



Knowledge and Capacity Building Products (KCP) Proposal

Research & Development

I. General Information

KCP Title:

Expanding the Rental Housing Market in LAC

OPUS Number: RG-X1106 **Date of Proposal:** 11/05/2011 **Linked to project:**

Team Leader / Unit:

MUÑOZ MIRANDA, ANDRES FELIPE – ICF/FMM
GODBOUT, MARC - ICF/FMM

Peer Reviewer 1:

RUPRAH, INDER

Peer Reviewer 2:

MANZANO, OSMEL

Joint Proposal:

Proposed amount, without counterpart in USD equivalent (enter whole number only): USD 40,000
Must match total of budget table on section VI, and of OPUS

Proposed amount including counterpart (if applicable) in USD equivalent: USD 40,000

Proposed Fund:

Unit of Technical Responsibility:
ICF/FMM

Unit of Disbursement Responsibility:
ICF

Execution:

Bank

Letters of Request available (or equivalent)

No

Doc# (IDBDocs):

Non-objection available:

No

Doc# (IDBdocs):

Execution period: 24 months Disbursement period: 30 months Required Start Date: 01/01/2012

Please provide justification why the Bank is the Executing Agency:

The results from this KCP will allow the Bank to develop, in the long term, a new business line aimed at providing lending and technical assistance for the development of the rental market in LAC countries. As such, it is appropriate for the Bank to manage the funds for this study internally.

Beneficiary Countries:

All countries in LAC

Beneficiary entity:

Sector: URBAN DEVELOPMENT AND HOUSING

II. KCP Type

Origination

Originated in Bank: KCP is the result of initiatives generated within the Bank.

These initiatives may include deepening the Bank's knowledge in new subjects, interpreting new economic and social phenomena, generating new databases and diagnostic tools, or organizing a seminar, workshop, a regional policy dialogue, training, a publication.

Scope

Forward-looking purpose:

Demand for this KCP serves a longer-term, forward-looking purpose that may require the accumulation of new knowledge and experience. These products usually require a longer deployment time.

III. Alignment of the KCP proposal with IDB's Institutional Priorities (GCI 9).

Cross-cutting

Learning and Capacity Building

3.1 Explain how the knowledge produced with this KCP will be used (policy advice, operations, as input for programming and strategy documents, input for other KCPs:

This KCP is an integral component of the broader research project "Expanding the Rental Housing Market in LAC", which will be financed through several sources. The knowledge produced with this research project will be used to provide policy advice to government authorities to support the development of rental housing for low-income households in LAC countries. Also, the

KCP will contribute to advance the Bank's knowledge and operational capacity, complementing the Bank's current housing strategies by incorporating rental solutions to the gamut of housing options to address the needs of low-income households.

3.2 Explain the strategy and resources that will be devoted to promoting the use of the knowledge produced :

The dissemination strategy for this KCP will be to conduct internal seminars such as Brown-Bag-Lunches (BBL) to disseminate among Bank specialists, academics, practitioners and policy makers the findings from each case study and the overall conclusions. Also, during the seminars, policy brief and working papers will be disseminated. Provided that the seminars will be internal to the Bank, there is no need to request budget resources in this proposal. In case some minor costs are incurred, they will be covered with administrative resources from the Division.

IV. OBJECTIVES, EXPECTED RESULTS AND ACTIVITIES (Maximum 4 pages)

4.1 Describe the knowledge gap that this KCP intends to close:

Currently, Bank's programs are geared almost exclusively to financing and subsidizing homeownership. This approach is not sufficient to address a housing deficit estimated to reach 50 millions units in 2015 (Ruphra, 2009) and the resulting affordability challenges. In this context, rental housing becomes a critical option, particularly for low-income people who can't afford homeownership. This approach is cost-effective and more equitable and, if correctly promoted, has the potential to expand the supply of housing for lower-income families, thus complementing traditional housing schemes focused on ownership. To date, the Bank has limited knowledge of and operational experience in the rental market, the incentives required to mobilize private investment, the managerial arrangements for rental housing maintenance and the obstacles to be avoided in this policy choice. Therefore, the general research effort and this KCP will fill this gap by generating an in-depth understanding of the current state of rental housing in the Region, reviewing the legal, regulatory and policy framework for rental markets in different representative countries and, in general, identifying barriers, opportunities and policy options to expand the supply of low-income rental housing.

