

# A POLICY GUIDE TO RENTAL HOUSING IN DEVELOPING COUNTRIES

Quick Policy Guide Series - Volume 1



### **'Quick Housing Policy Guides' Series**

As the scale of the housing challenge in the developing world increases at an alarming pace, the need for real action to address affordable housing supply is becoming increasingly critical. To deal with this challenge governments and local authorities need up-to-date knowledge on global housing policy approaches in order to formulate effective policy instruments. Therefore, the objective of the Quick Policy Guides series is to present, in an easy-to-read format, concepts, policy approaches, tools, and recommendations to facilitate policy development for addressing the growing housing challenge. The ongoing series is coordinated and produced by the Housing Policy Section of UN-HABITAT and to date the following volumes have been published:

**Volume 1:** *A Policy Guide to Rental Housing in Developing Countries*

**Volume 2:** *Enabling Shelter Strategies: Design and Implementation Guide for Policymakers*

A POLICY GUIDE TO  
**RENTAL HOUSING**  
IN DEVELOPING COUNTRIES

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## ACKNOWLEDGMENTS

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## PREFACE

In cities and towns around the world a significant proportion of residents are tenants. For various reasons millions of people in developing and developed countries rent, rather than own, the housing unit in which they dwell. For instance, low-income households who cannot presently meet the expense of home ownership, recent urban migrants who prefer centrally located rental accommodation that gives them flexibility, young people who value mobility, and individuals who choose to spend their money on other priorities rather than home ownership are only a few of the characteristics and motivations of tenants.

For millions of people rental housing provides a significant source of income. While there are commercial, public-sector, social, and employer rental property landlords, in cities of the developing world the largest group of landlords are the small-scale landlords who supply rental accommodation, often as part of their self-built house, to generate a regular source of income and provide financial security during old age.

Rental housing has remained a neglected area of national housing policy which has instead focused, often exclusively, on promoting home ownership. Consequently, rental housing has been overlooked with very few governments implementing any kind of policy to help develop or regulate this form of housing.

Yet rental housing is a key component of a well-functioning housing market. While renting is not the panacea to solving the housing challenge in the developing world, it does constitute a significant and vital housing tenure option that should be promoted alongside, not in competition to, home ownership.

This guide clearly illustrates the need to place rental housing on the urban housing agenda. Policies must be developed to harness the opportunities for rental housing to contribute to making better cities. In order to improve national and local housing policies which recognise and facilitate the development of rental housing, the many myths and stereotypes surrounding rental housing need to be debunked. This guide is therefore an important contribution to succinctly outlining the value of rental housing and its role in creating well functioning housing markets that can improve the living conditions for all sectors of society.

I am convinced that this guide will help housing practitioners, policy makers, academicians and housing rights activists in their work to promote adequate housing for all. I wish to express my appreciation and gratitude to all those who have contributed to the preparation of this guide.

Dr Joan Clos  
Executive Director  
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Renting is common in the "villas" of Caracas, Venezuela.  
Photo © UN-HABITAT/Claudio Acioly Jr.



## RENTAL HOUSING – A NEGLECTED POLICY AREA OPTION

### 1.1. Home to hundreds of millions

Hundreds of millions of tenants live in the cities of Africa, Asia and Latin America – although we are uncertain of the precise numbers. Newly arrived migrants, students, people who have recently changed their job or got divorced or separated may all rely at least temporarily on rental housing. For others, renting is a semi-permanent state because ownership, whether in the formal or the informal sector, is unaffordable .

Rental housing also provides many people with a major source of income. While there are undoubtedly some rich landlords, most private landlords have incomes similar to those of their tenants and many are themselves poor. The majority of landlords are not the villains they are so often portrayed but ordinary people trying to cope with the difficulties of life. For many retired people the rent is often their only source of income.

### 1.2. Government neglect of rental housing

In spite of the fact that many people in the developing world live in rental accommodation, few governments have

formulated any kind of policy to help develop or regulate this form of housing. This is surprising since few would deny that a healthy rental sector should be an integral component of a well-functioning housing system. Instead, the last few decades have seen most governments actively promoting homeownership. They have encouraged it through a combination of improving housing finance systems, to make ownership more accessible, by giving tax relief to both owners and builders, by providing transport and infrastructure to new suburbs, and generally by constructing an ideology favourable to home ownership. They have favoured this form of tenure because they believe that building homes is a good way to create jobs, stimulate the economy and to foster social and political stability. In the process governments have persuaded millions to become owners.

While ownership has been encouraged, the rental sector has been neglected, even disparaged. Most landlords exploit poor and vulnerable tenants, only too happy to charge high rents for crowded and sub-standard housing. Eviction is common and renting is perceived to offer tenants little in the way of security. Rental housing, particularly at the lower end of the market, has often

been seen as being shrouded in illegality and as contributing to inner-city decay. In short, whereas homeownership is a source of pride, happiness and stability, renting provides unsavoury accommodation for the unsuccessful. However, these are myths that should be debunked.

Renting can create social problems but can also bring benefits. Housing tenants increase population densities, reducing urban sprawl and cutting some of the demand

for expensive infrastructure in peri-urban areas. An adequate supply of reasonably priced rental accommodation is also likely to reduce the temptation for poor families to mount land invasions or to buy plots in illegal subdivisions. A higher incidence of renting is also likely to ease the organisation of public transport given that more people are concentrated into a small area and most tenants choose to live near to bus or train routes.

## Box 1

### Eight common myths about rental housing

1. **Everyone owns in rich countries.** There is little relationship between a country's level of economic development and the incidence of homeownership and tenancy. Homeownership is actually lower in many wealthy European countries, e.g. Switzerland, where rental markets have developed to satisfy the needs of any income group that prefers to rent rather than to own.
2. **Everyone wants to be a homeowner.** All over the world, people are bombarded with the message that homeownership is the best and indeed the only sensible choice of tenure. Yes, there are big advantages from owning one's own home, but renting also offers its own benefits such as mobility, flexibility, and reduced financial commitments. Yet, many households that could afford to own choose not to.
3. **Homeownership offers people a better life.** Ownership is often presented as a superior tenure to renting. People who own are more responsible citizens with closer links to their community and neighbourhood. But homeownership has its problems: maintenance costs have to be borne by the owner household alone, and failure to pay the monthly mortgage payment puts tenure security at risk. Of course, most homeowners were once tenants and perhaps at times in their lives renting offered them what they needed.
4. **Nobody invests in rental housing.** Investing in rental housing may not be as attractive to either businesses or governments as it once was. Nevertheless, there are few cities where the rental housing stock has not increased in size. The paradox is explained by the proliferation of small units produced by large numbers of small-scale landlords.
5. **Renting is inequitable.** In the days when most landlords were rich and most tenants were poor, the rental housing market was indeed inequitable. Today, however, rich landlords tend to rent to rich tenants, and poor landlords to poor

tenants. The landlord-tenant relationship is often one of mutual benefit and dependence. The real gulf in cities is between rich owners and the poor who can never afford to buy.

