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HOUSING POLICY IN CHILE: A CASE STUDY ON TWO HOUSING PROGRAMMES FOR LOW-INCOME HOUSEHOLDS

Angelica Salvi Del Pero

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Authorised for publication by Stefano Scarpetta, Directorate for Employment, Labour and Social Affairs.

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ACKNOWLEDGEMENTS

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ABSTRACT

Chile has made considerable progress in promoting access to affordable good-quality housing over the past two decades. The proportion of households that have no housing or that live in sub-standard housing has fallen from 23% in 1992 to 10% in 2011 (Ministerio Desarrollo Social 2013). Nevertheless, the incidence of poor quality housing and overcrowding is still high by international standards and residential segregation continues to be significant in Chile’s urban areas. Compared to other OECD countries, Chile is also characterised by small rental housing sector, which accounts for 18% of the housing stock; on average this tenure comprises 32% of the housing stock across OECD countries (Salvi Del Pero et al. 2015 forthcoming).

After highlighting some of Chile’s key policy challenges in supporting access to quality and affordable housing (Chapter 1), this brief reviews two of Chile’s housing policy programmes. The first is a government subsidy to promote access to homeownership among low-income households; this programme – through various modifications – has been a central component of housing policy in Chile for over two decades. Chapter 2 discusses the characteristics of the programme, its objectives and the changes introduced to it in 2011; the further changes to the programme being discussed during the preparation of this brief – are instead not part of the study. The second policy reviewed in this report is a programme that introduced for the first time a subsidy to provide support for rental costs to young low and middle income households. Chapter 3 presents the main objectives and characteristics of this programme.

The review was prepared at the request of the Ministry of Housing and Urban Development by Angelica Salvi Del Pero under the supervision of Willem Adema and under the overall supervision of the Head of the Social Policy Division, Monika Queisser, and the directors of the Employment, Labour and Social Affairs Committee Stefano Scarpetta and Mark Pearson. The review was prepared in the second half of 2014 and was informed by a fact-finding visit to Chilean authorities, service providers and experts which took place at the end of August 2014 in Santiago de Chile and Rancagua.
RÉSUMÉ

Le Chili a beaucoup mieux œuvré, ces deux dernières décennies, en faveur de l’accès à des logements abordables et de qualité. La proportion de ménages dépourvus de logement ou très mal logés a chuté, passant de 23 % en 1992 à 10 % en 2011 (Ministerio Desarrollo Social, 2013). Toutefois, la prévalence de logements de piètre qualité et surpeuplés reste élevée à l’aune internationale, et la ségrégation résidentielle demeure significative dans les zones urbaines chiliennes. Par rapport à d’autres pays de l’OCDE, le Chili se caractérise également par un secteur locatif restreint englobant 18 % du stock de logements, contre en moyenne 32 % dans la zone OCDE (Salvi Del Pero et al., 2015, à paraître).

Après avoir mis en lumière certains des principaux enjeux de l’action publique du Chili en faveur de l’accès à des logements abordables et de qualité (chapitre 1), la présente synthèse passe en revue deux programmes de logement du pays. Le premier consiste pour le gouvernement à subventionner l’accession des ménages à faible revenu à la propriété de leur logement ; modifié à plusieurs reprises, ce programme est une composante centrale de la politique du logement chilienne depuis plus de deux décennies. Le chapitre 2 examine les caractéristiques du programme, ainsi que ses objectifs et les modifications qui lui ont été apportées en 2011 ; les autres changements, intervenus postérieurement, qui ont été examinés durant la préparation de cette synthèse ne font en revanche pas partie de l’étude. Le deuxième train de mesures examiné dans le présent rapport est un programme qui a consisté à mettre en place, pour la première fois, une subvention locative à l’intention des jeunes ménages à revenu faible ou moyen. Le chapitre 3 présente les objectifs et les caractéristiques de ce programme.