4.2 Describe how the question(s) asked relate to earlier literature on this subject (including any lessons learned from previous similar KCPs):

The general research project will address the policy question of whether and how rental housing could be a viable approach to reduce the shortage of affordable housing in LAC. This KCP will also explore this question in the context of one country.

Experience in developed countries suggests that a well-functioning rental market is a critical component for an effective housing system. For instance, 32% of occupied houses are rented in the US, while the percentage of rental units with respect to total housing stock can reach 46% in the Netherlands, 37% in France, and 29% in England. Furthermore, the rental market is central to housing policies that target low-income families including welfare recipients in these countries. Rental housing subsidies reach 18% in the US, 76% in the Netherlands, 46% in France, and 62% in England (JCHS, 2008; Whitehead and Scanlon, 2007). In comparison, the rental market in most LAC countries is small - on average less than one-fifth of all households rents - and is either stagnant or contracting. In addition, LAC countries have negligible, and in some cases inexistent, rental housing policies and programs.

The public policy response to the housing deficit in LAC, as well as traditional housing and shelter assistance programs, has been primarily centered in homeownership and has largely ignored the rental market. However, this response has not been as efficient as expected. First, large-scale public housing has been developed with costly subsidies, suffered from defective targeting and, in some cases, resulted in highly concentrated poverty (Buckley and Kalarickal, 2006). Second, homeownership assistance, mainly provided on the basis of positive externalities on property values, civic engagement and neighborhood stability, has achieved modest results (Quigley and Raphael, 2004). More importantly, the more recent idea of using homeownership as a way to build assets for the poor has fallen short of expectations. Ownership remains unaffordable for most low-income households, even in the presence of up-front capital subsidies (UN-Habitat, 2003). In fact, recent evaluations of housing programs in LAC show that direct or indirect subsidies for the purchase of new housing units have been extremely costly and less effective in reaching low-income families (Ruphra, 2009). Finally, slum upgrading programs are too focused on solving the problems of the housing stock and are doing too little to prevent new informal developments (Rojas 2009).

Supporting the expansion of the rental market could complement the Bank's current efforts to solve the housing shortage and affordability problems affecting low-income households. It could also help governments in the region to complement homeownership programs and, thereby providing wider tenure choices in local housing markets. There are several KCPs under way focusing on public housing policies (RG-K1099), housing finance (RG-K 1125), land markets (RG-K1154), and municipal provision of housing services (RG-K1153). However, none of these KCPs are focused on rental housing; the KCP proposed here will build upon them to complement housing markets options in the Region.

4.3 State the KCP objectives:

Framed within the general research project, the main objective of this KCP is to provide policy advice to government authorities in support to the development of rental housing market for low-income households in LAC countries. In addition, the KCP seeks to advance the Bank's knowledge of the rental housing market in the region and to incorporate this knowledge in its operations, thereby complementing the Bank's current housing and urban development strategy.

4.4 State the KCP expected results:

As a critical part of the general research project, it is expected that the KCP will contribute to: (a) foster dialogue with governmental authorities about rental housing solutions for low-income families through high-level meetings between Bank representatives and country officials; (b) increase the Bank's operational capacity by increasing the number of operations supporting the development of the rental market for low-income families in the region; and (c) provide a better understanding of the current state of rental housing markets in LAC countries and of the barriers, opportunities and policy options to develop and expand them.

4.5 Provide a description of the main outputs and related activities expected to be carried out:

As noted, this KCP will support a broader sector work and thus will contribute to produce a number of outputs within the general research project:

Output 1. A Discussion Paper reviewing the Literature and International Practices in Rental Housing Policies and Programs: This policy paper will gather and systematize international practices in rental housing policies and programs. The selection of the international practices seeks to cover various policy approaches such as government regulation on the supply side, government support on the demand side, and a combination of these. The systematization of these practices, in addition to the review of the literature, will help to identify constraints embedded in rental housing markets, the nature of public policy responses and associated policy outcomes. This paper will ultimately allow for an identification of the pre-requisites for the development of rental markets in LAC.