6. **Governments should prohibit poor quality rental housing.** Many tenants in African, Asian and Latin American cities live in crowded, under-serviced and dilapidated housing, because that is all they can afford. If governments respond by demolishing this housing, it only makes housing problems worse and leads to even greater overcrowding elsewhere. A much better approach is to find ways to improve the quality of the existing shelter and to encourage the construction of more rental housing.
7. **Mobility is bad for you.** Poor people often need to move home as their jobs are insecure and they need to go where they can make a living. For some, mobility means survival and the flexibility that rental housing offers is highly desirable.
8. **Homeownership generates political stability.** In the USA, tenants were not allowed to vote until 1860, because home-owners were considered to be “better citizens, better neighbours and even better persons.” This kind of thinking is still widespread among policymakers today, who see tenants only as transient, poor, unsettled and undesirable characters.

*Source: UN-HABITAT 2003*



**A low-income rental unit in Brazil, Brazil.**

Photo © Alan Gilbert



Rental units being built as rooftop in Lima, Peru.  
Photo © UN-HABITAT/Claudio Acioly Jr.

## CHARACTERISTICS OF RENTAL HOUSING

### 2.1. Rental housing takes many forms

Whatever the advantages that ownership may or may not bring, hundreds of millions of people still rent their homes. Naturally, the form that renting takes is highly variable; the rental housing ranges from penthouses to slums, is let by many different kinds of landlord, is privately and publicly owned and offers people everything from excellent to appalling accommodation.

At the bottom end of the spectrum, rental housing is diverse. It comes in the form of cheap rental rooms in small owner-managed apartment buildings, flats of various sizes in subsidized public housing blocks, rooms built in self-help structures or partitioned rooms within dilapidated older buildings. It can be a room in a tenement or a shack built behind the owner's house. It can even be space shared with strangers, maybe with only the right to store one's belongings and sleep there for part of the day.

### 2.2. How many people rent?

In some cities the majority of the population rent, elsewhere it is a minority. Unfortunately, rental statistics are often confusing because few countries distinguish

accurately between rental housing and other forms of non-ownership, such as sharing or borrowing someone's home. Sometimes the distinction between renting and sharing is hard to make, especially in countries where extended family households are common. Relatives and grown-up children, sometimes with families of their own, live in the family home. Payment can take several forms; sometimes they pay rent, sometimes they contribute to household costs and sometimes they pay nothing at all.

### 2.3. Variations in housing tenure within countries

National rental statistics are an inaccurate guide to local situations because there is so much variation within countries, between urban and rural areas and between one city and another. Renting is generally an urban tenure because in the countryside people own land and a self-built dwelling, have traditional rights to a home or have temporary or permanent access to housing through their employer. Ownership or free access to housing in rural areas is seldom less than 80 per cent. There is often considerable variation. One element in the variation between cities is the size of the city. In general, metropolitan cities



### Housing tenure in selected countries and in their largest city

Where percentages do not add to 100%, it is because the authorities have calculated other kinds of non-ownership separately.

Country	Owned (%)	Rented (%)	City	Owned (%)	Rented (%)
Germany	40	60	Berlin	11	89
The Netherlands	53	47	Rotterdam	26	49
USA	66	34	New York	45	55
UK	69	31	London	58	41
Colombia	54	31	Bogotá	46	43
Brazil	74	25	São Paulo	70	20
South Africa	77	22	Johannesburg	55	42
Chile	73	20	Santiago	73	21
Bolivia	60	18	La Paz/El Alto	55	23
Thailand	87	13	Bangkok	54	41
Mexico	81	11	Mexico City	76	16

Source: UN-HABITAT (2003: 9-11) and recent census figures from Colombia and Mexico.



Rental units under construction in informal settlements in the periphery of Lima, Peru.

Photo © Alan Gilbert

have higher levels of renting than smaller cities. This is true in China, Colombia, Indonesia, the Philippines and developed countries such as the United States and most countries in Western Europe. The explanation is because metropolitan areas tend to have higher land and property prices. However, city size is only one factor

in a much more complicated equation. The proportion of renters in any city also depends on the nature of the local land market, the proportion of recent migrants, the amount of public employment, and topography that determines availability of affordable, well located land suitable for residential purposes.

#### Box 2:

##### Tenure variations within countries

**Colombia:** While nationally 31 per cent of the population rented in 2005, the figure was 37 per cent in urban areas compared with a mere 12 per cent in the countryside (DANE, 2007).

**China:** Although around nearly half of urban households in 1996 owned their homes and another 46 per cent rented, there were 18 cities with a rate of homeownership of less than 25 per cent and also 12 cities with more than 76 per cent (Huang and Clark 2002: 16).

**Brazil:** In major cities the variation in 2000 was less marked but still considerable, varying from a low of 11 per cent in Manaus to a high of 24 per cent in the Federal District (UNCHS, 2003: 18).

**South Korea:** In 2000, 80 per cent of rural households owned their home compared with only 50 per cent of urban households (Park, 2007).



Renting rooms is common in the *barriadas* of Lima.  
Photo © UN-HABITAT



### 3.1. Key factors: constraints in tenure choice

A healthy housing market should provide a wide range of shelter options at affordable prices. Unfortunately, in developing countries most housing markets tend to favour one form of tenure over another and the poor rarely face much of a choice. Households are

often forced to choose between a very limited range of unsatisfactory options.

In practice, every household is constrained in its tenure choice. The principal constraint is their income but according to circumstance it can also be race, religion, family size and most importantly the structure of the local land and housing

#### Box 3:

#### The ease of access to land influences the incidence of renting

The experience of **Bogotá, Colombia** shows how in the absence of land invasions many poor households had little option but to rent or share. Bogota expanded rapidly in the 1950s and 1960s and new land for housing was required for the masses of new migrants. Unlike other Latin American cities, like Lima (Peru), land on the periphery of the city was valuable because it could be used for agriculture. It also belonged to a limited number of powerful landowners who did all they could to protect it from land invasions. The local answer that emerged was the 'pirate' urbanization. Owners with land close to areas of low-income settlement sold sections of their land to entrepreneurs who subdivided it and sold small plots to poor families. The plots were cheap because the settlement had only minimal services and because the subdivision lacked planning permission. Clients making a ten per cent deposit were offered 'mortgages' in the form of a four-year loan. While this 'solution' allowed many poor people to acquire land, the really poor did not have the savings to put down the deposit. New households, therefore, had the option to live with their family or, if they had no family or wanted to live independently, to rent. For this reason a high proportion of poor households in Bogotá have always lived in rented accommodation, and continue to do so today.