L’examen a été élaboré à la demande du ministère du Logement et du Développement urbain par Angelica Salvi Del Pero, sous la direction de Willem Adema et la supervision générale de la Chef de la Division des politiques sociales, Monika Queisser, et des Directeurs de la Direction de l’emploi, du travail et des affaires sociales, Stefano Scarpetta et Mark Pearson. L’examen a été effectué au deuxième semestre 2014 et a bénéficié des éléments recueillis durant une visite de terrain auprès d’autorités chiliennes, de prestataires et d’experts, qui a eu lieu fin août 2014 à Santiago du Chili et à Rancagua.
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CHAPTER 1. ACCESS TO GOOD QUALITY AFFORDABLE HOUSING IN CHILE AND MAIN POLICY CHALLENGES

1. Access to good-quality housing improved significantly in Chile over the past two decades. The number of households that live in sub-standard dwellings or live-in with relatives or friends decreased from 780,000 in 1992 to less than 500,000 in 2011 (Ministerio Desarrollo Social, 2013). This number – commonly known as ‘housing deficit’ in Chile – is used as an indicator of the additional number of dwellings needed to provide adequate access to housing to all households. Figure 1 shows that the decrease in the housing deficit was mainly driven by a decline in the number of substandard dwellings, despite a small increase in recent years in the number of households living-in with relatives or friends – the so called ‘allegados’. The considerable decline in poverty rates - from over 33% in 1992 to just above 11% in 2011 (OECD, 2015) - and the related increase in demand for better quality housing are a likely driver of the improvement of Chilean’s housing conditions.

![Figure 1. Evolution of the 'housing deficit' in Chile by component, 1990 to 2011](http://www.observatoriohabitacional.cl/opensite_20080428121147.aspx#20080428154158)

**Note:** Sub-standard dwellings (“Viviendas irrecuperables”) are defined as dwellings made of non-recoverable sub-standard building materials or that have no access to running water or flushing toilets. Allegados are defined as households that live-in with another household while being independent in their consumption or meals. Allegados in overcrowded dwellings (“Nucleos allegados hacinados”) are defined as households that live as allegados in dwelling with more than 2.5 people per room (definitions http://www.observatoriohabitacional.cl/opensite_20080428121147.aspx#20080428154158).

**Source:** Ministerio Desarrollo Social, Informe de Política Social 2013

2. In 2011 about 84,000 Chileans, about 0.5% of the population, were estimated to live in slums (Ministerio Desarrollo Social, 2013), a number that has sharply decreased compared to the past (OECD, 2012). In addition about 12,300 individuals were homeless in 2011 – an estimate that corresponds to about 0.07% of the population and includes people living rough, in emergency accommodation and in accommodations for the homeless (Salvi Del Pero et al, 2016).

3. The incidence of poor-quality housing and overcrowding in Chile is high by international standards and is concentrated among low income households, as shown in Figure 2. Households headed by
a woman, people with disabilities, senior citizens and ethnic minorities also more frequently have poor access to quality housing (OECD, 2012).

**Figure 2. Housing quality in Chile and selected OECD countries**

*Panel A- Share of households living in overcrowded conditions by income quintile, most recent year*

*Panel B - Percentage of households without access to private indoor flushing toilet, most recent year*

Note: A household is counted as living in an overcrowded dwelling if there is not at least one room for the household, one room per couple in the household, one room per each person aged 18 or more, one room per pair of people of the same gender aged under 18, one room per child aged between 12 and 17 with no siblings of the same gender and one room per pair of children aged under 12 (Salvi Del Pero et al, 2016 - based on the Eurostat definition). Most recent year is the survey year. Note that these definitions are different than the national definitions used in Figure 1.

Source: OECD calculations of Chile’s Encuesta de Caracterización Socioeconómica Nacional (CASEN) 2011; the EU Survey of Income and Living Conditions (SILC) 2010-2012; Mexico’s Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) 2012; and the United States’ American Community Survey (ACS) 2012. All European countries’ estimates are derived from SILC 2012, with the exceptions of Belgium (2011) and Ireland (2010).

