law 24.454 of 1994 that made it a crime, carrying a prison sentence, to occupy lands and buildings illegally [Clishevsky, 1999]. Law 24.454 has resulted in a number of forceful evictions, and, for the time being, has practically eliminated squatting as a housing alternative for low-income families. This policy, together with the earlier 1977 policy of forbidding the sale of lots without a full complement of services, further narrowed the housing options open to the poor, possibly leading to the densification of occupied lands and to overcrowding in existing dwelling units.

The variety of different situations that require legalization, the variety of owners of public lands, the variety of agencies involved in regularization, the variety of laws and decrees, and the absence of a unified legal procedure for regularization have made progress slow and cumbersome. There are no good data on overall progress in granting titles, and while the process has been initiated in many communities, very few titles were granted to-date [Clishevsky, 1999, 15]. In all, the legalization program in Argentina is not yet streamlined, in contrast with programs in several other Latin American countries. It suffers from shortages of qualified personnel, shortages of funds, lack of adequate coordination, legal complexities, and, in some locations, lack of affordability on the part of beneficiaries. Active support for the regularization process must, therefore, be an important priority in national housing policy, and a key preoccupation of provincial housing institutes (IPVs). At present, it is not.

## 2. *The housing finance regime:*

There is no doubt that considerable progress has been made in modernizing Argentina's housing finance regime. Argentina now has a modern banking system, the peso is pegged to the dollar and its inflation rate is under control, mortgage interest rates are relatively low in historical terms, and mortgages are readily available in commercial banks. As we saw earlier, mortgage lending is increasing rapidly. The National Mortgage Bank has been successfully privatized. Mortgage-backed securities can now be issued by the bank, as well as by commercial banks, and there does not appear to be a shortage of funds for mortgage lending. However, lending is still restricted to upper-income households and has not moved down-market. One mechanism for moving it down-market—"leasing habitacional"—is not operational, and it is possible that the leasing law, Law 24.441, needs to be amended to facilitate it. Other mechanisms—like loan guarantees that will enable commercial banks to lend micro-credit for home improvements or small loans for serviced sites or core housing—are also not in place. Neither is the use of intermediaries—either the suppliers of land and housing or NGOs—to bring small loans down-market. On the whole, the commercial mortgage-finance market can be said to be financially sustainable, with a real potential to expand in the years to come, and with an unrealized potential to be of service to lower-income households.

Unfortunately, mortgage finance in the Federal Housing System operated by the National Housing Fund (FONAVI) is not sustainable, and it too does not reach lower-income households. Law 24.464, that established the system, specifically forbids the use of FONAVI funds for capital subsidies, or up-front subsidies to accompany mortgage loans. Instead, funds are used to finance housing at below-market interest rates.

Needless to say, such subsidies are not transparent. We can, however, estimate the interest-rate subsidies in the different FONAVI-financed programs, given the data in the 1999 FONAVI audit [Dirección de Control de Gestión de FONAVI, 2000]. Table 21 below provides information on average prices, payment terms, and estimated interest-rate subsidies for a 2-bedroom unit financed by FONAVI during that year. As the table shows, average interest rates, denominated in pesos, varied between 1.9% and 9.5%, compared to the prevailing fixed interest rate of 15.9% (the average rate for the year 2000, for example). The table suggests that, on average, interest rate subsidies amount to some 56% of FONAVI costs. In other words, FONAVI loses more than half of the value of its annual investment in interest-rate subsidies.

As noted earlier, the Federal Housing System has been moving rapidly in recent years toward greater participation of other intermediaries—commercial banks (including the privatized Banco Hipotecario Nacional), municipalities, and individual

Table 21: Average Prices, Payment Terms, and Estimated Interest-Rate Subsidies for a 2-Bedroom Unit Financed by FONAVI in 1999

Category	Average Cost (\$)	Average Price (\$)	Average Payment Terms			Interest Rate Subsidy	
			Monthly Payment	Term (months)	Interest Rate (%)	Amount (\$)	Percent of Cost
"Free Demand" Housing	21,936	23,407	103	313	1.9	17,308	78.9
Co-financed Housing	20,734	22,177	149	258	5.0	12,223	59.0
Decentralized Housing	13,165	15,801	77	278	2.0	11,134	84.6
National Mortgage Bank Housing	34,046	35,298	235	212	9.5	7,133	21.0
Average	22,470	24,171	141	265	4.6	12,684	56.4

Source: Dirección de Control de Gestión de FONAVI, 2000. "Auditorias FONAVI 1999: Conclusiones Generales," table 15. Note: The interest rate subsidy was calculated as the difference between the present value of payments at the given interest rate shown in the table and the present value of the monthly payments at the prevailing fixed mortgage interest rate, denominated in pesos (15.9% in 2000).

households—in financing FONAVI-assisted housing. For example, the percentage of housing units fully-financed by FONAVI funds ("Demanda libre") declined from 85% in 1993 [Jimenez, 2000, table 15, 37] to 48% in 1999 (see table 22). In parallel, co-financed housing increased from 6.4% to 14.8%, and decentralized housing from 8.6% to 31.3%. These are important developments in the direction of withdrawing public authorities from the direct financing of housing and into direct-demand subsidies—in this case up-front capital subsidies to households.

Table 22: The Structure of FONAVI-Assisted Housing Programs, 1999

Program Type	Units		Projects		Average Project Size
	Number	Percent	Number	Percent	
"Free Demand" Housing	21,916	48.2	517	39.5	42
Co-Financed Housing	6,726	14.8	107	8.2	63
Decentralized housing					
Municipalities	8,590	18.9	483	36.9	18

Intermediaries	5,656	12.4	173	13.2	33
National Mortgage Bank Housing	2,545	5.6	28	2.1	91
Total	45,433	100.0	1,308	100.0	35

Source: Dirección de Control de Gestión de FONAVI, 2000, table 19.

The fact that Law 24.464 still forbids such subsidies forces provincial housing institutes (IPVs) into artificial arrangements, whereby the provision of mortgage finance is, in actuality, a subsidy. For example, in a recent agreement between several banks and a number of provincial governments—Contrato Marco 2000 [Secretaría de Obras Publicas y Vivienda, 2000]—the provincial authorities agreed to participate as co-debtors in paying 25% of the monthly payments of program beneficiaries for the duration of the loan as an interest-rate subsidy, encumbering their future FONAVI allocations both to guarantee and to pay off their debts. In another example, the Tucumán IPV signed an agreement with Banco Rio in 2000 to finance 25-year loans, whereby 10% of the house price is financed by a down payment, 10% by the IPV, and 80% by Banco Rio. In this arrangement, the IPV agreed that the bank receive the monthly payments for the first 15 years, and the IPV for the next 10 years (resulting in a direct subsidy of 63% of the IPV share to the bank).<sup>33</sup> Clearly, these arrangements are by no means transparent and should be discontinued. They cannot be discontinued, however, without amending Law 24.464.

As we shall see below, the allocation of credit in FONAVI-supported programs has been regressive and has become more regressive in recent years. In addition, because most FONAVI funds are allocated to financing completed dwelling units, very little credit of any kind is available for housing solutions that can reach lower-income households—serviced sites, core housing, home expansion and improvement, and infrastructure upgrading in villas and asentamientos. This inhibits access to new housing by low-income groups, increases overcrowding, prevents needed improvements in housing quality, and forces families to resort to short-term loans at very high interest rates. There is a clear need, therefore, to redirect the housing credit policies of the provincial housing institutes (IPVs), a step that they have not been willing to undertake on their own.

### 3. *Housing subsidies:*

Housing subsidies in Argentina form a significant part of the government budget, both at the Federal and at the provincial levels, but most of them are implicit—rather than explicit—subsidies, and therefore quite difficult to estimate. The housing budget of the Federal Government has been of the order of \$850 million during the past few years, forming 1.7% of the Federal Budget and 3.0% of social expenditures in the Federal budget between 1995 and 1999. The bulk of the Federal housing budget was automatically transferred to the provinces through the National Housing Fund (FONAVI), in accordance with Law 24.464. However, the housing budget of provinces was larger than the Federal housing budget, because it also included the reinvestment of the proceeds from loan repayments by beneficiaries, as well as other incomes of the provincial housing institutes (IPVs). In 1999, for example, the total housing expenditures of the IPVs amounted to \$1.4 billion (see table 23 below), forming 3.8% of the total consolidated budget of the provinces during that year.