Sources: Gilbert (1981), Losada and Gómez (1976) and Vernez (1973).

market. Different cities offer different sets of choices, and the proportion of renters differs accordingly:

- In some cities (see box 3), it is possible to invade land but in others it is not. Whether or not free land is available helps determine whether some families who would be tenants in one city will take the informal ownership option in another.
- Family circumstances are also important. Some cities are expanding slowly, the housing stock is older and most people have family in the city. In such cities, sharing a home offers a real alternative. Other cities are expanding fast and many of the new migrants lack a family support system and do not have the option to share a relative's home.
- Even the choice facing middle-income households is limited by the structure of the housing market and the extent to which housing finance is available. If new or used housing is very expensive and mortgage finance is scarce, families that would like to buy or build a home will find this impossible.

### 3.2. THE SUPPLY SIDE - Who are the landlords?

There are many kinds of landlord: some are rich while others are poor; many operate in the formal sector and even more informally; both companies and governments may rent out property. Understanding the diversity of supply is a critical element in understanding how best to devise policy and influence the housing situation.

#### Box 4:

#### Patterns of residential tenure sometimes change rapidly

Governments profoundly influence housing tenure directly through housing policy and indirectly through wider social programmes. This is demonstrated by the changes that have taken place over the last sixty years in urban areas, as the following examples show.

**Urban China:** Change has been particularly rapid in countries that have fundamentally changed their whole development path: "Housing tenure in urban China has experienced a zig-zag path in the past 50 years because of dramatic changes in ideology and political economy. It has changed from mostly private rental housing in the early 1950s, to virtually all public rental housing after the Socialist Transformation (1956-66) and the Cultural Revolution (1966-76), and then to a mix of increasing homeownership and decreasing public rental housing since the housing reform starting in 1988."\*\* After the revolution of 1949, the private rental sector was almost eliminated and "the majority of urban residents were housed in publicly owned shelters. The number of homeowners declined steadily between the 1950s and the 1970s and much of the private-rented sector was transferred to the state...". Currently, private homeownership is the most favoured housing option. However, in 1999 the state began to build housing for the very poor. Although this has satisfied less than one per cent of housing needs in China's largest cities, the programme is belated recognition that not every family needs or is able to own.

Sources: Guowei, 2007; Huang and Clark, 2002: 9-10; Wang and Murie, 2000: 39.

**Mexico City:** This rapidly growing mega-city has experienced a consistent shift towards homeownership over the last sixty years. In 1950, only 25 per cent of the population owned their home but by 1970 43 per cent were homeowners and, by 2000, 73 per cent. The reasons for this shift are clear. First, government policy encouraged the middle class to buy formal homes through improving the mortgage system. Second, the authorities in some parts of the metropolis permitted settlement on un-serviced land on the edge of the city, allowing millions of poor people to obtain a plot of land and build their own home. Despite this encouragement for homeownership, the number of households renting or sharing their home increased dramatically: from 484,000 in 1950 to 3.7 million in 2000. Most of the new rental and shared accommodation was created in the self-help suburbs

*Sources: Coulomb, 1985; Gilbert, 1993; Ward, 1997*

### 3.2.1. Five kinds of landlord

1. **Small-scale landlords** are by far the most common. The common element is that most use whatever capital and space they have for rental purposes, often because they have no other way to make money. They may be formal or informal, poor or middle-income earners. The key element they share is that the income from rental housing helps them to pay instalments on their own land or house, to meet the expense of repairs, maintenance or improvements, or even to pay their own rent. Rental income may serve as a safety net against unstable employment or when moving from regular salaried work to self-employment. It may also supplement or even substitute for a pension after retirement. Sometimes renting begins accidentally, homeowners have spare rooms available because the family structure has changed; a partner has left home, relatives have died, grown up children have moved elsewhere. It may begin because the breadwinner has changed jobs and cannot commute to the new workplace. Unable to sell their property because of prevailing market conditions, the only alternative may be to rent out the property. In all these cases, letting out land, houses or

rooms contributes to a household's survival strategy. It helps to maintain things as they are, keeps food on the table, brings in extra cash and makes use of a family's primary asset: the home. Some find that renting offers a route to better things. They invest more resources into renting, increasing the size of their property and renting out more rooms. Some may even buy or construct additional properties. A few become commercial landlords.

2. **Commercial landlords** operate on a larger scale and act in a more professional way. They will often rent to middle or high-income households rather than low-income groups, using written rental contracts and following the building and safety standards. Many will use management agents. Others operate at the poorer end of the market and may build rows of tenements, sometimes of very low quality and equipped with minimal services. Some will operate responsibly, others in profoundly dubious ways. Commercial landlords come from all kinds of background, they may be formally constituted as companies or be ordinary people who have made money in another field.

**3. Public sector landlords** are less common than they once were but still supply large numbers of housing units in many cities, particularly in China, India and some transition economies. The landlords may be central government agencies or local governments. Some provide accommodation only to their employees while others rent out subsidized shelter to the urban poor.

**4. Social landlords** are non-profit making organizations which provide housing principally, but not entirely, for the poor. The institutions may range from charities and housing associations to educational bodies. In recent years, housing associations in many parts of Western Europe have increasingly taken over the task of providing cheap rental accommodation from governments. In some places, schools and universities provide accommodation for their students.

**5. Employer landlords** provide accommodation for their employees as an aid to recruitment, usually because local housing markets are too expensive and they will face recruitment problems unless they provide shelter for their staff. Examples of such landlords include hospitals providing rooms for their nurses, universities providing rental housing for faculty members, and the military. Sometimes governments provide housing as a fringe benefit to their civil servants particularly when accommodation is particularly scarce, as in newly established capital cities.

### 3.2.2. The decline of public rental housing

Public rental housing proved a long-term success in only a handful of countries.\*\* Most governments experienced the following problems:

- Investment costs were too high so that few governments were able to satisfy the housing need.
- Beneficiaries were frequently chosen on criteria other than need, often as a result of nepotism, favouritism based on party membership or outright corruption.
- Tenants often failed to pay the rent, often because of managerial incompetence, particularly in rent collection.
- Rents were kept too low to permit maintenance or expansion of the stock.
- Housing agencies accumulated large debts as a result of poor rent collection and high maintenance costs.

As a result, social problems often built up in so-called 'sink estates' and most governments ceased to build for rent. Many attempted to sell off the units to the existing tenants.



Rental housing produced in Colombia.  
Photo © Alan Gilbert

Political ideology also played a role in the decline of public housing. In many transition economies in Europe and the Far East, public housing was sold off and public investment in new housing was intended for sale. During the transformation of economic and housing policy in the transition economies of Central and Eastern Europe, most national and local governments tried to sell off their dilapidated rented dwellings. There is now relatively little of such housing left. New public rental housing has been constructed in very few countries over the last decade. The most notable exceptions are China and the Republic of Korea. In the latter, one million rental housing units are planned over the 2003–2012 period. As in China, the housing is targeted at the poorest but is intended for eventual sale.