4. Residential segregation is significant in Chile, especially in the capital city Santiago. Low-income households tend to be concentrated in the outskirts of the urban areas, in neighbourhoods characterised by high concentration of poverty and unemployment, lack of public transportation and public services, and low quality housing and amenities (OECD, 2013). Past housing policies partly contributed to this situation. The need to increase the housing stock rapidly to accommodate demographic growth and migration towards urban areas while containing costs contributed – in the absence of regulatory
mechanisms or incentives for building in more central locations – to the construction of subsidized housing where the land was cheapest, further and further away from the city centre (OECD, 2013; IDB, 2014; Simian, 2010; Vargas 2006; Sabatini et al., 2001). For example between 1990 and 1998 about 60% of all the existing subsidized dwellings in the capital’s region were located in three of the poorest municipalities (Simian, 2010). The building standards, the amenities and the connection to public services were often sub-standard. Low-income homeowners also often do not have the financial means to maintain these dwellings leading to a deterioration of the conditions of these dwellings over time.

5. Residential mobility in Chile – measured as the proportion of households that move every year – is the second lowest in the OECD (OECD, 2012). Reduced residential mobility can have negative effects on labour market reallocation and economic opportunities, and on overcrowding if credit-constraints lead to living-in with relatives.

6. On average more households in Chile are able to afford housing compared to other OECD countries. In Chile 1% of mortgaged owner-occupant households and 10% of renter households are overburdened by housing costs, i.e. spend more than 40% of their disposable income on mortgage or rent respectively. By comparison, 10% of mortgaged owner-occupants and 15% of renters are overburdened on average in OECD countries (Salvi Del Pero et al, 2016). But the average hides large differences among income groups. Housing remains too expensive for many low-income households. Figure 3 shows that among Chilean households in the lowest quintile of the income distribution 33% of mortgaged owner-occupants and 43% of renters face housing costs above 40% of their disposable income.
Figure 3. Housing cost overburden among low and middle income households in OECD countries, most recent year

Panel A - Proportion of households spending more than 40% of their disposable income on mortgage

Panel B - Proportion of households spending more than 40% of their disposable income on rent

Note: Most recent year is the survey year.

Source: OECD calculations of Chile’s Encuesta de Caracterización Socioeconómica Nacional (CASEN) 2011; the EU Survey of Income and Living Conditions (SILC) 2012; Mexico’s Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) 2012; and the United States’ American Community Survey (ACS) 2012.

7. Housing policy has played an important role in making more housing available and improving the living conditions of the poor in Chile (OECD, 2012). In fact, reducing the housing deficit for vulnerable groups is the main reported objective of housing policy in Chile, along with supporting the middle class in achieving their housing aspiration (Salvi Del Pero et al, 2016). Box 1 summarizes the main current housing programmes in Chile.
Box 1. Main housing subsidies in Chile

According to the information collected through the OECD Questionnaire on Affordable and Social Housing (QuASH), the main housing policy measures available in Chile in 2014 can be summarized as follows:

Subsidy to low-income households to promote access to homeownership (Fondo Solidario de Elección de Vivienda D.S.49 de 2011). Grant for low-income households who live in a situation of housing deficit. The grant – which can be used to build a dwelling or buy an existing one – covers most of the dwelling cost and recipients are expected not to take on a mortgage.

Subsidy to middle income households to promote access to homeownership (Sistema Integrado de Subsidio Habitacional D.S.1 de 2011 Título I "Sectores Emergentes" and Título II "Sectores Medios"). Grant for households in the second and third quintile of the income distribution. The grant covers a part of the cost of the dwelling and can be complemented by loans obtained by the recipient. It can be used to build a dwelling or to buy an existing one.

Rent-to-buy subsidies. (Subsidio Leasing Habitacional D.S.120 de 1995) Grant to complement leasing payments in rent-to-buy schemes, through which beneficiaries buy a share of a residential dwelling and pay rent on the remaining share, with the right to buy the property.

Subsidies for housing regeneration (Programa de Protección del Patrimonio Familiar, DS 255 de 2006, Título II). Grants to improve the conditions of dwellings owned by households in the first three quintiles of the income distribution. It can include repairs or improvements of sanitary, walls, roof, floors, or energy efficiency. The program “Subsidios para Acondicionamiento Térmico de la Vivienda” also provides subsidies to improve the energy efficiency of existing dwellings built with homeownership subsidies.