Table 23: Consolidated Balance Sheet of the Provincial Housing Institutes (IPVs) as of December 1999

Category	(\$)	(%)
Starting Balance	357,392,660	22.3
Income		
FONAVI Transfers	742,991,872	46.4
Mortgage Loan Repayments	217,004,992	13.6
Returns on Investments	4,365,234	0.3
Other Income <sup>1</sup>	278,661,614	17.4
Total Incoming Funds	1,600,416,372	100.0
Expenditures		
Investments		
Housing <sup>2</sup>	966,234,961	60.4
Individual Credits	62,313,451	3.9
Infrastructure	33,671,062	2.1
Facilities	22,200,998	1.4
Operating Expenses <sup>3</sup>	153,778,139	9.6
Other Expenses <sup>4</sup>	158,712,687	9.9
Balance Forward	203,505,074	12.7
Total Outgoing Funds	1,600,416,372	100.0

Source: Dirección de Control de Gestión de FONAVI, 2000, various tables. <sup>1</sup> Other income consisted mainly of direct provincial contributions and transfers, as well as loans. <sup>2</sup> There is no data for the share of completed dwelling units and partial housing solutions in the total. <sup>3</sup> Operating expenses included salaries for 6,644 persons. <sup>4</sup> Other expenses consisted mainly of debt service on loans and return of debts.

These are very substantial public resources, and, used effectively, they are sufficient to generate considerable improvement in housing conditions in the country. Unfortunately, preliminary observations suggest that: (a) most housing subsidies in Argentina are regressive—targeted at higher-income groups and largely ignoring lower-income ones; (b) subsidies for individual recipients are very large, preventing their broad distribution to large segments of the population; (c) the great bulk of subsidies is focused, almost exclusively, on supporting the construction of completed dwelling units rather than on partial or progressive housing solutions; and (d) most subsidies are not transparent—for example, free land transfers or the sale of land below its market value, an incomplete accounting of actual construction costs, sale of units at below-cost prices, financing of housing at below-market interest-rates, and high levels of default on loan repayments.

A complete accounting of housing subsidies in Argentina, especially focused on the operations of provincial housing institutes (IPVs), must await a more complete study.

Without such a study it is only possible to provide partial evidence on the housing subsidy regime in the country, most of which was already alluded to earlier. As already noted, some 92–93% of public housing funds are directed through FONAVI for the construction of completed dwelling units. And there is no doubt that the allocation of these funds is regressive, and that it has become more regressive in recent years. For example, according to the 1999 FONAVI audit report [Dirección de Control de Gestión de FONAVI, 2000], 3-bedroom FONAVI units financed by the recently-privatized National Mortgage Bank, for example, required, on average, a minimum monthly household income of \$1,894, restricting them to the 9th and 10th decile of the urban income distribution in the country. On the other hand, 3-bedroom units financed directly with FONAVI funds (“demanda libre”), an established practice, required, on average, a minimum income \$678 in 1999, and were affordable by the 5th decile of the urban income distribution. But they were only affordable to households in the 5th decile because, as table 21 showed, they entailed interest-rate subsidies averaging \$12,500 per household, as well as other less transparent subsidies—for example, in the pricing of land and construction and in repayment defaults. Housing solutions that are better-targeted to lower-income households command a very small share of total resources—of the order of 7–8% at most—but all past efforts to increase this share (for example, the proposed law of 1996 discussed earlier) have utterly failed.

Thus, while the conduct of housing policy—and especially the setting of priorities for the allocation of Federal funds for housing—has now been decentralized to the provinces, the provinces have been unwilling to redirect housing resources to more efficient, more equitable, and more sustainable housing solutions. This by itself suggests that the present allocation of responsibilities for the conduct of housing policy may need to be reconsidered. Such a reappraisal is especially critical now that the share of FONAVI funds earmarked for housing has been reduced to a half in the Federal Agreement of November 2000, a change which is likely to result in a gradual reduction of provincial housing budgets in the coming years.

#### 4. Residential infrastructure:

Residential infrastructure affects housing sector performance in two important ways: (a) the availability and quality of infrastructure impinge directly on the quality and neighborhoods, as well as on the economic value of houses; (b) infrastructure shortages, especially on the urban fringe, limit the supply of serviced residential land and increase its price, thereby making housing less affordable for everyone. Key elements of residential infrastructure—arterial roads, streets and sidewalks, street lighting, and drainage—are public goods that cannot be effectively privatized. At the subdivision level, they may or may not be supplied by developers, irrespective of the law. But even if they are initially supplied by developers, the responsibility for their maintenance and repair usually rests with public authorities—municipalities, provinces and sometimes the Federal government. Other services—notably water, sewerage, electricity, gas, and telecommunication networks—can be privatized, and indeed have been privatized in Argentina during the 1990s.

Table 24 below summarizes the availability of residential infrastructure services in urban Argentina in 1997 by type of neighborhood. It shows key deficiencies for households living in irregular unplanned neighborhoods—“villas miserias” and

“asentamientos irregulares” – where 2.6% of the urban population resided in 1997, and where there are serious shortages of paved streets and sidewalks, sewerage, drainage, and gas networks. Paved streets and sidewalks, and drainage and sewerage networks are also in very short supply in neighborhoods with urban deficiencies, which contained 25.7% of the urban population in 1997. All in all, one-third of the urban population of Argentina does not live on paved roads and sidewalks, and does not enjoy proper drainage and sewerage. These needs are gradually being met, but not necessarily at the required scale.

Table 24: The Availability of Residential Infrastructure Services  
in Urban Argentina, 1997

Infrastructure Component In Front of House	Villas Miserias and Asentamientos		Neighborhoods with Urban Deficiencies		Neighborhoods w/o Urban Deficiencies		All Urban Areas	
	'000s	% of Total	'000s	% of Total	'000s	% of Total	'000s	% of Total
Paved Street	39	18.4	288	13.7	4,951	84.7	5,280	64.5
Street Lighting	139	65.3	1,773	84.3	5,738	98.2	7,654	93.5
Completed Sidewalk	15	7.0	161	7.6	4,748	81.2	4,925	60.2
Piped Water Network	176	82.5	1,410	67.0	5,503	94.1	7,093	86.7
Electricity Network	199	93.8	2,059	97.9	5,840	99.9	8,103	99.0
Piped Drainage	28	13.4	242	11.5	4,499	77.0	4,771	58.3
Piped Sewerage Network	48	22.4	430	20.4	4,451	76.2	4,932	60.3
Piped Gas Network	37	17.3	880	41.9	4,942	84.5	5,861	71.6
Daily Garbage Collection	129	60.9	1,762	83.8	5,671	98.6	7,657	93.6
Total Households	213	2.6	2,105	25.7	5,835	71.3	8,184	100.0

Source: Calculated from SIEMPRO-INDEC, *Encuesta de Desarrollo Social, 1997* by the Dirección Nacional de Políticas Habitacionales. Notes: Asentamientos in this table refers to irregular squatter settlements; urban deficiencies refer to the unpaved roads and/or precarious housing.

Over and above the routine involvement of municipalities in infrastructure investment, maintenance and repair, there are numerous programs, most of them administered at the Federal level, that focus (either totally or partially) on urban infrastructure improvement:

1. The Housing and Basic Social Infrastructure Upgrading Program (Programa Mejoramiento Habitacional e Infraestructura Social Básica);
2. The Inundated Zones and Other Climatic Emergencies Rehabilitation Program (Programa de Rehabilitación de Zonas Inundadas y Otros Emergencia Climática);
3. The Neighborhood Improvement Program (Programa de Mejoramiento de Barrios);
4. The Municipal Finance Program (Programa de Financiamiento a Municipios);
5. The Social Development Program for Northeast Frontier Areas with Unsatisfied Basic Needs (Programa de Desarrollo Social en Areas Fronterizas del Noroeste Argentino con Necesidades Básicas Insatisfechas – PROSOFA);

6. The Participatory Fund for Social Investment (Fondo Participativo de Inversión Social – FOPAR);
7. The Inundation Protection Program (Programa de Protección Contra Las Inundaciones); and
8. The Emergency Program for Inundations caused by “El Niño” (Programa de Emergencia para las Inundaciones de “El Niño”).

At the time of writing, information on the budgets and coverage of these programs was not available, and it is therefore not clear to what extent they are able to meet needs. Table 25 below estimates the total residential infrastructure investment needs in Argentina, given a rough approximation of the cost per household for each service. Total public investment and total private investment needed to meet all infrastructure needs in existing settlements are both estimated to be of the order of \$5 billion each, clearly of a different order from the sum total allocated to the above-mentioned programs.