### 3.2.3. The rise of the small landlord

Despite the withdrawal of large-scale investors and an increase in investment for homeownership, few cities have seen absolute decline in the numbers of rental units. In central areas, many affluent residents moved out to the suburbs and divided their properties into rental accommodation. But, increasingly, and cities were growing very rapidly, rental housing was created by small-scale landlords.

Much of the expansion in rental housing occurred beyond the city centre. New accommodation was created in the ordinary suburbs and, in poorer cities, in the self-help suburbs. As the shantytowns gradually obtained services and the occupants improved their homes, property began to be used to generate an income. While new shantytowns initially contain

mainly ‘owners’, more consolidated self-help neighbourhoods often have more tenants than owners.

### 3.2.4 Landlords and landladies

Whether private landlords are men or women depends greatly on local circumstances. Where women handle domestic affairs and men go out to work, the former will often deal with tenants, particularly when they live in the same premises. Of course, in some societies women are not permitted to deal either with strangers or with money matters, but that kind of custom is gradually changing.

Often, death of a spouse, divorce or separation turns women into landladies; many widows and divorcees in Latin America opt to take in tenants to supplement their incomes. And, since women tend to live longer than men, there are many more widows than widowers. In cities with an ageing population, therefore, the number of women landlords is likely to increase. Again, however, it is essential to understand local custom. Inheritance rules are critical in this respect; for, in countries like Nigeria where only the male offspring inherits property, women may be precluded from becoming landlords.

In most parts of Asia, landlords tend to be men although landladies are not uncommon in the Philippines and Indonesia. In Africa, men are generally dominant although women often take on the role in Botswana and South Africa. In many Latin American cities, women landlords are common and, as in the Philippines, widows and divorcees frequently provide rental accommodation.

### 3.3. THE DEMAND SIDE – Who are the tenants?

#### 3.3.1. Reasons for renting

Some people rent because they are not yet in a position to own. Some do not have the money to own, while others do not wish to, at least for the time being. Many have no choice but to rent; others choose to rent for one of a variety of reasons:

- **Mobility:** Renting allows people to remain mobile and to move when their work place changes or when a better job becomes available elsewhere. It is particularly suitable for the young who are not ready to settle down in one place.
- **Flexibility:** Renting gives people considerable freedom over how they manage their household budgets, moving to cheaper housing when times are hard and to better housing when their incomes increase. It also frees up more of their earnings for

essential needs like food, education and medical care.

- **Freedom from major financial commitment:** Renting accommodates people who may not want to make the long-term financial commitment that comes with buying or building a house, or to face the long term costs involved in repairing and maintaining their own house.
- **Remittances:** Renting a home temporarily in the city allows people to send more of their earnings to relatives in their villages of origin and sometimes to buy land or build a house there.

#### 3.3.2. Tenants’ main characteristics

Like their landlords, it is difficult to generalise too much about tenants. However, there are a few common characteristics, many linked to income, migration, life cycle, family structure and gender.

#### Box 5:

Home owners are generally more affluent than those who do not own

Housing tenure and income in Bogotá in 2003.

	Total homes	Income group		
		Owned	Rented	Other
<b>Total</b>	1,934,828	53.0	39.7	7.3
<b>Lowest</b>	768,791	48.4	43.1	8.5
<b>Lower-middle</b>	829,940	51.9	40.5	7.6
<b>Upper-middle</b>	191,433	65.5	30.6	3.9
<b>High</b>	140,930	68.2	29.0	2.8

Source: DANE



**Social Rental Housing produced and managed by Dutch Housing Association, Amsterdam, The Netherlands.**

Photo © UN-HABITAT/Claudio Acioly Jr.

- **Lower-income households:** Owners tend to be more affluent than tenants. For example in Indonesia, over 75 per cent of renter households have incomes less than the average household income. The situation is similar in cities as diverse as Bogotá, Cairo, Delhi, Kumasi and Quito, although not every tenant is poorer than their landlord (Box 5).
- **Migrants:** New arrivals to a city stay initially with kin or find somewhere to rent. Many migrants never buy property in the city because they do not intend to stay there. Instead, they often buy property in their rural homelands and continue to rent in the city. When households are split between town and country, the migrant may rent and send spare money back to their family in the village. Only migrants intending to stay in the city move into owner-occupation, especially when they have a family,
- **Younger people:** Rental housing is often a feature of the earlier stages of people's lives. Tenants tend to be younger than owners and are often single: students, simple wage-workers, factory workers, informal sector employees and micro entrepreneurs, or professionals. Couples who rent tend to have fewer children than owners and the birth of children often triggers the move from renting to ownership. Where extended families remain strong and most of the family lives and works locally, adult children tend to live in the family home. In cities where incomes are rising, young adults increasingly move out of the family home as soon as they can.



- **Single-parent households and divorcees:** The consequences of declining birth-rates, HIV-AIDS and growing rates of separation and divorce have a big effect on family composition and cohesion. Marriage break-ups have also become more common and recently separated people often move into rental accommodation.
- **People with different priorities:** Some households who could afford to buy a shelter choose not to own but to use their income for other purposes. Many put their savings into setting up a business rather than into buying a home (Box 6).
- **Gender:** Where men dominate migrant flows, a high proportion of tenants will be men; where women are in the majority, the opposite occurs. In cities where poorer families tend to rent, female-headed households predominate because of their low incomes. Where women are excluded from formal ownership based on inheritance rules or custom, or from informal ownership because they lack the skills required in self-help construction, they become tenants.

**Box 6:**

**Investing in business, not in property**

In Banda Aceh, before the tsunami struck in 2005, one Indonesian lady ran a small business selling Muslim shirts. She rented a two-storey dwelling, operating the shop on the ground floor and living with her husband and son on the top floor. All her savings were put back into the business rather than into buying property.

*Source: Fitzgerald (2007: 7).*





**Rental social housing is a common feature in the Dutch housing landscape.**  
Photo © UN-HABITAT/ Claudio Acioly Jr.



Room for rent (Alquilo Cuarto) in an informal settlement in the periphery of Lima, Peru.

Photo © UN-HABITAT/ Claudio Acioly Jr.

## KEY ISSUES FOR POLICYMAKERS TO CONSIDER

### 4.1. Not everyone prefers homeownership

Ask families if they want to be homeowners and most of them will say yes. Most people's actions reflect the preferences they express. They move from sharing or renting to ownership and rarely in the other direction.

Why do people want to own? In many countries, homeownership is a very sensible financial choice in the sense that it allows people to make money. Few governments tax capital gains from housing and many actually subsidise the cost of mortgage payments. If ownership offers a route to financial gain, of course, people want to be owners. If governments do little or nothing for tenants, then tenants will choose to be homeowners.

But, even given such a distorted set of choices, many people decide not to become homeowners immediately. Many do not do so because they cannot afford to. Many others do not do so because ownership does not match their immediate needs. They are young and they do not want the burdens of homeownership and particularly not to build their own house. They are single and they want to live near

to where the action is.. They have children and their rental accommodation may be crowded but they do not want to live in an un-serviced settlement distant from schools. They would like to own but they need to put their savings into a business.