Subsidies for housing expansions (Programa de Protección del Patrimonio Familiar, DS 255 de 2006, Título III). Grants for low and middle income households to finance the construction of an additional bedroom in dwellings that were built with homeownership subsidies.

Tax deductions for mortgage interests (Beneficio Tributario de Rebaja de Intereses ART. 55 BIS). Taxpayers can deduct the cost of mortgage interests paid on their main residence. The maximum deductible amount decreases as taxable income increases.

Rental subsidy (Programa de Subsidio de Arriendo de Vivienda D.S. N° 52 de 2013) Earmarked cash transfers to households directed at supporting rental costs for low- and middle-income young households.

Most of these programmes are not entitlements and access to the subsidy depends on availability of funds. The government periodically opens calls for applications to a disclosed number of subsidies. Households apply by submitting the required documentation. Once the call is closed, eligible households are ranked based on a multi-dimensional vulnerability score; vouchers are granted to top-ranking households until the number of available subsidies is reached. Subsidy recipients have a given period of time (usually around 24 months) to build, purchase or rent a dwelling.

Source: OECD Questionnaire on Affordable and Social Housing 2014

8. At 0.52% of GDP, spending to support access to homeownership is relatively high in Chile compared to OECD countries for which data are available (Figure 4). Subsidies to support access to homeownership in Chile consist of grants to first-time homebuyers, rent-to-buy schemes that amount to lease programmes and supply-side subsidies. Grants to first-time homebuyers are available for low-income households and relatively better-off households. To avoid unsustainable debt burdens, grants for low-income households cover almost the full cost of the dwelling. Grants for better-off households, i.e. households in the second income quintile or above, instead cover a lower share of the dwelling cost and recipients are expected to complement the subsidy with a mortgage. In addition to these subsidies, the
government supports homeowners through subsidies for housing maintenance and upgrading and tax deductions for mortgage costs. These are not included in Figure 4 but tax deductions for mortgage costs in Chile amount to an additional 0.05% of GDP.

Figure 4. Public spending to support access to homeownership in Chile and selected OECD countries

Central government spending as % of GDP, 2012-2013

Note: * indicates that spending is missing for one of the five policy instruments and the reported amount is therefore a lower-bound estimate. Specifically, the spending data is missing for: Mexico and the Netherlands on financial assistance; Luxembourg and Spain on tax relief; Canada and France on rent-to-buy schemes; New Zealand on construction subsidies. Data for Austria, Denmark, Finland, Korea, Sweden, and Switzerland are not included as information on spending for two or more policy instruments is missing.


9. In the past, support for homeownership in Chile focussed more on quantity than on quality (Razmilic Burgos, 2010). Over time, improving the quality, integration and equity of housing support delivered by the government have become more prominent goals and are nowadays key housing policy objectives in Chile (Salvi Del Pero et al, 2016). Chapter 2 reviews the reform of the grants to low-income first-time homebuyers introduced in 2012; further improving the quality, integration and equity of support provided through these grants are key goals of the reform.

10. Until 2013, Chile’s housing policy focused mostly on support for owner-occupied housing. This contributed to a relatively low share of rented housing compared to other OECD countries. In Chile the rental sector accounts for 18% of the housing stock and is entirely comprised of private rentals; no social rental housing is available. Across OECD countries, rental housing accounts on average for 32% of the housing stock, with private rentals comprising 23% of the stock and social rental housing 9% (Figure 5).

1. Social rental housing is characterised as residential rental accommodation provided at sub-market prices and allocated according to specific rules rather than according to market mechanisms (Salvi Del Pero et al, 2016).
To support for this form of tenure, Chile introduced a subsidy for rental housing costs at the end of 2013. Chapter 3 discusses the programme and its initial results.

**Figure 5. Housing tenure in OECD countries**

*Per cent of dwellings by tenure, most recent year*

Note: Data refers to 2013 for Austria, Denmark, Estonia, Finland, Latvia, New Zealand and the United States. Data refers to 2012 for the Netherlands and Switzerland. Data refer to 2011 for Australia, the Czech Republic, Germany, Hungary, Luxembourg, Norway, Portugal, Turkey and the United Kingdom. Data refer to 2010 for Mexico, 2008 for Japan and 2002 for Chile.