In this connection, it is important to note that neither the infrastructure investment program proposed by the private sector – *Infraestructura - Siglo XXI* [Camara Argentina de la Construcción and others, 1999], nor the massive infrastructure investment program recently approved by the government as a key instrument for reviving the economy, appear to allocate any resources for upgrading urban residential infrastructure. This is so despite the fact that such a program could be labor intensive (as has been the experience with road paving under Plan Trabajar, for example) and could be focused on fulfilling the basic needs of the entire population of the country. In short, residential infrastructure upgrading – clearly an effective and equitable housing policy that is known to generate high multiplier effects in both higher house values and higher levels of investment in housing – is still not recognized as a *major* component of housing policy in Argentina. The FONAVI Law 24.464 (Art. 7) even goes as far as to prohibit expenditure of more than 20% of the annual provincial housing budget on infrastructure, a limitation that has also discouraged the development of serviced sites – a progressive housing solution that has been shown to serve the needs of low-income families.

Table 25: Infrastructure Cost Per Lot and Estimated Investment Necessary to Alleviate Infrastructure Shortages in Argentina, [year?]\*

Infrastructure Component	Cost per Lot (\$)	Total Households in Need Number	% of Total	Cost Subtotal (\$ millions)
Public Service Provision				5,290
Paved Street	560	2,903,295	35.5%	1,626
Completed Sidewalk	480	3,258,785	39.8%	1,564
Piped Drainage	600	3,412,666	41.7%	2,046
Street Lighting	100	529,843	6.5%	53
Privatized Service Provision				5,064
Piped Water Network	520	1,090,626	13.3%	567
Piped Sewerage Network	750	3,252,068	39.7%	2,439

Piped Gas Network	860	2,323,049	28.4%	1,998
Electricity Network	740	81,108	1.0%	60
Total Cost				10,121

*Source:* The costs were estimated for 250 m<sup>2</sup> lots in low-income neighborhoods with single-family houses. The cost data was obtained during pre-investment studies for the Neighborhood Improvement Program in a sample of 22 neighborhoods in 11 cities.

It was also not clear at the time of writing whether there are shortages of serviced land, particularly in rapidly growing cities, or whether such shortages, if they do exist, are putting pressure on residential land markets, and hence on house prices. As we noted before, between 1980 and 1991, for example, the 19 cities with populations between 100,000 and 500,000 grew at an average rate of 3.0% and accommodated one-quarter of all urban growth. At this rate, these cities will double their populations and their built-up areas in 20 years. Are their municipal governments adequately prepared to plan for the expansion of their cities, and to invest sufficient amounts in urban infrastructure to accommodate this growth? The adequate provision of residential infrastructure, both in existing settlements and on the urban periphery is a key component of national *housing policy*, and one which needs to be coordinated at the provincial and municipal levels. Such adequate provision necessarily requires a reassessment of the present allocation of public resources in the housing sector, a reassessment that, as we noted before, is still resisted by provincial governments.

##### 5. *The institutional framework for government intervention in the housing sector:*

The foregoing analysis of conditions in the housing sector and the status of housing policy in Argentina suggests that, on the whole, the institutional framework for government intervention in the housing sector is inappropriate for the conduct of a modern national housing policy—a policy that can support and regulate the production, improvement, maintenance and exchange of housing units and the development and upkeep of pleasant and safe residential neighborhoods in an efficient, equitable and sustainable manner. This observation should in no way obscure the fact that there has been considerable progress in recent years along numerous dimensions of institutional reform—for example, in creating an institutional framework for the legalization of tenure, in reforming part of the housing finance regime, in the progressive involvement of intermediaries in public housing production, in the proliferation of urban infrastructure upgrading programs, and in the great variety of experiments with alternative housing solutions undertaken by individual provincial housing institutes (IPVs) and by numerous civic organizations..

As it stands, there are two central characteristics of the institutional framework for government intervention in the housing sector in Argentina: (a) the advanced state of decentralization of the Federal Housing System; and (b) the institutional focus on new housing production and hence the absence of a unified institutional framework for incorporating all the elements of a national housing policy. The decentralization of public responsibilities for housing to the provinces culminated in Law 24.464 of 1995 that created the Federal Housing System and shifted the power to formulate, regulate, implement, and oversee housing policy from the Federal government to the provincial

governments. The four central institutional features of the Federal Housing System, as it presently constituted, are:

1. The National Housing Fund (FONAVI) is automatically distributed to provincial housing institutes according to an agreed-upon formula that disburses a fixed percentage of the total budget to each province every year;
2. Subject to some restrictions (and not necessarily the appropriate ones)—the funds are to be used to *finance* the construction and sale of housing units and related urban infrastructure, with a limited share (not more than 20%) to be used for infrastructure, and an increasing share (up to 45%) to be used for mortgage loans—the use of funds is at the discretion of provincial authorities;
3. The National Housing Council (with an overwhelming majority of provincial representation and one Federal representative) oversees the Federal Housing System, advises Federal, provincial, and municipal governments on housing questions, but has no regulatory power; and
4. The Federal housing agency audits FONAVI housing programs in each jurisdiction and submits the audit to the national legislature and to the National Housing Council for inspection, but neither the agency, nor the legislature, nor the Council has any power to change or regulate provincial housing actions based on that audit.

Needless to say, this law has shriveled the power of the national government to formulate and conduct housing policy and, in effect, led to its collapse. The Federal housing agency is now a Under-secretariat in the Ministry of Infrastructure and Housing with a total staff of 70 persons, compared with some 6,600 persons in the provincial housing institutes. In principal, this should not be a cause for concern—clearly, there is nothing fundamentally wrong with a Federal System in general, and with a Federal Housing System in particular. In practice, however, this is a major cause of concern for two reasons. First, because at this historical juncture, the Federal government attends to progressive housing solutions that focus on the needs of low-income households—title regularization and urban infrastructure upgrading, for example—while provincial housing authorities serve mainly middle-income households, largely ignoring the needs of lower-income ones. And second, because, on the whole, provincial housing institutes insist on continuing to use precious Federal housing funds to finance housing construction in an inefficient, inequitable, and unsustainable manner and are under no pressure from any quarter to reform their practices.

At this time, the complete decentralization of housing policy in Argentina is, therefore, counter-productive. There is no question that provincial housing institutes should have a high degree of discretion in designing and implementing housing programs that are appropriate to the specific conditions prevailing in the different regions in the country, and in experimenting with new models of intervention in the housing sector—for example, the decentralization of housing funds to municipalities in Mendoza, or the use of FONAVI funds for building material loans in Rio Negro. But the need for discretion in project design should not be confused with the power to resist essential housing reforms, and to continue to operate an inefficient, inequitable and unsustainable housing system long after it has become clear that it cannot and does not

serve national housing goals and priorities, and long after it has been abandoned practically everywhere else.

Housing policy in Argentina can and should become more efficient, and it can do so by shifting public resources away from direct investment in housing production and away from direct housing finance to the use of transparent housing subsidies, to the use of intermediaries in housing design, production, marketing and sale; to organizing demand and screening housing beneficiaries; and to the use of commercial mortgage finance. Housing policy in Argentina can and should become more equitable by shifting public resources away from the construction and financing of completed housing units, to funding capital subsidies in conjunction with down payments and mortgage loans on the one hand, and to funding progressive housing solutions that are better-targeted to lower-income households (title registration, serviced sites, core housing, home improvement and extension, micro-credit guarantees, building material loans, and residential infrastructure upgrading) on the other. And housing policy can and should become more sustainable by shifting away from the financing of a small number of units (at high levels of implicit interest-rate subsidies and other non-transparent subsidies per household, and low levels of recovery of mortgage loans) towards housing programs that have higher multiplier effects and lower per-unit subsidies, and that can reach a broader segment of the population.