Output 2. One case study assessing the state of the rental housing market in a particular country. Within the general research framework, this case study will serve as an input for a Working Paper providing diagnostic assessments of rental housing markets in nine LAC countries. The selected countries for the general research project are: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Nicaragua, Peru and Uruguay (this KCP will study one of these countries). The country selection was based on the following criteria: i) The proactivity and political willingness of governments to reduce the housing deficit and to expand housing services for low-income households; ii) the institutional capacity of the state to undertake reforms; iii) representativeness of the various regions in LAC; and iv) a mix of experiences that includes cases with more sophisticated rental markets and cases with more primitive ones. In case the development of the case studies requires traveling from international consultants and/or bank specialists to conduct field research in the selected countries, non-objection from country representatives and governmental authorities will be obtained. The case studies will assess and analyze the nature and current state of rental housing market operations and outcomes. This assessment will include, among others, an analysis of the demographic drivers of rental demand (i.e. urbanization), current private rental production, affordability challenges, subsidization policy and government regulation (in particular, the institutional and legal frameworks mediating relationship landlord-tenant and the speed of the enforcement of the justice, which make extremely difficult and costly for landlords to evict tenants and repossess their properties- often the main constraint to investments in the private rental market.). The diagnostic assessments will explore the particular legal, institutional, and contextual characteristics of each of the selected countries. Paying careful attention to the variance across countries and their particular contexts, the studies will address the following questions: (a) What factors determine households option to rent versus the option to buy a house and how these factors affect rental market demand?; (b) What factors limit the production of rental housing units?; and (c) How affordable are current rental units and what policy approaches have been implemented to improve affordability?

Output 3. A Policy Brief Paper Designing Policy and Program Tools for the Development of the Rental Housing Market in one country: This paper will propose policy options and program instruments for the development of the rental housing market in the selected country and will nourish the broader effort to provide policy recommendations to the LAC region. It will consider different approaches such as direct investments in rental housing construction, rent assistance programs, tax incentives for private developers, and leasing options combining ownership and rental options, among others. The set of policy recommendations will cover not only general approaches that may serve the region as whole but, also, specific policy alternatives tailored to the particular context and needs of the individual countries under study. Rather than replacing current programs centered on homeownership, the proposals to develop the rental market will seek to integrate both approaches so as to achieve complementarity in housing markets. The proposals will include: (a) Risk considerations for government authorities, private investors and financial institutions; (b) A synthesis of key success factors in the development of a well-functioning rental market; (c) Estimates of various social and economic outcomes; (d) The fiscal costs and/or budgetary projections of various policy options; and (e) Policy recommendations.

4.6 Describe the methodological approach to be used in the development of the activities and the type of data sources which might be used. Be as specific as possible.

The research studies will use both quantitative and qualitative research methods to collect and analyze information about the rental market in selected countries in LAC. In both methods, a combination of methodologies and research techniques will be used, including statistical analysis, survey research and qualitative case studies.

Quantitative Methods: The purpose of using various quantitative techniques is to provide a comprehensive diagnostic assessment of the evolution, current state and potential of the rental housing market in selected LAC countries. The specific goals are twofold: First, the quantitative methods will be used to describe statistically the size, evolution, nature and outcomes of the rental housing market. In particular, the studies will provide an assessment of the importance of rental housing in recent years (i.e. relative to the size of the economy and to other tenure forms present in a housing market). Also, the studies will offer an outlook of key characteristics of the demand and supply sides, availability and affordability issues determining the unique features of the rental market in particular countries.

In addition, in countries where data availability allow for a deeper empirical analysis, housing tenure choice and simple rental demand and supply models will be constructed of the sort used by Malpezzi and Mayo (1998), Green, Malpezzi and Mayo (2004) and Buckley and Mathema (2006) that allows for inferences to be drawn about rental housing demand and supply responsiveness (income and price elasticities). In these models, the quantity of rental housing demanded (measured as rented units) is a function of rental prices, households' permanent income, and a vector of household characteristics such as gender, marital status, age, education level, employment status, location and household size. For the rental supply model, supply (measured typically as housing starts) is a function of housing unit prices, land values, construction costs, maintenance costs, vacancy rates, interest rates and the return on investment in rental housing.

Qualitative Methods - Case studies: The case study approach will be used to investigate in greater depth the context in which tenure choices are made and the institutional settings that shape the decisions regarding housing investments by public and private actors. The case studies will provide insights into a number of factors that affect the rental housing market and how these constrain or encourage its development. Key factors to be explored include the legal and regulatory framework, public policies over housing and land, the taxation framework, and the housing finance sector. The case studies will ultimately help to identify barriers and opportunities to expand the rental market in the targeted countries.