CHAPTER 2.
SUPPORTING ACCESS TO AFFORDABLE HOUSING FOR LOW-INCOME HOUSEHOLDS IN CHILE

11. Public support for access to homeownership has been in place for various decades in Chile. Until the 1990s support mainly consisted of public provision programmes, directly building houses or supporting supply. A reform introduced around the year 2001 gave the private sector a central role in the delivery of subsidized housing, while the government kept a supervisory and regulatory role. In 2014 the programme regulating this area of public support was “Fondo Solidario de Elección de Vivienda D.S. N° 49” (D.S.49 henceforth). The programme was introduced in 2011, along with a subsidy directed at middle class households (“Sistema Integrado de Subsidio Habitacional D.S. N° 1”, D.S.1 henceforth). D.S.49 and D.S.1 both consist of grants to promote access to homeownership: D.S.49 is directed at households in the lowest income quintile and finances almost the entire value of the dwelling; D.S.1 is instead directed at low-middle income households that are expected to finance a larger portion of the value of the dwelling.

12. D.S.49 replaced the programme “Fondo Solidario de Vivienda D.S. N° 174, Título I (D.S.174-I henceforth), introducing changes that seek to improve the targeting of the subsidy, improve the quality of the subsidized dwellings and their location. D.S.49 also aims to provide applicants with more choice in the application process and to provide financial incentives to make more than the minimum contribution to the cost of the dwelling (MINVU, 2011). These objectives respond to a number of unintended effects of previous policies to promote access to homeownership among low-income households.

13. The weak targeting of grants to low and middle income first-time homebuyers was a concern. Household survey data show that in 2009 about 33% of households who had bought – at any point in the past – their homes with a subsidy belonged to the top two quintiles of the income distribution (Guernica Consultores, 2012). Even though these subsidies include those directed at middle-income households and although eligibility to the subsidy is based on a multidimensional vulnerability score rather than on income, the percentage of recipients in higher quintiles of the income distribution is high enough to question the effective targeting of the support system for access to homeownership over the years (MINVU, 2011), even allowing for the part of recipients that will have moved to higher income quintiles upon receiving the subsidy.

14. There were also concerns around the poor quality and location of the subsidised dwellings and their under-utilisation. Subsidised dwellings were often too small, lacked amenities and access to public services and employment as they tended to be concentrated in poor and peripheral urban areas. In addition, The Ministry of Housing and Urban Development (MINVU henceforth) estimated that more than 3 000 of the dwellings built through subsidies between 2007 and 2010 were empty or irregularly occupied, as recipients rented out the dwelling – which is not allowed by the programme – or never moved in (MINVU 2011; CChC 2014). This may suggest that the required contribution to the cost of the dwelling is too low at least for part of the eligible population.

15. Finally, concerns existed about the role of the so-called EGIS (Entidades de Gestión Inmobiliaria Social). The EGIS were coordinating entities (for profit or non-profit, private or public) that brought together applicants, helped them prepare and submit the real estate projects for the D.S.174-I subsidy, find the land plots for the project, and provided technical and social assistance during construction of the

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2. The D.S.1 program is not part of the review, but it should be noted that it aims, among other things, at improving the targeting of D.S.49 by correcting a discontinuity in the design of D.S.174 which made it more advantageous for better off households to apply for D.S.174-I instead of D.S.174-II (MINVU, 2011).
project. MINVU and its regional service providers – called “Servicios de Vivienda y Urbanización” (SERVIU henceforth) – were instead responsible for selecting the submitted projects and the applicants, disbursing the subsidies and monitoring the delivery of the subsidized dwellings. Concerns have been raised about the quality of the technical assistance provided by some of the EGIS, about the possibility that some EGIS were pre-selecting projects and applicants with the greatest likelihood of obtaining the D.S.174-I subsidy from MINVU, and about misappropriation of funds by some EGIS.