Past experience demonstrates that this can simply not be done with the present institutional structure. It can be done, however, by reforming this structure so as to facilitate the formulation and implementation of a national housing policy – an enabling housing policy that can be more inclusive and less paternalistic, that can bring together all the key stakeholders in the housing sector, and that can allocate resources more efficiently and more equitably among different housing programs. This can be accomplished in a number of ways that clearly require further study, a prolonged political dialogue, and intense negotiation among the parties concerned. A new institutional structure for the Federal Housing System should, however, include the following six features:

1. Federal housing policy must be redefined and expanded to combine, in an integrated manner, government intervention in property rights, housing finance, housing subsidies, residential infrastructure, the regulatory regime governing the housing sector, and the institutional framework for government intervention in the sector;
2. Federal housing policy must incorporate a regulatory framework that retains the power of the Provincial Housing Authorities (IPVs) to formulate and implement housing programs and projects, while complying with a set of minimal guidelines formulated and agreed upon at the Federal level. The Federal government must also create an incentive framework that conditions the release of a substantial amount of Federal funds on provincial compliance with these priorities and objectives;
3. The National Housing Council should be reconstituted to include all the key stakeholders in the housing sector: provincial and municipal representatives; representatives of key ministries that affect the sector; and representatives of the construction and real estate sectors, the mortgage banking sector, the civic sector, and the community sector;

4. The Under-Secretariat of Housing and Urban Development should be upgraded to a Secretariat, and housing programs in other ministries—for example, the title regularization program and the various urban infrastructure upgrading programs—should be transferred to its jurisdiction;
5. All government-supported housing programs should be subject to auditing by independent and impartial agencies, in a systematic manner, so as to ensure compliance with national housing priorities and objectives; and
6. A Housing Intelligence Unit—capable of organizing data collection in the housing sector, and feeding the National Housing Council with regular and consistent data for monitoring the sector and for ongoing policy-making—should be created within the Housing Secretariat.

6. *The legal and regulatory regime governing the housing sector:*

Throughout this paper, we have examined the variety of laws and regulations governing the housing sector in Argentina and their effect on housing sector performance: the corpus of laws and regulations governing the property rights regime, the laws and regulations governing the housing finance regime, the laws and regulations governing the allocation of housing subsidies, the laws and regulations governing infrastructure standards, and the laws and regulations governing the institutional structure of government intervention in the housing sector. To these, we should add the rules and regulations governing rent control. An ongoing legal and regulatory reform program for the housing sector must be one of the cornerstones of national housing policy. The needs and priorities for legal reform cannot be firmly established in this preliminary study and must await a more detailed investigation. At this time, however, it appears that the important priorities for legal reform in the housing sector in Argentina are:

1. The creation of a unified legal procedure for title regularization;
2. The creation of a legal framework for bringing mortgage credit down-market including “leasing habitacional,” guarantees for micro-credit, and up-front capital subsidies to accompany loans;
3. The revision of Law 24.464 governing the allocation of Federal housing resources, so as to change the permitted use of resources, the minimum shares of resources allocated for different types of programs, the use of resources as subsidies rather than investments, and the permitted per-unit level of subsidies;
4. The re-introduction of municipal, provincial and Federal regulations that allow for the progressive development of land subdivisions and houses;

The restructuring of the institutional framework for government intervention in the housing sector, so as to make it possible to conduct a national housing policy at the Federal level—as well as at provincial and municipal levels— based on a broad representation of all the key stakeholders in the sector

\* \* \*

Having reviewed the status of housing policy in Argentina and having outlined the necessary policy reforms required along each one of its key components, we now translate these suggested reforms into a new National Housing Program.

#### IV PROPOSED GUIDELINES FOR A NATIONAL HOUSING PROGRAM

The conclusions of the foregoing analysis are summarized in the matrix presented in table 26 below. The table presents—in encapsulated form—the main problems identified earlier, the guidelines for action presented earlier, the proposed legal and institutional reforms presented earlier, and possible milestones on the way to the completion of these reforms. This matrix is, in fact, a National Housing Program for Argentina that can be, and should be, supported by the Inter-American Development Bank (IDB) at this time.

The objective of presenting this matrix is to narrow the focus of the current negotiations between the Government of Argentina and the Bank on a National Housing Program. As noted in the introduction, the discussion now centers on two loan components to be provided by the Bank: (a) a loan of \$500 million to be transferred to the Federal Government, subject to agreed-upon housing-sector reforms; and (b) a housing investment loan of \$150 million, to be accompanied by \$100 million counterpart funds from the Government of Argentina, for implementing the agreed-upon reforms.

A sector loan is a direct transfer from the Bank to the Government. It is intended for general use by the Government, and need not be used for housing sector operations. The intended use of a sector loan, however, is to generate legal and institutional reforms that will increase the efficiency, equity and sustainability of government operations in the sector in question. It is indeed expected that a sector loan will generate an improvement in sector operations worth several times the value of the sector loan itself, and it is usually given on condition that such added value can be generated in the sector, as the result of the legal and institutional reforms mandated by the loan agreement. An investment loan, on the other hand, is given to support a program of investments within the sector, in conjunction with counterpart funds allocated by the Government. In the present case, the two loans and the counterpart funds are meant to function together and reinforce each other. The aim of the sector loan is to provide impetus for a legal and institutional reform in government operations in the housing sector, and the aim of the investment loan and the counterpart funds is to support the implementation of these reforms with a new National Housing Program.

Table 26 is presented as a preliminary draft for discussion. Its intent is to delineate the necessary and desirable transformations in housing policy in Argentina at this time, without considering the feasibility—or the probability—of putting them into effect in the present political climate. Although unlikely, it may be that resistance—mostly by provincial governments, but possibly also by parties in opposition to the present government—may prevent any serious legal and institutional reform in the housing sector, leading to a cancellation of the proposed sector loan. In all likelihood, however, it should be possible to fashion a political compromise that will achieve many of the housing policy goals presented in this paper in a manner agreeable to all parties

concerned. An assessment of the political feasibility of the proposals summarized in this matrix is, however, beyond the scope of this paper.

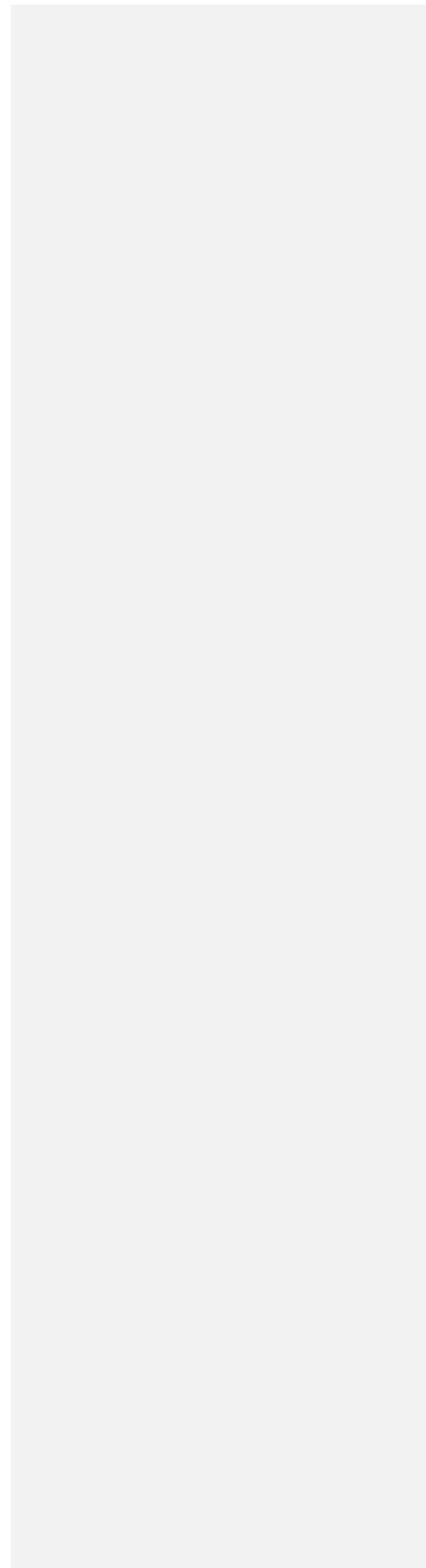


Table 26: Matrix Identifying Problems, Guidelines for Action, Conditionalities and Programs, and Possible Milestones for an IDB-Supported National Housing Program.