Sampling Strategy: The studies will use a purposeful sampling strategy seeking for confirming and disconfirming cases as evidenced by sample countries with stronger institutions and more developed rental markets, for example, vis-à-vis sample countries with weaker institutions and less developed rental markets. Thus, the studies would follow the logic of theoretical replication, using the "two-tail design" selecting countries from both of these extremes (stronger and less strong countries). This sampling strategy will facilitate comparison across countries.

Data Collection Methods: The data to be used in the quantitative analyses will come from administrative records, surveys and previous studies. Governments and private organizations (real estate agents) involved in providing housing services will be the primary sources of data. More specifically, while varying by country, typically censuses, national household surveys, and quality of life surveys are the most appropriate and complete sources of data for the statistical analyses. Additional reliable sources include the IDB's database on urban and housing sectors as well as the databases from other international organizations such as UN-Habitat and the World Bank.

With respect to the qualitative case studies, the researcher should rely on multiple sources of data, including, semi-structured interviews and secondary documents. The semi-structured interviews should be conducted with key actors involved in the housing sector, including landlords, tenants, real estate agents, and central local government officials, among others.

4.7 Identify the main audience or expected users of knowledge generated or disseminated by this KCP

The main audience of the knowledge produced by this KCP will be government authorities from the housing and finance sectors and Bank staff involved in urban and housing projects. Other audiences include scholars, practitioners and relevant policy makers and analysts in LAC region.

4.8 Specify provisions for quality peer review of this KCP (ex. anonymous reviewers, Studies Committee)

First, an Advisory Committee will be formed and composed of highly qualified professionals with substantial technical knowledge and experience in housing policy in the region, including Alan Gilbert, Professor Emeritus at University College London and expert on housing and urban development in the LAC region, and Martim Smolka, director of the Program on Latin America and the Caribbean, and co-chairman of the International Department at the Lincoln Institute of Land Policy. Second, peer reviewers will be hired to ensure the highest quality in the papers produced. The review process will follow ICF's and VPS publications protocols.

4.9 Additional technical information

If necessary, in an appendix please provide further technical details that you consider relevant to evaluate the technical quality of this KCP. Appendix Doc#(IDBDocs):

V. KCPs RESULTS FRAMEWORK. Main Outcomes and Outputs.

5.1 Results Matrix:

Please, in the first column fill in each outcome indicator with the relevant outputs. You can use the table of indicators here attached.

Results Matrix									
	Unit	Baseline		Year 1		Year 2		Expected Completion Date	Data Source
		Value	Year	Planned	Actual	Planned	Actual		
# of meetings with top-ranking officials in which rental housing policy options are discussed*	Number of meetings	0	2012	0		6		03/31/2014	Mission Reports in IDBDOCs
# of operations and/or TCs that use the knowledge produced by this KCP*	Number of operations and/or TCs	0	2012	0		2		03/31/2014	Loan Documents, TC proposals registered in IDBDOCs
# of discussion paper summarizing Literature and Best Practices in Rental Housing	Number of discussion papers	0	2012	1		0		03/31/2012	Consultant's report
# of case studies assessing the state of rental housing market	Number of working papers	0	2012	1		0		06/30/2012	Consultant's report
# of policy briefs covering the design of policy and program tools	Number of briefs	0	2012	1		0		09/31/2012	Consultant's report

- Top-ranking officials include Ministries, Senior Advisors and other high-level deputies from the Housing, Finance and/or Planning sectors. These are results for the general research project to which this KCP, as a critical component, will also contribute.

Note: Please note that this outcome and output indicators will be the input for the PMR and will be monitored in the Quarterly Business Review.

VI. BUDGET (*):

6.1 Budget should be presented by outputs or groups of outputs (for example: three publications, three conferences, seminars or workshops; one database; one survey; two training courses), and the relevant activities. Total available funds from counterpart sources should be reported. Use whole numbers only.