In short, the extent to which ordinary people desire ownership has been exaggerated. Insofar as they do want to be homeowners, the preference is sensible but the choice has been distorted through government policy. And, even when the preference is a deeply felt need, perhaps founded on rural values, many choose to wait either because the time is not yet right or because the household budget is insufficient.

### 4.2. Renting is not inequitable

Renting has often been criticised as inequitable. In most cities in developing countries, it is not. The vast majority of landlords operate on a small scale. Many landlords are themselves poor and include many who have gradually extended their self-help housing to accommodate tenants. These people have similar incomes to their tenants.

Today, few rich landlords rent to the poor; they rent to rich tenants.\*\* Poor landlords rent to poor tenants and generally come from the same income group. If inequality is considered to be a policy issue, then it is the inequalities in access to homeownership that should be addressed, not the inequalities between owners and their tenants. When the housing system encourages and even pays the better off to make capital gains from homeownership, while the poor are unable to buy their own home, then social polarisation is accentuated.

In fact, it is homeownership-biased housing policies that are inequitable. Very few governments have failed to devise housing policies that inequitably favour homeownership. Credit schemes are being developed across the globe to encourage more people to enter into homeownership. There is no problem in encouraging homeownership providing that this does not harm those who do not wish to own.

Unfortunately, this is precisely what most housing policies do.

### 4.3. Landlord-tenant relations

“Just as not all landlords are devils, not all tenants are angels. Tenants can abuse landlords and (indirectly) their fellow tenants by failing to pay the rent and not taking appropriate care of their apartments” (Schill, 2003: 505).

Conventional wisdom decrees that landlords dislike tenants and tenants hate landlords. Undoubtedly, this is sometimes true. However, too often the bad image has been exaggerated because it has been based on anecdotal accounts or on casual conversations with tenants. The sources of landlord-tenant tension are predictable:

- Landlords complain that their tenants don't take good care of the

#### Box 7:

#### Too many governments favour homeowners and ignore tenants

In the **United States** housing is one of the areas where government handouts (especially tax relief on mortgage payments) favour wealthier households. In 2003 alone, USD 121 billion was spent on tax relief. More than USD 57 billion of this went to households with annual incomes above USD 148,000. By contrast, only USD 36 billion was spent on housing policies designed to help the poor.

Similar policies have been employed in most poor countries, primarily to the benefit of the better off, the only households that could afford to buy formal housing.

More recently, in **Chile, Colombia, Costa Rica, Ecuador** and **South Africa** governments have attempted to extend homeownership to the poor through the offer of millions of targeted subsidies. While this has helped some tenants to buy their own home, it has not helped those tenants who are still too poor to obtain credit or who cannot afford either the cost or the running of formal housing.

Sources: *The Economist* 2005; Gilbert 2004

**Box 8:****Resident landlords are often more sympathetic**

Relations are often better when landlords live on the same property as their tenants. Rental housing with resident landlords tends to be better-served and better-maintained. And, when landlords and tenants share the accommodation, they get to know one another and sometimes develop mutual bonds of friendship and support.

For example, in Surabaya, young female migrants working on an industrial estate seem to find a great deal of sympathy in their rental accommodation: “the landlady–tenant relationship mostly included features of a parent–daughter connection. The development of such a relationship between the house owner and the tenant reflects a corresponding felt need of the women industrial workers, as unmarried daughters far away from their own family and the traditions in the village. ... When the young woman starts a new life in the city, the relationship with her mother gets less close. While wanting to enjoy freedoms of the city, she also misses her earlier parent–daughter (particularly mother–daughter) intimacy and the safety of the family environment. Therefore, she tries to find someone who can guide her like her mother did in the village and give her a feeling of safety.

This is well reflected in the fact that the owner often calls their renters anak-anak kost [children who rent], and the renters often call the owner ibu kost [mother who rents out]. It is also reflected in the fact that most young women industrial workers prefer to stay in rental rooms of houses in which the owner lives as well”.

*Source: Arifin and Dale; 2005*

accommodation, pay their monthly rent late, and don't understand that rising costs of utilities, maintenance and repairs make it necessary to raise the rent.

- Tenants complain that their landlords don't maintain the accommodation, fail to repair things when they break, charge too much for services, increase the rent without warning, turn hostile when the rent is paid a little late, threaten them with eviction and/or fail to return security deposits when they move out.

However, without denying that tensions exist, relations between most landlords and tenants are reasonable. In some cases, landlords avoid problems by only accepting

tenants who have been recommended by people they know. But in other cases, landlords use a different strategy. They actively seek to attract strangers and/or people from a different race, nationality or tribe. They don't want to be too close to their tenants. By establishing a business-like relationship they hope to encourage the tenants to take care of the property, respect the rental conditions and leave when they are asked to.

#### 4.4. Eviction of tenants - when it is wrong and when it is right

Tenants usually express fears about eviction, while landlords complain about the difficulty of evicting problematic tenants. Both sides have virtue on their

## Box 9:

**Home buyers can also be evicted**

“America’s sub-prime mortgage crisis is likely to claim the homes of two million families according to an influential congressional committee which warned today that foreclosures pose a grave threat to the US economy. A ‘tidal wave’ of repossessions could cost a total of \$71bn (£34.61bn) for homeowners unable to hang on to their properties, plus a knock-on downward effect of \$32bn on the value of neighbouring homes, the joint economic committee of Congress predicted” (Clark, 2007).

516,000 foreclosure proceedings began in the first quarter of 2008, some 2.5% of all mortgage loans. A further 6.4% of loans were delinquent at the end of the first quarter, meaning that at least one loan repayment is in default. The situation is particularly bad in the states of California and Florida (MBA, 2008).

Poverty, loss of work and the break up of family relationships are not solved by home ownership. In the United States, while 54 per cent of tenants are forced to pay too much of their income in rent 30 per cent of very low income homeowners also struggle to pay their bills. Poverty strikes both home buyers and tenants and both can lose their homes, even in the most affluent economies (Martinez, 2000: 479).

side. Satisfactory landlord-tenant relations have to be based on a degree of mutual trust. If either side deviates from what is regarded locally to be reasonable behaviour, then a case for or against eviction can be made. If tenants are abused, they should be protected; if landlords are victimised they should be helped.

- There are many instances of landlords evicting tenants unfairly: landlords who evict reliable tenants without adequate warning, who throw them out after only a brief lapse in the rent payments or who eject them because the tenant family is expecting a child. Landlords should be strongly discouraged from taking such action.
- Equally, there are many examples of tenants abusing the trust of landlords: they do not pay their rent even when they have the money, they make lots of noise which upsets the neighbours, or they damage the property. Such tenants deserve to be evicted.