Characteristics of the D.S.49 subsidy and changes from D.S.174-I

16. The D.S.49 programme is a public subsidy – managed by MINVU – to promote access to homeownership among low-income households living in a condition of social vulnerability and housing deprivation. Eligible households are given a subsidy that they use to finance the construction or the purchase of a house; like most housing support programmes in Chile, support is subject to availability of funding. In 2013 the government granted 39 000 D.S.49 subsidy and about 9 300 of them were paid as the subsidized dwellings were built. Overall the government reported spending about 250 million USD on the D.S.49 programme, which amounted to about 0.1% of GDP.

17. Eligibility to the subsidy is based on a multidimensional vulnerability score, measuring access to economic resources, household needs and risks faced by the household, based on the Ficha Proteccion Social (FPS henceforth). Priority among eligible households then established on a reweighted version of this score giving more weight to the housing and demographic characteristics of the applicants. The FPS is the main identification instrument for targeting social programmes in Chile but, being based on self-reporting, it is open to fraudulent behaviour (OECD, 2012).

18. D.S.49 can be used to build dwellings on new land (i.e. “greenfield projects”), build on land with pre-existing dwellings (i.e. “densification projects”), or build on land already owned by the recipient(s). It can also be used to buy existing dwellings. Households that already own a home and households that already received other homeownership subsidies are not eligible for D.S.49. Recipients are required to move into the subsidized dwellings and are not allowed to use it for other purposes, including renting it out, for a period of five years.

19. The total cost/price of each dwelling cannot be higher than 33 600 USD, which is – as an example – about 60% of the median housing price recorded in the first half of 2012 in the Santiago Metropolitan area (based on housing price data provided by MINVU to the OECD).

20. Recipients are required to make a one-off contribution worth 420 USD, i.e. around 4% of the average annual wage, towards the cost of the dwelling in a dedicated savings account. Recipients are not allowed to use loans for the acquisition of the dwelling.

21. The D.S.49 subsidy is split into two components: the main subsidy and supplementary subsidies. The main subsidy depends on the type of dwelling being subsidized and on the municipality. For greenfield projects, the amount of the main subsidy is increased for dwellings built in larger urban areas – where land is more expensive – and for dwellings build in rural areas – where construction costs are higher because of smaller projects and higher land development costs. In both instances, the majority of recipients need to

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3. Subsidy values are set in “Unidad de Fomento (UF)”, an inflation-linked currency unit. Throughout the text, values are expressed in USD by first converting UF in Chilean Pesos, using the 2014 average provided by the Central Bank of Chile (23 960.6 CLP per UF; source: http://si3.bcentral.cl/Siete/secure/cuadros/arboles.aspx) and then converted into US dollars at the average exchanges rate for 2014 (570.636 CLP per USD source: http://stats.oecd.org/index.aspx?queryid=169).
reside in the municipality where the dwellings are built, a rule introduced to avoid displacement of households from their community of origin. If D.S.49 is used to build on own land or to buy an existing dwelling, the amount of the main subsidy is changed and the location or the land development increments cannot be paid (see Table 1).

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Notes: For existing dwellings the main subsidy is increased by USD 84 per square meter in excess of 37.5 up to a maximum of USD 2 099. Subsidy values – set in “Unidad de Fomento (UF)” – were first converted in Chilean Pesos (at the 2014 average provided by the Central Bank of Chile (23 960.6 CLP per UF) and then converted into US dollars at the average exchange rate for 2014 (570.636 CLP per USD source: http://stats.oecd.org/index.aspx?queryid=169).

Source: MINVU, 2011

22. In addition to the main subsidy, D.S.49 includes a number of supplementary subsidies. To encourage a greater contribution to the cost of the dwelling, a supplementary savings subsidy is granted to recipients that contribute more than the minimum required contribution of USD 420. To encourage a better use of available land and a better location of subsidized dwellings, D.S.49 provides supplementary subsidies for densification projects, i.e. projects that involve a larger number of dwellings per amount of land. To promote housing quality, D.S.49 introduced a minimum dwelling size of 42 square meters (while keeping the D.S.174-I standards in the number of separate rooms) and provides supplementary subsidies for larger households and for households with disabled household members, to help them afford larger or more accessible dwellings. Box 2 provides further details on the structure of D.S.49.