PROBLEM	GUIDELINES FOR ACTION	CONDITIONALITIES/PROGRAMS	POSSIBLE MILESTONES
1. The Government of Argentina has encountered a serious difficulty in meeting its financial obligations, and has negotiated a large rescue package—with the IMF, the IDB and others—entailing loans amounting to \$39.7 billion. The rescue package is conditional upon numerous reforms. Part of the IDB loan is conditional on the reform of government intervention in the housing sector.	Government intervention in the housing sector—at both the Federal and the Provincial levels—must be reformed in accordance with the general conditions stipulated in the rescue agreement. The overall objective of the reform is a more efficient, more equitable and more sustainable use of available public housing resources. A study of key aspects of the sector that need to be reformed is presently needed.	Agree in principle to reform the legal and regulatory framework governing Federal and provincial housing policies and programs;  Initiate a housing sector study focusing on the structure of the housing delivery system; the availability and price of land for urban expansion; the structure of implicit FONAVI subsidies; the potential for expanding housing finance; the institutional framework for title regularization; and the prospects for a national urban upgrading program.	Terms of References for the housing sector study and its components.  Presentation of draft of housing sector study.  Presentation of completed housing sector study.
2. Argentina has an acute unemployment problem and a worsening income distribution, limiting the family budgets available for housing, limiting the access of low-income families to decent housing, and slowing down the improvement in housing conditions.	Government must allocate a significant share of public resources (fiscal, political, and administrative) to housing, so as to enable families—in all income categories and in all parts of the country—to improve their housing conditions to a decent level.	Maintain overall Federal funding for all housing programs in the 2002 Budget.  Use the IDB-supported housing investment program to create fiscal incentives for provincial housing institutes to use their discretionary funds, liberated in the November 2000 Agreement, for housing.	The housing budget in the 2002 Federal Budget.  Agreement on the IDB-supported housing investment program.  Agreement on inclusion of fiscal incentives to provinces in the IDB-supported housing investment program.
3. Market liberalization policies and the privatization of public services in Argentina cannot protect the housing sector from the typical market failures associated with it. The housing market cannot be relied upon to provide everyone with a decent house.	Because a decent house is a national priority, and because markets cannot ensure decent housing for everyone, a regular housing budget must continue to be a part of the Federal budget, but need not necessarily rely on earmarked taxes.	Make the housing budget an integral part of the Federal Budget.  Change Art. 3 in Law 24.464 to eliminate the dependence on earmarked petrol-um taxes.	Draft of article in Housing Policy Law ensuring a minimal allocation for housing in the Federal Budget.  Presentation of Housing Policy Law to Parliament.  Passage of Housing Policy Law.  Draft of appropriate change in Law 24.464.  Passage of the changed Law 24.464.

PROBLEM	GUIDELINES FOR ACTION	CONDITIONALITIES/PROGRAMS	POSSIBLE MILESTONES
<p>4. The focus of most current housing programs in Argentina, in which Government shoulders the bulk of the cost of housing through investment in public-housing projects prevents it from generating a significant leverage of the resources of others.</p>	<p>Government housing budgets must gradually shift away from direct investment in housing projects to an enabling and facilitating role that relies on the household sector and the financial sector for generating the bulk of housing investment capital.</p>	<p>Change Arts. 6–8 in Law 24.464 to ensure that a substantial share of housing funds are directed away from housing investment.</p> <p>Change Arts. 6–8 in Law 24.464 to mandate the use of public funds as partial contributions in conjunction with the resources of others.</p>	<p>Draft of appropriate change in Law 24.464.</p> <p>Presentation of the change in Law 24.464 to Parliament.</p> <p>Passage of the changed Law 24.464.</p>
<p>5. The privatization of infrastructure services, coupled with the devolution of housing budgets and responsibilities to the provincial and municipal levels has prevented the development of a coherent and effective housing policy at the Federal level.</p>	<p>There is a need to develop and sustain a national housing policy at the Federal level, grounded in the real conditions prevailing in the housing sector, coordinated with provincial and municipal levels, and backed by sufficient regulatory and budgetary instruments to ensure its proper implementation.</p>	<p>Draft, circulate and discuss a new National Housing Policy document.</p> <p>Engage Provincial Housing Authorities in the discussion and confirmation of a new national housing policy.</p>	<p>Draft of new Housing Policy Document.</p> <p>Conduct of Housing Policy Forums.</p> <p>Drafting of new Housing Policy Law.</p> <p>Conduct of Forums to debate Housing Policy Law.</p> <p>Presentation of Housing Policy Law to Parliament.</p>
<p>6. Government intervention in the housing sector has been premised on a skewed allocation public housing resources in favor of investments in finished public housing units for middle-income households, rather than using these resources more judiciously to intervene in the sector as a whole.</p>	<p>Government intervention in the housing sector must gradually shift away from a focus on direct housing investment on a limited scale by the public sector to monitoring, guiding, supervising, supporting and managing the housing sector as a whole.</p>	<p>Define new sector-wide responsibilities for the government in housing, and enshrine them in the new Housing Policy Law.</p> <p>Enable the Federal Government, through the Law, to monitor and regulate the use of Federal housing funds by provinces.</p>	<p>Drafting of new Housing Policy Law.</p> <p>Presentation of the Housing Policy Law to Parliament.</p> <p>Passage of the Housing Policy Law.</p>

PROBLEM	GUIDELINES FOR ACTION	CONDITIONALITIES/PROGRAMS	POSSIBLE MILESTONES
<p>7. The present institutional set up for government intervention in the housing sector does not allow for the effective investigation, coordination, planning and implementation of a national housing policy.</p>	<p>The legal structure for government intervention in the housing sector must be modified so as to empower the Federal Government and the provincial governments acting together to investigate, plan, coordinate, implement, monitor, and redirect national housing policy.</p>	<p>Create a new Housing Policy Law to enable the Federal Government and the provincial governments acting together to design, conduct, monitor and redirect housing policy.</p>	<p>Drafting of new Housing Policy Law. Presentation of the Housing Policy Law to Parliament. Passage of the Housing Policy Law.</p>
<p>8. The institutional structure for the intervention of the Federal Government in the housing sector, through the Under-secretariat for Housing and Urban Development in the Ministry of Infrastructure and Housing is inappropriate for the conduct of a national housing policy.</p>	<p>The agency responsible for Federal intervention in housing must be upgraded to a secretariat level agency, incorporating existing programs of public intervention in the legalization of property rights and infrastructure upgrading now located in other ministries.</p>	<p>Create, by the Housing Policy Law, a new Secretariat of Housing and Urban Development.  Move Federal agencies involved in title regularization and infrastructure upgrading into the new Secretariat.</p>	<p>Draft articles on creation of new Housing Secretariat, as part of new Housing Policy Law. Presentation of the Housing Policy Law to Parliament. Passage of the Housing Policy Law.</p>
<p>9. A number of key stakeholders in the housing sector—key government ministries, provinces and municipalities, the construction and banking sector, the civic sector, households and communities—cannot and do not participate in the conduct of housing policy. As a result, housing policy does not reflect their interests and cannot rely on their support.</p>	<p>Federal housing policy must be informed and coordinated among all the key stakeholders in the sector, acting together in a reformed National Housing Council, which will function as the governing board of the housing secretariat.</p>	<p>Modify Law 24.464 so as to reform the National Housing Council, giving it the power to oversee, monitor and regulate the use of housing funds.  Modify Law 24.464 so as to reform the National Housing Council, changing its structure and membership.  Modify Law 24.464 so as to change its composition and include all the key stakeholders in the sector.</p>	<p>Draft of appropriate change of Chapter III in Law 24.464. Presentation of the change in Law 24.464 to Parliament. Passage of the changed Law 24.464.</p>

PROBLEM	GUIDELINES FOR ACTION	CONDITIONALITIES/PROGRAMS	POSSIBLE MILESTONES
<p>10. At present, provincial housing institutes have no interest or obligation in participating in Federal Government housing initiatives, or in using federal housing resources in accordance with the national objectives and priorities embodied in the national housing policy.</p>	<p>Federal housing policy must incorporate—in addition to a regulatory framework that mandates compliance—an incentive framework that conditions the release of Federal funds on provincial compliance with national housing priorities and objectives.</p>	<p>Create an IDB-supported Federal program of fiscal incentives, to induce provincial housing institutes to use their housing funds in alignment with Federal housing policy.</p> <p>Divert a part of the Federal housing budget to programs that allocate funds to provinces subject to their compliance with national housing priorities and objectives.</p>	<p>Agreement on the IDB-supported housing investment program.</p> <p>Agreement on inclusion of fiscal incentives to provinces in the IDB-supported housing investment program.</p> <p>Disbursement of IDB and Federal Government funds as fiscal incentives.</p>
<p>11. The auditing of the housing operations of the provincial housing institutes at present is not sufficiently transparent to uncover inefficiency, misallocation of resources, targeting practices, the structure of costs and subsidies, and levels of recovery of mortgage loans.</p>	<p>All government-supported housing programs must be subject to auditing by independent and impartial agencies, in a systematic manner, so as to ensure compliance with national housing priorities and objectives.</p>	<p>Change Art. 9 of Law 24.464 to mandate auditing by independent agency.</p> <p>Change Art. 9 of Law 24.464 to mandate an adequate budget for audits.</p> <p>Change Art. 9 of Law 24.464 to mandate disciplinary action or redirection of funds in case of non-compliance.</p>	<p>Draft of appropriate change of Art. 9 in Law 24.464, to mandate independent audits.</p> <p>Presentation of the change in Law 24.464 to Parliament.</p> <p>Passage of the changed Law 24.464.</p>
<p>12. Although considerable amounts of data are available for the conduct of housing policy in Argentina, some important information is missing, and available data is not organized in a manner conducive for monitoring the housing sector, or for use in housing policy-making.</p>	<p>A Housing Intelligence Unit—that can organize data collection in the housing sector, and feed the National Housing Council with regular and consistent data for monitoring the sector and for ongoing policy-making—must be created within the Housing Secretariat.</p>	<p>Create, by the Housing Policy Law, a new Housing Intelligence Unit within the Secretariat of Housing and Urban Development.</p> <p>Create an adequate budget for the Unit within the IDB-supported housing investment program.</p>	<p>Drafting article on creation of a Housing Intelligence Unit, as part of new Housing Policy Law.</p> <p>Presentation of the Housing Policy Law to Parliament.</p> <p>Passage of the Housing Policy Law.</p>

