

# Rental Housing in Latin America and North Africa

Claude Taffin

**AFRICAN RENTAL HOUSING CONFERENCE**

13th –15th October, 2014

Safari Park Hotel – Nairobi

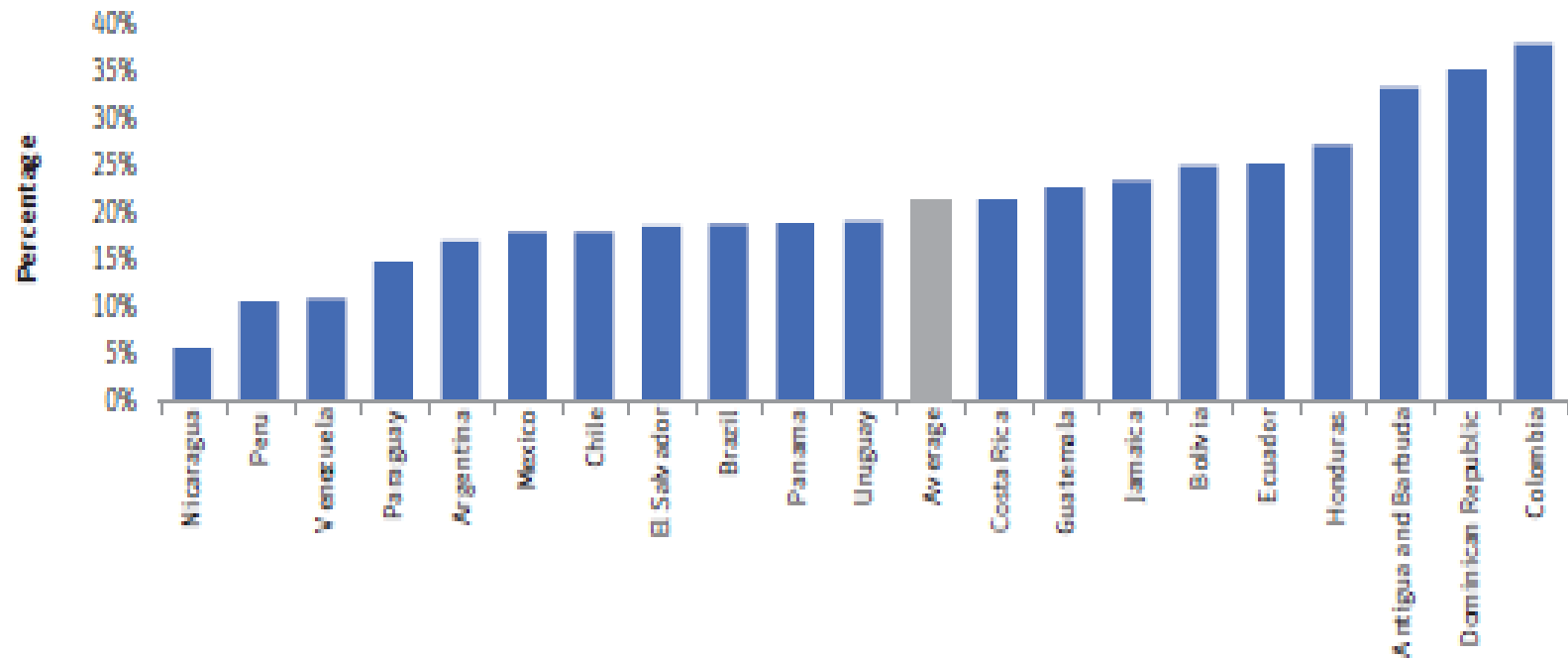
# Contents

1 / Overview (LAC)

2 / Rental Housing in Latin America

3 / Rental Housing in North Africa

# Rental Housing Rates in Latin America and the Caribbean



Source: Prepared by the authors based on MECOVI (2006), except for the cases of Antigua and Barbuda and Jamaica, whose figures correspond to the year 2001 and come from the UN.