A real dilemma comes when tenants cannot pay the rent. Unemployment, sickness or other reasons why a tenant family has lost its income merit sympathy. But since poor landlords depend upon the rent to keep themselves out of poverty, it is not they that should bear the cost of non-payment. Rich governments can solve the problem by subsidising the poorest tenants. However, this is unrealistic in most poor countries and governments must accept eviction as an unpleasant consequence of poverty. It should also be recalled that owners are also sometimes thrown out of their homes because of their inability to pay (BOX 9).

#### 4.5. Rental housing allows for mobility

A well-functioning housing market should allow people to move house when their own circumstances or the general environment changes. The ability to move is a virtue and rental housing generally allows such



movement. It is society's general interest to develop a housing system that allows people to find accommodation that matches their needs at any given point in their lives. In such a housing system, the ability to move from one home to another, from one city to another, from a small house to a large one and vice versa, is critical. Mobility is only a problem when people are forced to move when they do not wish to.

If too much emphasis is given to giving tenants complete security of tenure, one of the chief advantages of rental housing is likely to disappear, along with much of the supply. Under some rent control regimes, e.g. in Mexico City,\*\* tenants have been allowed to stay for long periods on minimal rents. They do not move because of the minimal rents and occupy space that more needy households would use better.

#### 4.6. Rent levels are not too high – poverty levels are

Tenants naturally complain that rents are too high and landlords that they are too low. Over the years there has been no shortage of examples of landlords exploiting tenants. Equally, and especially after the introduction of rent controls, there are many instances where rents have clearly been far too low.

- Rental housing specialists suggest that a reasonable monthly return from renting is about one per cent of the market sale price of the unit. The fact that rent levels are tied to property prices means that rents can go up as land values rise and as economic forces influence property prices. These market forces put formal rental housing out of the reach of most poor households.
- If the 1% rule prices out the poor, an alternative is the 25% of the budget

rule. Housing is unaffordable when a family spends more than one quarter of its monthly income on rent. Unfortunately, this guide loses its meaning further down the economic ladder insofar as one quarter of a very low income does not provide any landlord with an adequate return.

Neither rule gets round the very real problem of inadequate incomes. If a landlord is to provide adequate and well-maintained shelter, a certain level of rent has to be charged. If a tenant is to live in decent accommodation, a certain income has to be earned. The unfortunate feature of most cities in developing countries is that too many people earn very low incomes. In such circumstances rents



**Rental unit combined with commercial unit, self built in a popular neighbourhood in Lima, Peru.**  
Photo © UN-HABITAT/ Claudio Acioly Jr.

are simultaneously too low and too high. Landlords do not receive enough to provide adequate accommodation or enough to keep their own families out of poverty. At the same time, tenants earning very low incomes are forced to pay a high proportion of their earnings in rent. The problem lies not in rent levels but with poverty.

#### 4.7 Quality of rental housing

“The living conditions in much of the informal, rented shacks in Thika, as well as in Nairobi, are revolting. Few households have more than a single room and sanitary facilities are, in many cases, completely absent. Maintenance is non-existent and the owners’ procedures to collect rent are pitiless” (Andreasen, 1996: 362).

Many families are prepared to put up with poor accommodation because they have higher priorities than housing. The very poorest have very little choice at all; they live wherever they can, however bad the conditions. Clearly, no one would deny that this is thoroughly undesirable but if such housing were to be demolished it would just lead to displacement and homelessness.

Fortunately, many tenants can afford tolerate accommodation and research shows that they select their shelter carefully. Neighbourhoods with good transport links or that are close to centres of employment tend to be popular with tenants. Serviced settlements are chosen before those on the un-serviced periphery.

Many owners also live in rudimentary accommodation, particularly in newly formed self-help settlements. Such settlements lack services and initially the quality of the shelter is unsatisfactory. Frequently, owner households suffer from overcrowding as poorer relations claim

help and move in. This is very common in parts of West Africa and in many cities suffering from economic recession.

#### 4.8 One person’s rent is another’s income

Tenants clearly resent having to pay rent and sometimes go hungry in order to pay it. Nonetheless, that rent often provides the main source of income for other poor people. Research suggests that most landlords are only a little more affluent than their tenants and, sometimes, the tenants are the more prosperous because both partners are earning and they do not yet have children. Age is a crucial divide between tenants and landlords. The young typically rent or share and move into homeownership when they bear children. Self-help landlords tend to be older because it has taken them time to produce enough accommodation to let out rooms. Other kinds of landlords are often older because they have inherited property.

Renting is particularly important for older people with property. Many older couples and as societies age increasing numbers of widows depend upon rents for their livelihood. Indeed, some have invested in property as a means to survive in their old age. Tenants may not like paying rent but it does put food on the table for many impoverished landlords and landladies.





**Backyard rental units in South Africa.**  
Photo © Alan Gilbert



Housing extensions for rental purpose in Lima's popular settlements, Peru.

Photo © UN-HABITAT/ Claudio Acioly Jr.

A strategic approach to developing a workable rental housing policy should first acknowledge the rental arrangements which already exist and find flexible, realistic ways to regulate them. In most cities, rental housing arrangements contribute significantly to local livelihoods and so measures to govern and promote their further development should be formulated. Local dynamics and housing market conditions are different in every city, and so there is no single formula for how to do this. But the following suggestions will help policymakers and government officials to promote rental housing in their cities - especially for the poor.

### 5.1 Put rental housing on the urban housing agenda

At present rental housing is virtually invisible in most government's housing policy. Since healthy housing markets need to offer a range of tenure options, a change in policy is essential. So the first need is to stimulate some discussion of tenure in government circles. Hopefully government officials, local politicians and, at an international level, officials in aid

agencies and the development banks will now at least begin to discuss the issue.

### 5.2 Stop promising universal homeownership

Too many governments pretend that they can achieve homeownership for everyone. This is neither achievable nor desirable despite the rhetoric that normally accompanies policy statements. Therefore, rental housing and homeownership should not be competing tenure options. Governments should enable the housing market to provide people with an effective choice of tenure that is affordable and appropriate to their needs. This requires a housing policy that is 'tenure neutral'.

Tenure neutrality means:

- Avoiding favourable tax breaks only for owners
- Providing subsidies to poor families irrespective of their tenure
- Creating prejudice against any tenure group
- Restricting particular housing sub-markets e.g. through rent control

### 5.3 Avoid rent controls – they rarely work well

In many countries rent controls were introduced at the outbreak of war as a means of preventing inflation. Often they continued long after peace had been restored and brought many distortions in the rental housing market. In few market economies has rent control had a long-term positive effect on rental housing for the poor. Rent controls should generally be avoided because they are:

- **Inequitable:** favouring some tenants at the expense of others, particularly sitting tenants against those who wish to become tenants; protecting some tenants who do not need protection because they are not poor while not protecting other households who are poor; favouring tenants at the expense of landlords, even when the tenants are better off than the landlords; and operating in formal housing markets but not in the informal areas where most poor tenants congregate.