PROBLEM	GUIDELINES FOR ACTION	CONDITIONALITIES/PROGRAMS	POSSIBLE MILESTONES
<p>13. Federal housing policy in Argentina is largely limited at present to the automatic allocation of housing subsidies to provincial housing institutes — largely for public housing construction— rather than to coordinating all the key aspects of national housing policy.</p>	<p>Housing policy must be redefined and expanded to combine, in an integrated manner, government intervention in property rights, housing finance, housing subsidies, residential infrastructure, the regulatory regime governing the housing sector, and institutional reform.</p>	<p>Define, within the new Housing Policy Law, what constitutes a housing policy for Argentina.</p> <p>Include property rights, housing finance, housing subsidies, residential infrastructure, the regulatory regime governing the housing sector, and institutional reform as aspects of a comprehensive housing policy.</p>	<p>Draft of appropriate articles defining the scope of housing policy, as part of new Housing Policy Law.</p> <p>Presentation of the Housing Policy Law to Parliament.</p> <p>Passage of the Housing Policy Law.</p>
<p>14. The slow and intermittent issuance of title documents to established squatters, occupiers of illegal subdivisions, and beneficiaries of public housing programs has impeded domestic investment in house maintenance, extension and improvement, delayed access to credit, and impeded the development of housing markets.</p>	<p>Federal agencies engaged in title regularization must become a part of the Housing Secretariat, the laws and decrees governing regularization must be streamlined, regularization efforts at all levels of government must be better coordinated, and resources for regularization must be significantly increased.</p>	<p>Transfer the Federal title regularization agencies—the Programa Arraigo and the Comisión Nacional de Tierras Fiscales—to the new Housing Secretariat.</p> <p>Increase funding for title regularization as part of the IDB-supported housing investment program.</p>	<p>Draft of appropriate articles transferring the titling agencies to the new Secretariat, as part of new Housing Policy Law.</p> <p>Presentation of the Housing Policy Law to Parliament.</p> <p>Passage of the Housing Policy Law.</p>
<p>15. Following the convertibility of the peso, mortgage lending at market interest rates by private banks and by the privatized Banco Hipotecario Nacional has been expanding, but not yet reaching down-market. In the meantime, provincial housing institutes continue to lend at below-market rates, and at high rates of default.</p>	<p>Lending at below-market rates should be terminated. Provincial authorities should discontinue mortgage lending, and gradually divest themselves of their mortgage portfolios. A legal and institutional framework should be created to facilitate "leasing habitacional," so as to facilitate mortgage lending for lower-income households.</p>	<p>Change various articles of Law 24.464 to enable Provincial Housing Authorities to discontinue lending for housing, and to divest themselves of their mortgage portfolios.</p> <p>Formulate a Decree to expand on Art. 34 of Law 24.441 so as to facilitate "leasing habitacional."</p>	<p>Drafting of appropriate changes necessary to discontinue lending for housing in Law 24.464, and to enable "leasing habitacional" in Law 24.441.</p> <p>Presentation of the change in Laws 24.464 and 24.441 to Parliament.</p> <p>Passage of the changed Laws 24.464 and 24.441.</p>

PROBLEM	GUIDELINES FOR ACTION	CONDITIONALITIES/PROGRAMS	POSSIBLE MILESTONES
<p>19. While significant progress has been made in the improvement of residential infrastructure systems in the country's cities—both through the actions of municipal governments and through privatization—a full complement of services is still missing in a large number of urban neighborhoods.</p>	<p>The Federal Government should expand the current efforts of upgrading municipal infrastructure, and initiate a national program of urban upgrading. Program implementation should be undertaken by municipalities, overseen by the Housing Secretariat, supported by NGOs, and focused on settlements inhabited by low-income families.</p>	<p>Transfer Federal agencies engaged in urban infrastructure upgrading to the new Housing Secretariat.</p> <p>Use the IDB-supported housing investment program to initiate and finance a national urban upgrading program.</p>	<p>Drafting appropriate articles transferring infrastructure agencies to the new Housing Secretariat, as part of new Housing Policy Law.</p> <p>Presentation of the Housing Policy Law to Parliament.</p> <p>Passage of the Housing Policy Law.</p>
<p>20. The regulatory regime governing the housing sector has truncated the supplied of minimally-serviced, yet affordable, land for low-cost housing by passing land subdivision regulations that insist on a full complement of services prior to sale. Numerous other regulations, at all levels of government, restrict and restrain the development of efficient, equitable and sustainable housing markets.</p>	<p>Land subdivisions regulations at the municipal and provincial levels should be reformed, so as to allow the development of progressive subdivisions, where a full-complement of services only develops over time. Municipal, provincial, and Federal regulations that affect the housing market need to be studied with a view to reforming them so as to ensure the development of efficient, equitable and sustainable housing markets.</p>	<p>Use the IDB-supported housing investment program to draft new regulations re-establishing the legal framework for the development of progressive residential subdivisions.</p> <p>Use the IDB-supported housing investment program to fund a national campaign for reforming land subdivision regulations in the country.</p> <p>Use the IDB-supported housing investment program to fund a comprehensive study of the regulatory regime governing the housing sector, and to recommend regulatory reforms.</p>	<p>Drafting of new residential subdivision regulations.</p> <p>Agreement on inclusion of regulatory reforms in the IDB-supported housing investment program.</p> <p>Conduct of Provincial and Municipal Forums on regulatory reform.</p> <p>Passage of new subdivision regulations by provinces and municipalities.</p> <p>Terms of Reference for a detailed study of the regulatory regime governing housing.</p>

## V PROPOSED TERMS OF REFERENCE FOR SIX HOUSING SECTOR STUDIES

The preliminary diagnosis provides us with a broad overview of the housing sector and housing policy in Argentina, and now permits us to reduce the information necessary for progressing towards the approval of the housing sector loan and the design of the housing investment loan, and to focus more precisely on areas where data is lacking or where its quality is unsatisfactory. Instead of conducting a more traditional housing sector study, it is proposed that six specific and complementary studies be undertaken to complement the findings described in the rapid assessment. These studies will concentrate on the examination of six issues that are necessary for a better understanding of the housing sector and housing policy in Argentina today:

1. The structure of the housing delivery system;
2. The availability and price of land for urban expansion;
3. The structure of implicit subsidies in the Federal Housing System;
4. The potential for expanding housing finance;
5. The legal and institutional framework for title regularization; and
6. The prospects for a national urban upgrading program.

These six studies, together with the information provided in this paper, should provide an accurate and useful perspective of conditions in the housing sector, the status of housing policy, and the avenues for housing policy reform. More detailed terms of reference for these studies are given below.

### *1. The structure of the housing delivery system:*

The primary objective of this study is to provide an overview of the six or more sub-markets that together supply all the residential land and housing in Argentina. The secondary related objective of this study is to investigate why private-sector housing developers are not moving further down-market. The sub-markets which have been identified so far include: (a) houses and apartments produced and marketed by the private sector; (b) houses built and financed by individual households on privately-owned lots in formal land subdivisions; (c) houses and apartments built and financed with FONAVI funds; (d) houses built in illegal or clandestine land subdivisions; (e) houses built on invaded land; and (f) houses built on serviced sites provided by the civic sector.