23. Compared to D.S174-I, D.S.49 improved the minimum standards for common facilities of larger projects (e.g. playgrounds and sports facilities); it also reduced the maximum number of dwellings in a single project from 300 to 160 but, at the same time, it introduced the so-called “mega-projects” where lots of 10 to 160 dwellings can be built in stages. However, D.S.49 does not provide supplementary subsidies for this purpose, abolishing the supplementary subsidies for improving public green spaces and equipment granted by D.S.174-I, which were worth about USD 500.
Box 2. Further details on the structure of D.S.49

The total cost of dwellings subsidized by D.S.49 is financed by the recipient’s contribution, possible extra cash contributions the recipients might receive from third parties, and the subsidy itself. Recipients may also contribute land, but its value is not counted towards the total cost of the dwelling. In the most remote regions of the country – including, for example, Antarctica or Easter Island – the cost/price ceiling is set at USD 50,400 due to higher construction costs.

Sources of financing for dwellings subsidized by D.S.49

For greenfield projects, the main subsidy is set at around 16,000 USD in most municipalities, except for those in the most remote regions of the country where the subsidy is set at 18,900 to 25,200 USD. The main subsidy is increased by about USD 4,200 to 8,400 (“subsidio de localización” or location increment), depending on the municipality, for dwellings built in or around urban areas of more than 5,000 inhabitants, as long as the dwellings meet certain conditions of proximity to water utilities, main road, school, primary health center, and public transport. The location increment for group applications is granted only if 60% or more of the applicants already resided in the municipality or adjacent ones. The main subsidy is also increased for dwellings built or purchased in rural areas (“subsidio de factibilización” or land development increment) as long as at least 80% of the recipients (or the recipient if there is only one) resided in the municipality where the subsidized housing will be built.

The supplementary subsidies for densification projects are equal to 4,700 USD for multi-apartment buildings of three or more floors are eligible (“Subsidio Complementario Densificación en Altura”), as long as the dwellings are located in urban areas eligible for the localization subsidy. Dwellings built on land with pre-existing dwellings are instead eligible for a supplementary subsidy (“Subsidio de Densificación Predial”) of 840 USD.

Recipients need to contribute a minimum of USD 420 through their savings to the cost of the dwelling. There is a premium for recipients who make higher contributions – the supplementary savings subsidy (“premio al ahorro adicional”) – which amounts to USD 630 for a savings contribution of USD 840 and to USD 1050 for a savings contribution of USD 1260.

Households of five or more members or households with elderly members are granted a maximum supplement of USD 2,900 to buy a larger dwelling (3 bedrooms and 50 square meters minimum). Households with disabled household members are eligible for a supplementary subsidy (“Subsidio Complementario Personas con Discapacidad”) ranging between USD 840 and 3,400 to be used for making the dwelling accessible.

24. D.S.49 substantially reformed the application process, to provide applicants with more choice and make the process less dependent on the coordinating entities. In particular, compared with D.S.174-I, the households’ application for the subsidy and the submission of projects have been split. In D.S.49 applications and projects are submitted separately to the regional SERVIU and households can apply for D.S.49 without a project. Applicants who developed a project in advance are matched to it after the application; applicants without a project are matched by SERVIU to a submitted project with available dwellings4 or can develop a project at a later stage. Under D.S.174-I, instead, the coordinating entity developed a project and organized the participating applicants before submitting everything together to SERVIU. Groups of applicants could not apply without a project in D.S.174-I. The coordinating entities

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4. The idea is that the number of dwellings in submitted projects is larger than the number of applicants associated to the project.
(now called *Entidades Patrocinantes*) still exist in D.S.49 and have a role similar to that of the EGIS in D.S.174-I but their involvement is no longer compulsory at the beginning of the process.

25. In addition to technical support, the coordinating entity provides social support to recipients before and after the delivery of the dwellings. The goal is to help recipients understand their rights and duties as homeowners and help create social bonds among neighbours, reducing social tensions in neighbourhoods that are often characterized by a high concentration of vulnerable households.

**Results and recommendations**

26. Compared to D.S.174, the average main subsidy amount for greenfield projects in urban areas under D.S.49 increased by about 1 280 USD⁵ but the subsidy decreased by almost USD 2 200 in most municipalities. