



BUILDING PROSPERITY

HOUSING AND ECONOMIC DEVELOPMENT



CASE STUDY

HOUSING IN CHILE

Chile, an emerging middle-income economy, has successfully reduced its housing shortfall to such a degree that it is held up as a valuable lesson to other countries. This is because there have been so many new homes built over a long period of time that the demand is being met.

Private business has been at the forefront of the building and financing of homes for middle- and higher-income groups; the government has provided effective support to reach low-income households. Government policy has recognized the value of the housing sector within the broader economy of this nation, where annual individual incomes (per capita) is almost USD 7,000 and where gross domestic product growth was 3 per cent in 2006. The country attained an average household size of 3.4 persons in 2000.

EARLY HOUSING POLICY

Efforts were made to solve the housing shortage among those least able to afford decent housing. One of the earliest such schemes was the Worker's Housing Council set up in 1906. The goal was to involve the central government directly in building homes. Several other legal initiatives were made (in the 1940s, 1950s and 1960s, including the creation of a public institution) to provide affordable housing in 1952. However, these early efforts proved unable to meet the housing needs of the then rapidly urbanizing population.

In the late 1960s and 1970s, the government created more public bodies and associations to set policy and manage housing funds. The Ministry of Housing and Urbanization and the Savings and Loans Association became the focus of government policy, providing low-cost housing to low-income persons and mobilizing middle- and upper-income savings. The ultimate goals of these initiatives were to satisfy social needs and deliver welfare, as the state had a duty to house the nation. Therefore, public firms set about the mass building of state-owned houses.

ECONOMIC AND HOUSING POLICY REFORM

Since 1976, the government has implemented broad economic reforms based on the market to allot resources and limiting the State's role in economic affairs to creating the enabling environment so that business could thrive. The State would intervene only in cases of extreme poverty.

Housing was one of the sectors most affected by the economic reforms. Unlike in previous years, the government recognized the importance of the macroeconomic and regulatory environment on housing sector performance. It also expected the housing sector to contribute to economic growth and to mobilize capital for the economy rather than being a drain on the public purse.

Homebuilding and financing virtually became left to the private sector, with government only acting as a facilitator. While the State also played a subsidiary role in providing subsidies to households in need, middle- and upper-income groups were to rely on the private sector for their housing finance needs. Other measures included:

- Elimination of interest rate controls
- Liberalization of urban land markets
- Establishment of a banking system in which the existing mortgage banks and commercial banks were authorized to carry out all the operations of financial intermediation defined in the law

Chile has succeeded in applying housing policy as a vital part of economic and social reform. In the process, housing development has been essential in fuelling national economic growth. In the 1980s and 1990s, the real growth rate of the residential sector averaged 7.9 per cent per year (up from an average of 3.2 in the pre-reform era), while the average real gross domestic product growth was 8.1 per cent. During the same period, total employment from private and public home construction increased by about 14 per cent, to make up 5 per cent of total labour force.

In terms of capital flows, total urban housing investment reached USD 500 million during the first half of the 1990s. Housing reform has also led to the development of a well-structured housing finance system. Another achievement was the sustained increase in total housing output: between 1990 and 1997, the number of new homes built grew by 75 per cent, which contributed hugely to reduce the housing shortfall.

The Chilean experience shows an increasing trend in framing housing policy as part of a broader overall economic policy.

Recommendations for an efficient housing market

- Developing property rights
- Developing mortgage finance, including lending and borrowing at positive interest rates
- Rationalizing subsidies
- Opening up urban land for residential development through provision of infrastructure
- Reforming Building and Planning regulations concerning land and housing development for expanding market activity
- Organizing building industry by eliminating regulatory barriers
- Developing an institutional framework for managing the housing sector

Source: World Bank (1993)