The study will consist of two separate investigations: (a) a quantitative overview, and (b) a field study. The quantitative overview will be based on the analysis of available documentation and interviews with various informants in the private and public sectors. Its goals will be to provide best estimates of the relative shares of each sub-market in the total housing stock, and best estimates of total housing production in a given year (in terms of new units constructed, added rooms, repairs, area constructed, average values, and capital investment).

The field study will be undertaken in three localities: (a) two counties on the periphery of Greater Buenos Aires; and (b) one of the larger secondary cities that is currently growing at an annual rate of 3% or more. It will involve two series of

structured interviews in each locality: (a) interviews with at least twenty households (both owner-occupiers and renters) occupying houses in each sub-market; and (b) interviews with at least five suppliers of land and/or housing in each sub-market, as well as interviews with at least ten suppliers of residential land and housing to attempt to determine their reasons for not moving further down-market.

The results of this study will include a quantitative and qualitative overview of the housing delivery system in Argentina, as well as specific information on each sub-market including: (a) share in overall production; (b) location characteristics; (c) neighborhood characteristics; (d) availability of infrastructure and social services; (e) housing type, size, and quality; (f) land and house costs and prices; (g) sources of household funds; (h) availability of credit; (i) the characteristics of suppliers—type of organization, size of operation, rates of production and sale, source and quantity of funds, market segment, and reasons for not moving further down-market.

## *2. The availability and price of land for urban expansion:*

The primary objective of this study is to monitor the availability of land for housing on the urban fringe of Argentinian cities, to determine the form—as well as the rate—in which residential land is supplied and serviced, and to detect any shortages of land that may lead to densification or to increases in the price of land, and hence to lower accessibility of low- and middle-income households to urbanized land. The secondary objective of this study is to determine the share of land consumption by each residential land use category. The third objective is to estimate the annual land needs for urban expansion, so as to ensure that urbanized land—especially in rapidly growing cities—will not be in short supply in the years to come.

The study will be also undertaken in three localities: (a) two counties on the periphery of Greater Buenos Aires; and (b) one of the larger secondary cities that is currently growing at an annual rate of 3% or more. It will involve two separate types of analysis: (a) the comparison of two sets of air-photographs, one for each time period—preferably five or more years apart—in each location; and (b) a land price assessment on the urban fringe of these cities.

The comparison of air-photographs will focus on determining the increments of urban land use between the two periods by land use category. Residential land use will be further divided into five different sub-markets: (a) apartments produced and marketed by the (public and private) formal sector; (b) single-family houses in housing projects produced and marketed by the (public and private) formal sector; (c) houses built and financed by individual households on privately-owned lots in formal land subdivisions; (d) houses built in sub-standard (illegal or clandestine) land subdivisions; (e) houses built haphazardly on invaded land.

The land price assessment will focus on the administration of a questionnaire to qualified real-estate brokers in the areas of urban expansion identified in the air-photographs. The questionnaire will include questions on the qualifications of brokers and their areas of operation. Brokers will then be shown maps of their areas and asked to estimate the prices (in \$ per m<sup>2</sup>) for different-size plots, for different levels of infrastructure services, and for three recent time periods.

The results of the air photograph analysis will include estimates of (a) the amount of annual land consumption in each land use category, and in each residential sub-market; (b) the amount of land per dwelling unit in each residential sub-market; (c) estimates of

the relative shares of the infilling of previously-subdivided land parcels on the one hand, and the new urbanization of raw land on the other. The results of the land price assessment will include a comparative analysis of land prices on the urban fringe—by category, level of service, and location characteristics—during the past few years. The land price assessment will also seek to determine whether new informal land subdivisions are still being produced, and whether densification or land price escalation have occurred during the period in question.

### *3. The structure of implicit subsidies in the Federal Housing System:*

Law 24.464 forbids provincial housing institutes from giving direct and transparent subsidies to beneficiaries of their programs. Yet it is quite clear that the annual housing investments in the System lose a considerable share of their value over time. The primary objective of this study is to provide a better understanding of the structure of implicit subsidies in the Federal Housing System, and to estimate the level of subsidy in each subsidy category. The second objective of the study is determine the income levels of subsidy beneficiaries.

The study will focus on the operations of three provincial housing institutes, to be selected later. It will include (a) valuations—undertaken by professional valuers—of a randomly selected group of projects in each province; and (b) financial analyses—undertaken by professional accounting firms—of the mortgage portfolios of the three provincial housing institutes; and (c) a random survey of household incomes of FONAVI beneficiaries residing in the selected projects. The study will also involve interviews with institute personnel and analyses of institute documents. The valuations, in combination with the examination of project accounts, will seek to determine the market value of land, infrastructure and construction in each project. These will then be compared with official cost and price estimates, and used to calculate the implicit subsidies involved. The portfolio analyses will be used to estimate the additional implicit subsidies involved in the provision of mortgage loans at below-market interest rates, and the levels of default in mortgage payments. The household income survey will be used to determine the actual household incomes of the beneficiaries who are the recipients of these subsidies.

The results of this study will include (a) estimates of implicit subsidies by category of subsidy, by different project types, and by the household income of beneficiaries; (b) overall estimates of the structure of subsidies in the Federal Housing System as a whole; and (c) a preliminary evaluation of efficiency and equity in the selection of housing beneficiaries in the Federal Housing System.

### *4. The potential for expanding housing finance:*

The primary objective of this study is to determine the potential for the rapid expansion of mortgage lending in Argentina, now that inflation has been harnessed and mortgage loans are considerably more affordable than before. The secondary objective of the study is to assess the potential of extending credit further down market, to lower-income families, in smaller amounts, and for housing solutions other than completed dwelling units.

The study will be undertaken in two cities—in the city of Buenos Aires, where the majority of banking operations take place, and in an intermediate-size city with a lower

level of access to banking operations in general, and mortgage finance in particular. The study will include (a) interviews with officials charged with regulating the banking system; (b) interviews with the personnel of the key commercial banks engaged in mortgage lending; (c) interviews with potential candidates for mortgage finance; (d) interviews with civic-sector personnel engaged in micro-finance for housing; (e) a review of the portfolios and documents of banks engaged in mortgage lending; and (f) a review of regulations and legislation governing mortgage banking.

The study will seek to provide answers to the following questions: (a) are there any legal, regulatory, or institutional restrictions on the supply of credit for housing? (b) what is the potential demand for credit products of different kinds (construction credit, mortgage credit, seller credit, and short-term micro-credit)? (c) what is the potential demand for credit for different types of housing solutions—new housing, used housing, serviced land, “leasing habitacional,” home improvement and expansion, home-based businesses, and title registration; (d) what are the present legal, regulatory, institutional, and fiscal bottlenecks to the expansion of mortgage finance for different loan products, and how can they be effectively removed? (e) how can interest rates for loans and short-term micro-credit be effectively lowered? In addition, the study will also provide statistical data on the size of mortgage portfolios in the domestic banking system, on the number and size of mortgages issued, on prevailing interest rates, on levels of default, on methods of borrower selection, and on the characteristics and profiles of borrowers.

##### *5. The legal and institutional framework for title regularization:*

There is now a corpus of laws and regulations governing the regularization of titles on both public and private lands; on both invaded lands and legally-occupied lands; and for both occupied lands and occupied buildings. There is no legal procedure, however, for combining these different laws and regulations into an efficient title registration process. The objective of this study is to examine different experiences and procedures for title regularization—both in Argentina and in other countries in Latin America—and to recommend new legal, regulatory, and institutional mechanisms for streamlining title regularization in the country.

The study will focus, on the one hand, on “best practice” examples of title regularization in different cities in Argentina and in selected cities in Latin America—specifically in Brazil, Chile, Peru, Ecuador, and Mexico; and on the other hand on typical case studies of title regularization procedures in Argentina. In each location visited, data will be collected on: (a) the legislation employed in regularization; (b) the institutional framework for legalization; (c) the type of titles issued; (d) the cost of issuing titles; (e) a chronogram describing the time involved in different steps in the process; (f) the total number of titles issued to-date; (g) the number of titles issued per year; (h) estimated increase in house values associated with title registration. These case studies will be analyzed together to infer what are the principal bottlenecks for rapid improvement in titling, and how can they be removed through regulatory, legal or institutional reform or through increased budgetary allocations.

##### *6. The prospects for a national urban upgrading program:*

There are numerous programs now in operation, mostly administered at the Federal level, that focus on the improvement of infrastructure services in low-income communities. Most of these programs run in parallel to each other, in all probability with little coordination or exchanges of experiences among them. The objective of this

study is to provide a systematic overview of the experiences gained in urban upgrading in Argentina in recent years, with the goal of combining these disparate programs into a national program for urban upgrading in the years to come.