Costs	Project Cost – IDB Financing*					Counter- part Resources**	Other Financing
	Year 1		Year 2		Total request		
	Consult.	Travel (consultants only)	Other				
Output 1. One discussion paper that includes a literature review and international cases	8,000	0	0	0	10,000		
Elaboration of a discussion paper	8,000	0	0	0	8,000		
Peer reviewers commentaries	0	0	0	0	0		
Administrative Fee (PSG)			2,000		2,000		
Output 2. One case study assessing the state of the rental market in a selected country	20,000	0	0	0	20,000		
Case study	20,000	0	0	0	20,000		
Peer reviewers commentaries	0	0	0	0	0		
Output 3. One policy brief covering the design of policy options	10,000	0	0	0	10,000		
Working paper	10,000	0	0	0	10,000		
Modeling, financial simulation and cost analysis	0	0	0	0	0		
Peer reviewers commentaries	0	0	0	0	0		
Sub-total	38,000	0	2,000	0	40,000		
Total	38,000	0	2,000	0	40,000		
Approximate value of in-kind counterpart							

(*) More details may be required by donors (e.g. consultant cost per day);

Describe the source and type of counterpart resources

This KCP will be financed by three sources:

- (1) US\$10,000 from Quebec Housing Corporation,
- (2) US\$15,000 from Le Groupe Savoie, Les Residences Soleil,
- (3) US\$15,000 from the Quebec Ministry of Economic Development, Innovation and Exportation (MDEIE).

This technical cooperation is funded through a Project Specific Grants (PSG). The commitment from the donors, Societe d'habitation du Quebec (SHQ), Le Groupe Savoie and the Quebec Ministry of Economic Development, Innovation and Exportation (MDEIE), has been established through administrative agreements (attached) subscribed by each of them with the Bank.

6.2 Types of Consultants: Firms or individuals and main activities/outputs:

Type: Individual or Firm (if available)	Nationality (if available)	Estimated Cost	Main Activities / Outputs
Individual	N/A	8,000	Literature Review and International Cases
Individual	N/A	20,000	Rental Housing Market Assessment in one country
Individual	N/A	10,000	Desing of Policy Options

Attached are two draft TORs for an individual and a consulting firm

VII. Bank costs:

For the Bank's internal purposes, please provide information in Bank costs associated with the execution of this KCP:

7.1 Bank staff participation in KCP:

Staff Name	Bank Unit	FTEs
MUNOZ MIRANDA, ANDRES FELIPE	ICF/FMM	0.7
GODBOUT, MARC	ICF/FMM	0.15
FERNANDEZ, IDA	ICF/FMM	0.15
BOUILLON BUENDIA, CESAR PATRICIO	RES/RES	0.15
LUGO, MONICA	LEG/SGO	0.05
GOÑI PACCHIONI, EDWIN ANTONIO	CAN/CAN	0.10
DEMAESTRI, EDGARDO CARLOS	ICF/CMF	0,10

VIII. Risks:

Fill-out the KCP's Environmental Screening and Classification using this link to the [Environmental Screening and Classification Toolkit](#). Then save it in IDBDOCS and record its number in the box below (*):

35476122

8.1 Implementation Risks:

8.2 The limited data availability in rental housing will be a risk for the market assessments. We expect to mitigate this risk by contracting local real estate experts and scholars to conduct surveys and interviews as part of component 2 to generate additional sets of data.

8.3 Please identify key environmental and social risks and impacts, and the strategy to address them: N/A

IX. Coordination with other MDBs

9.1 Summarize collaboration or coordination with other MDBs, donors and other strategic partners (if any): N/A

X. Monitoring and evaluation plan.

Fill-out the KCP's Development Effectiveness Matrix (DEM) using this link to the R&D [DEM template](#). Then save it in IDBDOCS and record its number (*): 35455957

10.1 Summarize the basic elements of the Monitoring and Evaluation plan, including key activities and associated budget: The team will track closely the project and TC pipeline to identify the number of projects that include a component related to the development of the rental market, recommending actions derived from the work done through this KCP. To comply with the obligations established by the donors, the team will prepare and present the reports necessary to inform the status of implementation, lessons learned, and final results achieved.

10.2 Exceptions to Bank policies: N/A

10.3 Contractual Clauses: N/A

Terms of Reference Doc# (IDBDocs): [35568381](#)

(*) All documents saved in IDBDocs must have read permissions granted to the group DOCS Users

XI. Approval



Vicente Fretes Cibils
Division Chief
ICF/FMM

NOV 30 2011