#### Box 10:

#### Effects of rent control in cities in developing countries

In poor countries generally: “It is clear that the negative impact of rent control outweighs its benefits. It has resulted in a decrease in the production and supply of both the quantity and quality of rental housing” (Kumar, 1996: 768-9). This is exemplified by the following evidence:

- Egypt: “Rent control was first used during the Second World War as a measure to combat inflation, and it froze rents at the 1941 rates. This was codified in 1947 (applying to properties built before 1943). After the revolution of 1952, a series of laws reduced the rental rates for new buildings and existing units. Finally, legislation in 1976 and 1977 incorporated previous legislation, codified existing rent levels and established a system for calculating rent levels in new buildings that favoured the tenants considerably.” “Despite various attempts to rationalise the system, many units in formal urban areas are still rented at extremely low rates that bear no relation to the market. In effect, tenants are sitting on a significant asset and the only way an owner can reclaim the unit – besides waiting for the death of the tenant and his or her children – is to offer a sizeable cash incentive (sometimes approaching the market value of the unit) for the tenant to renounce the contract and leave” (Soliman, 2002: 194).
- Ghana, “Rent control was first introduced in Ghana as a wartime measure... It cast the landlords in the role of exploiter of the poor whose prices must be controlled or they would pass beyond the reach of common people; problems of housing the urban workforce would follow close behind” (Tipple 1988: 43). From 1963 to the middle 1980s, many rents were kept at extraordinarily low levels. The rent control law ... has proved to be ineffective, primarily because low rents have discouraged the production of rental housing units” (Arku, 2006: 349).
- Tanzania, “The government’s objectives of enacting the Rent Restriction Act, No 17 of 1984 as a protective cushion against tenants’ problems have not been achieved.” (Kabwogi, 1997: chapter 12).

## Box 11:

## Rental vouchers in the United States

While in many respects rental subsidies for tenants have been successful in the United States, they suffers from budgetary constraints that limit their effectiveness for low-income renters:

“The voucher program, (which) has been in operation for almost 30 years, has been remarkably free from scandal, and has been administered with a high degree of integrity. If it has a fundamental weakness, it is simply that it has never been an entitlement program and that budgetary constraints have prevented it from serving a larger portion of the low-income renters who need housing assistance”

(*Khadduri, 2003: 245*).

- **Inefficient:** sometimes distorting the most appropriate use of housing, for example, by encouraging small tenant households to occupy more space than they need when larger households lack shelter; when making renting unprofitable, they discourage proper maintenance, particularly when capital values are falling; they sometimes encourage official corruption.
  - **Counter-productive:** discouraging landlords from providing more accommodation and thereby increasing the overall cost of renting. In poor countries, encouraging poor households to look for alternative shelter solutions, like invading land.
- Most developed countries\*\* have employed some variation on this approach at one time or another and, to a degree, it has worked. There are, however, several inherent challenges with this approach particularly when introduced in poor countries:
- It is very costly and few governments are prepared to devote sufficient funds to such an approach.
  - If insufficient funds are allocated, many tenants are left out of the programme.
  - It is liable to abuse if governments do not target the subsidies accurately.
  - It can simply transfer public monies to landlords as tenants are asked to pay higher rents when landlords realise that the state is paying a subsidy.

#### 5.4 Provide subsidies for low-income tenants

If keeping rents low does not work, perhaps increasing tenants' incomes is a more effective approach to making shelter affordable to tenants? A commonly employed method in some developed countries has been to introduce a rent supplement or a rental housing voucher.

#### 5.5 Provide subsidies and finance for private landlords providing low-income rental housing

If subsidies aimed at tenants often find their way to landlords, why not offer subsidies directly to landlords? Such an approach can stimulate the production

of rental housing for the poor. Subsidies can take several forms (Box 12). Subsidies can be directed to small-scale landlords who wish to extend their property, to companies intending to build housing for their workers and to social housing agencies and cooperatives. Subsidies can take the form of offering small areas of

public land free or at a subsidised price to informal or small-scale landlords prepared to create affordable rental units on this land, therefore increasing the overall supply of low-income rental housing.

If providing subsidies is deemed too expensive, loans can be offered to small-

Box 12:

### Helping self-help landlords to build and improve low-income rental housing

Small scale landlords in informal settlements are a major source of affordable housing for a growing majority of households living in poverty in the towns and cities of developing countries, but there are few initiatives to assist them" (UN-Habitat, 2005: xxiv).

Governments can take several actions to support self-help landlords improve low-income rental housing:

- **Provide subsidies to poor owners who are willing to provide rental accommodation.** If landlords are as poor as their tenants, equity considerations do not present a problem. Subsidies might come in the form of income tax relief, although many small landlords will not actually be paying tax, or exemption from value added tax on building materials.
- **Offer small plots of serviced public land to potential landlords to construct for rent.** This should be restricted to small-scale operators, offering rental accommodation to a maximum of say 10 families, and be subject to a minimum standard of shelter.
- **Build rental incentives into upgrading programmes.** Planners and managers of urban upgrading programmes should take the needs of tenants into consideration and encourage homeowners to increase the supply of rental housing by, for example, offering credit or subsidies.
- **Provide micro-credit for self-help landlords.** The idea of extending credit to informal sector landlords is now widely recommended, particularly since the emergence and rapid growth of shelter microfinance during the last decade.
- **Modify planning regulations.** House extensions are often discouraged by planning regulations. The projected impact of densification on the demand for urban services is often used to justify why owners should not add space for tenants. Except when densification is likely to increase risks from 'natural' hazards or to overload public service networks, planning regulations should be modified to allow housing extensions.
- **Reassure self-help landlords.** Existing and potential landlords often feel threatened by government policies that either give tenants the right to claim a house that has been rented to them illegally or that don't sufficiently protect them when tenants fail to pay rent. The adoption of rental regulations that protect the rights of both landlords and tenants will go a long way in encouraging landlords to invest more in rental housing.



scale landlords for them to improve their existing rental units and/or build additional units, thus increasing the supply and quality of low-income rental accommodation. In lending to landlords, loans should follow the micro-enterprise culture of lending for short periods. In Tanzania, “one out of three landlords would prefer step loans that have to be paid back within 3 to 6 months. The same number of landlords would go for step loans that can be serviced in very short intervals of between 1 and 4 weeks” (Precht, 2005: 12).

“Small housing loans, disbursed through housing microfinance institutions, are some of the most promising developments in housing finance during the last decade. They are suitable for extending existing dwellings, building on already serviced land, adding rooms (often for renting out), adding facilities such as toilets and house improvements within in situ neighbourhood or slum upgrading.” (UN-HABITAT, 2005: xxv).

### 5.6 Facilitate settlement upgrading and the improvement of existing low-quality rental housing

In terms of dealing with poorly serviced or dilapidated housing occupied by tenants policy should harness and improve the quality of such housing. The worst thing governments can do is to close down or demolish inadequate housing without offering a viable alternative because all that does is bring displacement and increase homelessness. Instead, governments should oblige or persuade landlords to improve services or contribute themselves by providing sanitary facilities as part of settlement upgrading operations.