This study will focus on a systematic sample of urban infrastructure upgrading projects administered by each of the seven or eight programs now in operation in the country. It will entail interviews with officials charged with program administration, with personnel of non-government organizations involved in project implementation, and with program beneficiaries. It will also involve the analysis of documentation and data provided by government and non-government organizations participating in the process.

The study will seek to provide answers to the following questions: (a) what is the total number of households at which the program is aimed? (b) what percentage of these households has the program assisted and plans to assist? (c) what are the characteristics of the communities being upgraded (community size, land tenure, plot size, house size and value, income)? (d) what is the structure of costs of implementing the program? (e) what is the speed of program implementation (communities and households per year)? (f) what is the level and method of cost recovery in the program? (g) what is the institutional structure of the program (agencies involved, public-private partnerships, and levels and methods of community participation); (h) what are the key measurable differences between upgraded communities and not-upgraded communities in the vicinity? (i) what are the key measurable differences (are there detectable increases in housing investment and in house values) before and after upgrading? The study will include recommendations on the preferred alternatives for transforming the existing upgrading programs into a national urban upgrading program in the years to come.

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## NOTES

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- <sup>1</sup> A similar estimate is given by Cámara Argentina de la Construcción and others [1999, 49]: “During the 1980–98 period, average annual housing construction reached similar levels to that of 1980–91, with a minimum value of 135,000 in 1990, a maximum value of 234,000 in 1980, 210,000 in 1981, and 205,000 in 1994.”
- <sup>2</sup> Calculated by the Social Information Service, Research Department, Inter-American Development Bank (IDB), based on INDEC, *Encuesta Permanente de Hogares for Argentina*, October 1998.
- <sup>3</sup> Interview with Dr. Carlos Pisula, Vice President, Argentinian Chamber of Construction, Buenos Aires, 7 February 2001.
- <sup>4</sup> Interview with Jorge E. Pellegrini, Consultant to the General Secretary, the Construction Workers Union of the Argentinian Republic, Buenos Aires, 7 February 2001.
- <sup>5</sup> Estimated from 1991 Census data and FONAVI data for the country as a whole (see table 17).
- <sup>6</sup> Estimated from 1991 Census data and FONAVI data for the country as a whole (see table 17).
- <sup>7</sup> Estimated from information provided by cadastral officials.
- <sup>8</sup> Data for 1997 (see table 19).
- <sup>9</sup> Data for 1997, calculated at the ratio of total unit completed, 675,000 and the total number of dwelling units, 11 million.
- <sup>10</sup> There is no available quantitative information on homelessness, but it is less than one person per thousand.
- <sup>11</sup> The price of the median-priced apartment of 48 m<sup>2</sup> is \$44,700. The price per m<sup>2</sup> is, therefore, \$930. According to information provided by Dr. Carlos Pisula, Vice President, Argentinian Chamber of Construction, the construction cost per m<sup>2</sup> is 55% of the price per m<sup>2</sup>, that is \$510.
- <sup>12</sup> Estimated from data in table 2, by adding 0.5% of the existing stock to the net annual growth of the stock in 1997.
- <sup>13</sup> Interview with Dr. Hector G. D’Odorico, President, Argentinian Chamber of Real Estate, Buenos Aires, 9 February 2001.
- <sup>14</sup> Defined as the ratio between the price of 1 m<sup>2</sup> of land on the urban fringe and annual median household income. The median income in Greater Buenos Aires in 1998 was \$11,000.
- <sup>15</sup> There were also 81,125 units in execution in 1999 and 92,265 in 1998. We assume, for the moment, that the total investment in housing for 1999 corresponds to the cost of the completed units, ignoring units in the process of execution.
- <sup>16</sup> In the absence of more disaggregated data, we assume that a housing solution cost 20% of the cost of a completed dwelling unit. We assume also that the production value (VAB) was 53% of the sale value of investments (VBP), and that the total sale value includes an additional 12.5% to account for the value of land.
- <sup>17</sup> Interview with officials in the Banco Hipotecario Nacional, Buenos Aires, 8 February 2001.
- <sup>18</sup> There is insufficient data for calculating the total annual value of FONAVI-assisted loans. The value of the houses sold in FONAVI programs was of the order of \$1 billion in 1999 [Dirección de Control de Gestión de FONAVI, 2000, tables 15 and 19], but how much of that value was given in loans remains unclear.
- <sup>19</sup> Interview with community leader of the Junta Vecinal de la Villa 20, Lugano, Buenos Aires, 10 February 2001.
- <sup>20</sup> It is not clear, however, how much higher these prices are. The average monthly household

income in the City of Buenos Aires in 1996-97—\$1,637—was 55% higher than that of the country as a whole—\$1,053 [INDEC, 2000, Graph 8, 26]. As table 15 shows, the average price per m<sup>2</sup> in the City of Buenos Aires in 1999 was of the order of \$1,125, some 70% higher than sale prices for the country as a whole—\$717. We must assume—in the absence of additional information—that the sources of data for these values are consistent.

<sup>21</sup> Interview with Dr. Hector G. D’Odorico, President, Argentinian Chamber of Real Estate, Buenos Aires, 9 February 2001.

<sup>22</sup> Since data on the average monthly household income is available for the City of Buenos Aires and for Greater Buenos Aires—\$1,203 and \$1,637 respectively—for 1996-1997 [INDEC, 2000, Graph 8, 26], we can obtain an estimate for the median income for the city. Since the median annual household income for the former is \$9,140, the median household income for the latter should be of the order of \$12,440.

<sup>23</sup> Interview with community leader of the Junta Vecinal de la Villa 20, Lugano, Buenos Aires, 10 February 2001.

<sup>24</sup> Average room size was calculated to be 22.1 m<sup>2</sup> in 1991.

<sup>25</sup> Including occupants with a work relationship to the owner.

<sup>26</sup> Exact data on the share of funds allocated to different housing programs was not available at the time of writing. According to the Under-Secretariat for Housing and Urban Development, of a total of \$8.5 billion spent on housing programs in 1990-1999, only 4.8% was spent on non-FONAVI housing programs targeted to low-income households. According to Jimenez [2000, table 14, 37], between 1993 and 1998, FONAVI financed 243,000 dwelling units and 36,000 housing solutions. If a housing solution cost 20% of a completed dwelling unit, then 97% of FONAVI’s budget was spent on completed units. Altogether, therefore, not more than 7.5% of all public housing expenditures were spent on housing programs other than completed units.

<sup>27</sup> Based on data in Jimenez, 2000. Investments prior to 1991 were computed from the Construction Index General Level of INDEC (see Jimenez, 2000, table 16, 39). The regressions lines displayed in the graphs had R-squared values of 0.10, 0.69, and 0.49 respectively, suggesting that the number of completed units increased significantly, and the investment per completed unit decreased significantly during the period in question.

<sup>28</sup> Originally created in 1972 (Law 19.929).

<sup>29</sup> See, for example, Secretaría de Vivienda y Ordenamiento Ambiental, 1994, “Política Nacional de vivienda, Buenos Aires: June, quoted in Jimenez [2000, 15].

<sup>30</sup> According to the 1999 FONAVI Audit [Dirección de Control de Gestión de FONAVI, 2000], 3-bedroom units financed by the Banco Hipotecario, for example, required, on average, a minimum monthly household income of \$1,894, which limited them to the tenth decile of the urban income distribution in the country. In contrast, the 3-bedroom units financed by FONAVI directly (“demanda libra”) required a minimum income of \$678 and were accessible to household in the fifth decile of the urban income distribution.

<sup>31</sup> For comparative purposes, operating costs amounted to 9.6% of total provincial FONAVI expenditures in 1999 [Dirección de Control de Gestión de FONAVI, 2000].

<sup>32</sup> According to the 1999 FONAVI audit report [Dirección de Control de Gestión de FONAVI, 2000], of the total of 726,225 public housing units allocated to beneficiaries, only 260,792 (35.9%) have received title deeds.

<sup>33</sup> Interview with Banco Rio personnel, Buenos Aires, 8 February 2000. At the prevailing interest rates in the Banco Rio, 8.95% for dollar-denominated loans, the monthly payment on an \$18,000 loan is \$144. The present value of the first 15 years of payments is \$17,250 and the present value of the last 10 years of payments is \$750. The bank will therefore gain \$1,250 of the IPV share of the loan.