NB: Share of rental is probably higher due to informal rental (for tax evasion purposes)

## Key issues and recommendations on development of rental housing in selected LAC countries

*Based on a survey by Inter-American Development Bank*

	<b>Problems and Challenges</b>	<b>Direct and Indirect causes</b>	<b>Policy Recommendations</b>
<b>Brazil</b>	Bias of government housing policies and the finance system towards buying rather than renting	<p><b>Direct:</b> The Government will not subsidize an activity it considers as speculative.</p> <p><b>Indirect:</b> Fragmented market mainly via individual investors; lack of property and lease management industry. Lack of an appropriate regulatory framework to balance obligations of tenants from investor-landlords.</p>	<p>Enable investors to own complete structure exclusively dedicated for renting purpose.</p> <p>Amend Lease Law to allow landlord and tenant to negotiate the burdens of property maintenance among themselves.</p>
<b>Chile</b>	Unfavorable legal framework to manage tenancies (no tracking of delinquencies, lengthy process to evict, high risk of rental losses for landlord.	<p><b>Direct:</b> The regulation has been refined and has decreased the time to the default eviction period but it remains long, more than six months and still tends to favor tenants</p> <p><b>Indirect:</b> Weak incentive for investment, too much uncertainty.</p>	Review the legislation and regulation regarding for the eviction process.
<b>Colombia</b>	Colombia has the largest rental sector - although mainly due to a hybrid form of tenure (rent-to-own) wherein the occupant is legally a tenant until loan is repaid in full and benefits from a favorable tax treatment.	Rent-to-own arrangement increases number of households deemed to be renters – but is not a true rental market.	

# Lessons

- ▶ The most relevant and significant issues or obstacles identified in the IADB survey (Brazil, Chile, Columbia, and also Guatemala and Paraguay) were:
  - Bias of public housing policies towards buying rather than renting;
  - The risk that tenants will not pay rent, coupled with weak regulatory provisions to protect landlord interests;
  - Resulting in lack of mortgage lending for rental investment (rented property not an acceptable collateral).
- ▶ Tax treatment of investors was not specifically highlighted in these five countries ...

# Brazil: Legal Framework

- Current legal framework for rental: 1991 law amended in 2009
  - Regulates contracts for residential and non-residential rents.
  - Contracts must be in accordance with the rental law and with the new Civil Code (2008).
  - Municipality and States follow national regulations but remain “relatively autonomous to develop their own local regulations.
- The main features of the rental law are:
  - Usual contract term is 30 months (can be extended or interrupted – penalty for owner or tenant who interrupts);
    - Guarantees required: deposits (in cash or assets) or warranty by a third party (a person who can show proof of income and owns property in the same city);
    - Without guarantee, eviction lawsuit (15 days to pay or be evicted);
    - Initial rent freely agreed between the landlord and the tenant. Readjustment must occur annually, based on an index stipulated in the contract (cannot exceed the official rates). If the contract is silent about the rate, or in case of disagreement, both owner and renter can ask judicially for its revision based on the fair market price, after three years minimum.

# Mexico: A Typical Latin American Case

- In Mexico 14% households are tenants, 72% owners (21% and 56% in urban areas).
- Strong cultural bias towards home-ownership.
- High potential demand for rental:
  - 45% of households live on informal income,
  - Mortgages are unaffordable to low-income,
  - Unsustainable urban sprawl in Mexico DF.
- Rental housing long ignored by the government:
  - Stress on home-ownership for salaried middle class through Housing Provident Funds (INFONAVIT & FOVISSSTE) and upfront subsidies for the poorer (Cf. A. Nunez)
  - No subsidies for rental housing (only for rent-to-own).
- Rental mostly informal (huge tax evasion); most landlords are individuals; professional deterred by rental risks (non-payment, maintenance, legal costs and delays to evict).
- INFONAVIT savings now can be used as a rental guarantee and INFONAVIT can deduct rent from payroll. Little impact because landlords have to "formalize" their rental contracts.
- No equity capital or long term debt for residential rental development.
- No formal property management system.

