

## Government Housing Policy: Beyond the Emergency

**The huge efforts to rebuild destroyed houses must not bury the need of improving government housing policy which the preceding administration had already been developing.**

The Ministry of Housing has had an overwhelming work load after the earthquake. Nevertheless, the enormous efforts required to rebuild the destroyed houses must not bury the need of improving the government housing policy that the preceding administration had already developed. In general, it has been well evaluated by the citizens, but if we look at it in detail, we find out that it must be reviewed and improved.

After the earthquake, new needs for houses appeared in a context that was already noticed at the beginning of this year: the Ministry budget for 2010 housing policy showed 30% of financing deficit to cover all the commitments acquired during the preceding administration. During the current year, the Ministry shall not only face these greater needs but it shall also work with an apparently insufficient budget.

### **Government Housing Policy 2010 – 2011**

According to the Ministry of Housing, the estimation of houses deteriorated by the earthquake arises to 370,052 units; of this amount, 81,445 are completely destroyed while the remaining ones have different degrees of damage.

Considering the total amount of damaged houses, the Ministry has esteemed that the Reconstruction Program will build an amount of 195,950 houses for the period 2010-2011. To this amount, we must add the necessary subsidies to attend the permanent needs on housing, which for this period will be around 127,235 homes. So the Ministry of Housing has

fixed a target of 323,185 houses which is 27% more than the subsidies paid during the preceding administration.

The new authorities are facing the reconstruction business through subsidy programs that were being executed by the preceding administration. This has the advantage of acquiring experience in the administrative bureaucracy of these programs and thus simplifying the increase of the amount of these subsidies. Nevertheless, we should take advantage of the opportunity that the arrival of a new government offers to improve the housing policy already being developed.

### **Reforms to the Housing Policy**

Beyond the emergency and the reconstruction needs left by the earthquake, the government must face some subjects that shall be improved.

### **Subsidy to Location**

The subsidy to location gives more resources than those delivered by the Fondo Solidario de la Vivienda (FSV)<sup>1</sup> to pay the purchase of more expensive sites in other cities, which have a better access to services. This subsidy is paid in case of the FSV I, a program centered on the 40% of the poorest population, as well as of the FSV II, focused on the third quintile families.

This subsidy paid to families, from 2006 until now, was created to solve a real problem in the housing policy due to the increasing price of best located urban soils. Currently, it would be more adequate to use these same resources to increase the global amount of subsidies paid by the FSV.

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<sup>1</sup> Social Fund for Housing

During 2009, the subsidy amount given by the FSV I, plus the subsidy to location, was of UF2 470. Considering this amount as a reference, it would be advisable to end with the subsidy to location and, with the same resources, increase the resources of the subsidy program. In this way, housing expenses will adapt better to housing demands without compelling household to pay a determined price for a site. This will imply to count on more flexibility among resources assigned to the land and building, while satisfying better the household's demands. At the same time, it will allow to simplify the operation and administration of the FSV program with subsidy to location.

**Housing policy must not be measured according to the number of subsidies allocated and executed, as it has been in the last years. The housing policy must be evaluated in relation to the impact it has in reducing home deficit.**

Likewise, the government shall put forward the execution of FSV program in order to make it speedier. Nowadays, this system functions under a contest fund which implies that housing projects shall apply to funding and, once they are approved they can begin the housing construction. In the case of used houses, the potential beneficiary applies to the program in order to obtain the subsidy for the house that will be purchased. This subsidy operation is completely different from the housing subsidy ruled by the Decreto Supremo 3 40 (DS 40). This program is addressed to the middle class people. People must apply to the subsidy and, once they have been allocated, they can look for and purchase the house with the help of the subsidy paid. The beneficiary has a 21-month term to look for the house that most satisfies his needs. The subsidy execution is simple and, finally, it is the beneficiary himself who chooses the house and location; these are the program's main characteristics.

The advantages offered by this kind of subsidies over the contest funds like FSV, suggests transforming it in a government aid similar to DS 40. A change in this sense, will also allow the beneficiary to choose between a new or used house. At the present time, the authority determines the delivery of new or used houses through the FSV subsidies. In the past, we observed an excessive demand for used houses subsidies through FSV, in comparison with the quota determined by the authority. In order to avoid this situation, that would imply a system simplification, the FSV should be replaced by a housing program similar to DS 40, but centered on poorer households and, in consequence, of a larger amount of money.

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<sup>2</sup> 1UF = CHF 21,100

<sup>3</sup> Executive order of the president

### **Impartiality in Subsidies Allocation**

Another issue that should be undertaken by the new authorities is the tendency of the previous administration to favor the construction of new houses. This has been appreciated in the FSV case, which historically has assigned more resources to subsidies for new houses than those for used houses, but also in the DS 40 case that paid subsidies for houses that cost between UF 1,000 to UF 2,000, new or used.

This kind of measures enhances the construction of houses that not necessarily adjust to the potential beneficiaries' needs. In consequence, the housing policy for determining the acquisition of a new or used house should be impartial.

The subsidy beneficiary should determine if his needs are to be satisfied by a new or used house.

### **Housing Mobility**

The precedent administration increased the housing subsidy called Protección del Patrimonio Familiar<sup>4</sup> which had a great acceptance among population since it delivered subsidies to households that had already received another governmental aid in the past to buy their homes and the new resources allowed them to make improvements or extensions of their homes.

The past administration delivered 222,000 subsidies of this kind, which represents 31% of the total subsidies paid in that period.

This subsidy is very limited for those people that had already obtained a subsidy in the past and want to adequate their housing needs. For example, this subsidy cannot be used for extending housing located in a second or third floor.

This subsidy should be improved in order that resources allocated may be used as a complement for buying another home. That is, with the product obtained from selling of first home plus this subsidy, households have the resources to buy a home according to their new needs.

In 2009, the mean value of this subsidy was UF 66.

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<sup>4</sup> Protection of the family patrimony

### **Return to the Main Objective of the Housing Policy**

Housing policy may not be measured according to the number of subsidies allocated and executed as has been the tendency in the last years; it should be evaluated considering the impact on the housing deficit reduction.

According to our estimations, based on the information given by the Casen Survey 2006 (the last information available) the shortage attained 600,000 houses approximately, worsened by the bad distribution of housing subsidies.

With the aid of the Casen Survey 2009, that should be published this year, it will be possible to make an acute evaluation of the impact produced by the housing policy on the deficit reduction, and thus be able to improve the most vulnerable aspects.

Right now, the subsidies program should be gradually modified towards a simpler administration, according to the beneficiary's demands, and it should be neutral according to the type of housing that authorities are inducing to build.

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i The use of this subsidy to buy a used house to a relative, has been criticized. In case of being necessary, it should be changed in order to recover the original sense of this subsidy, that is, to offer housing solutions through the purchase of used houses.