**Renting rooms is good business in Latin American Cities.**

Photo © Alan Gilbert

Settlement upgrading - providing poor neighbourhoods with infrastructure and services, with or without property titles - is a positive step and is superior to eviction. It is crucial, however, to recognise that most poor neighbourhoods contain numerous tenant households and that without recognising tenant families, upgrading programmes may drive them out, depriving landlords their income and tenants their homes. And, if the tenants remain and were not enumerated before the upgrading, the authorities are likely to underestimate the demand for infrastructure and services. Therefore it is important to conduct a household survey before beginning an upgrading programme, ideally involving the community in the enumeration (see Huchzermeyer, 2007).

### 5.7 Promote security of tenure for tenants without discouraging rental supply

Security of tenure - in this case, a tenant's level of confidence that they will not be removed from their rented property without adequate notice – is important for tenants' wellbeing and feelings of security. Of course security for tenants has to be conditional on their behaviour, on that of the landlord and on the general health of the rental housing sector. If freedom from eviction were to be guaranteed for life whatever the tenants did, and was not dependent upon regular payment of the rent, few landlords would ever invest in rental housing. Therefore, tenants' security of tenure should be balanced with incentives for landlords to supply rental housing.

The key issue in terms of security of tenure for tenants is affordability and what is essential is to guarantee that there is a plentiful supply of rental housing at every level of income. If tenants have the ability

to move into better property and others into poorer property, they do not need guarantees of security beyond basic rights. Such basic rights include being given adequate notice, not being forced out physically and not being ejected outside the terms of any contract that has been established with the landlord.

Hartman and Robinson (2003: 493) offer sensible advice when they argue that:

“The most effective way to avoid forced evictions (at least those linked to rent- and utility-paying problems, which almost certainly are responsible for the vast majority of such actions) would be to increase the supply of decent, modestly priced units and/or to increase tenants' incomes through social policies such as a higher minimum wage, so-called 'living wage ordinances', and increased employment opportunities.”

#### Box 13:

#### Arbitration and Conciliation

In Bogotá, Colombia, the Chamber of Commerce began to establish a mechanism for resolving commercial conflicts in 1983. It both provides education programmes on how to avoid conflict and has set up two concrete mechanisms by which disputes can be resolved. The first is a service under which parties in conflict can meet in the company of a conciliator to try to resolve their dispute. The second is an arbitration panel which decides the rights and wrongs of an issue. A large number of the cases dealt with concern arguments between landlords and tenants.

The organisation charges for the service and as such most of the cases heard are between landlords and tenants with formal contracts. More cases also tend to be brought by landlords than by tenants (Barreto and Perafán, 2000). But the concept could easily be copied by the authorities and used to speed up resolution of minor conflicts between in the small-scale, informal sector.

See <http://camara.ccb.org.co/contenido/categoria.aspx?catID=104>



## 5.8 Develop and promote mechanisms for written contracts, conciliation and arbitration

The rights and obligations of landlords and tenants should be assured through the legal system. Unfortunately, the court of law in most countries do not help the majority of landlords or tenants because they simply do not work effectively, are too expensive, and take too long to resolve disputes. Therefore, when disputes occur going to the courts for resolution is rarely possible and so some alternative form of arbitration is required. Here, traditional forms of conciliation, like community councils,

might be appropriate. Alternatively, local governments or business organisations, like Chambers of Commerce, might be encouraged to set up cheap forms of arbitration as in Bolivia, Colombia and Ireland. The establishment of tenancy tribunals can be another way for tenants and landlords to resolve conflicts without resorting to lengthy and expensive proceedings in a court of law.

Written agreements should be promoted. If simple standard contract forms were available in local shops or market-places differences over what was agreed verbally, possibly many years earlier, might be avoided. Similarly, it would remind both

### Box 14:

#### Do's and Don'ts for Government Policy

Do	Don't
Recognise that many urban households live in rental and shared housing	Ignore non-owners and assume that they all wish to become homeowners now
Consider renting to be one of the various ways to improve housing conditions	Neglect rental option and focus only on home ownership
Estimate how many rental households and landlords there are	Attack landlords as a class; large numbers are just as poor as their tenants
Evaluate whether regulatory frameworks for rental housing are functioning properly and producing desirable results	Assume that poor households benefit from rent controls; poor landlords most certainly do not, nor do tenants and potential tenants who are not covered by those controls
Count the tenant families that live in settlements before beginning a settlement upgrading project and recognise their special needs	Demolish or close down poor quality rental accommodation unless it is dangerous to the inhabitants
Produce simple rental contract templates that can be bought in local stores	Assume that long contracts are desirable for every kind of tenant
Set up a cheap arbitration and conciliation service for landlords and tenants that works quickly	Assume that the court system provides adequate protection for either poor tenants or poor landlords
Provide credit facilities or subsidise for poor landlords who wish to extend or improve their accommodation	Subsidise only new home buyers

parties to agree on certain basic issues at the start of the tenancy: for instance who pays for the services and who is responsible for repairing the roof. Notarising the contract is not necessary, merely providing a copy for each signatory is enough.

### 5.9 Promote rental housing in aid agency and development bank assistance projects\*

In general, national and international aid agencies and the main development banks have shown little interest in rental housing. In recent years market reforms, banking reform and encouragement for home purchase through mortgage finance have

been the principal focus of interest with support for settlement upgrading where necessary. While individuals within those organisations have occasionally shown interest (see Fay, 2005), institutionally there has been apathy. The disinterest of most governments and most international agencies towards renting has been mutually reinforcing. Policymakers at local and national levels should ensure that the promotion of rental housing is included in projects and programmes funded by international aid agencies and development banks.



Rooms for Rent in South Africa.  
Photo © Alan Gilbert



**Rooftop rental units in the periphery of Lima is a common feature.**

Photo © UN-HABITAT/ Alvaro Uribe.



**Housing expansion for building rental units can support household budget.**

Photo © UN-HABITAT/ Claudio Acioly Jr.

A healthy housing system offers urban households the following advantages:

- A choice between tenures;
- The ability to change the location, size and quality of accommodation when family circumstances change; and
- A means through which poor and middle-income landlords, including women and the old, can increase their incomes.

It provides the urban authorities with:

- A way in which cities can reduce the quantitative housing deficit;
- A wider range of housing options;
- An opportunity to increase residential densities and to make more efficient use of infrastructure and services.

Governments are encouraged to:

- Recognise that renting is an essential component of a balanced housing system;
- Avoid policies that favour only homeownership;

- Help those poor families whose only shelter option comes in the form of rental housing;
- Help poor landlords and landladies who live on the income derived from renting.



**Building rental units require creativity in plot occupation and construction.**

Photo © Alan Gilbert





Some home owners are renting out their flats in order to pay for their mortgage in Ethiopia's Intergrated Housing Development Programme.

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