# Morocco: New Rental Law (1)

- ▶ The share of rental housing in urban stock decreased from 42% in 1982 to 22% in 2012.
- ▶ Size = 1 million units; high vacancy rate (concentrated in apartment buildings); 90% belong to individuals.
- ▶ Little new investment, by individuals only (build a house, rent a floor).
- ▶ Reasons:
  - Many defaults, lengthy procedures, eviction difficult;
  - No rent increase without improvement (perverse effect = high initial rent);
  - Unfriendly taxation.
- ▶ First move in 2006: draft law by Ministry of Justice:
  - Rent increase allowed, up to 8% in 3 years (10% non-residential);
  - Arbitration and mediation introduced in the Code of Civil Procedure to facilitate settlement of conflicts between natural or legal persons. Main target is business but conflicts between tenants and landlords are included.



# Morocco: New Rental Law (2)

- ▶ Second step from 2007-09: a more comprehensive law (75 articles) prepared by Ministries of Justice & Housing; Finally voted by Parliament in August 2013, published in the Official Bulletin in November 2014, applicable in February 2014.
- ▶ Main provisions of the law:
  - Contract should be in written form,
  - Minimum housing standards required,
  - “Ordinary maintenance works and simple repairs” to be paid by tenants,
  - Accelerated procedure for non-payment or recovery of abandoned property.
- ▶ At the same time, FL2014 cancelled the 3-year tax exemption for new rental investment.
- ▶ A 20-year tax exemption (Corporate or income + capital gains) for investors buying 25 low cost units to be rented during 8 years at low rents (FL2013): not successful.
- ▶ OPCI (REITs) being introduced (2014).

# Egypt: A long History of Rent Control

- ▶ First restrictions on housing rentals in 1920, reinforced and extended to non-residential in 1921; ended in 1925
- ▶ 1941-47: a military order / a law banned landlords from increasing rents and extended rental contracts after expiration
- ▶ 1950s and 1960s: several reductions on rents for recent buildings
- ▶ 1981: rental value set at 7% of the land and buildings value combined; the tenant is required to pay a share of the maintenance cost; landlords are exempted from property and income taxes.
- ▶ 1996 law freed the market for newly-built and vacant units, revived the rental market : 80% of new units accessed in 2001-2006 were through rental.
- ▶ But 42% of the housing stock in greater Cairo is still frozen under rent control: 3.7 million housing units (32% of the urban stock) are unused, either vacant or closed.
- ▶ Grandfathering conditions easily abused (grandchildren moving in).
- ▶     ⇒ Constraints mobility, locks many units out of the market, causes lack of maintenance, distorts the market.

# More country experiences in:



**DIRECTIONS IN DEVELOPMENT**  
Finance

## Rental Housing

*Lessons from International Experience and  
Policies for Emerging Markets*

Ira Gary Peppercorn and Claude Taffin



ISBN 978-0-8213-9655-1



SKU 19655

The discussion of where people live and how people pay for their housing has undergone a significant shift. Until the mortgage crisis erupted in 2008, the housing policy of most nations focused on increasing home ownership. There had been very little discussion about rental housing, less about social housing, and virtually none about public housing.

The mortgage crisis showed the challenges inherent in pushing for home ownership for all. With homes going into foreclosure and with credit tightening in many countries, the need for rental housing increased dramatically. However, most countries are only beginning to consider supporting rental housing as a shelter option.

This book is an effort to bring rental housing to the forefront of the housing agenda and to provide general guidance to policy makers. The information it provides can assist key players in housing markets—government officials, private rental property owners, financiers, and nongovernmental organizations—in including rental housing as a critical housing option and in having an informed discussion on how best to stimulate this sector.

# Thank you for your attention!

Claude Taffin

Scientific Director of Dinamic

Tel: +33 1 4490 3072

[claude.taffin.csn@notaires.fr](mailto:claude.taffin.csn@notaires.fr)

Consultant for the World Bank

[ctaffin23@gmail.com](mailto:ctaffin23@gmail.com)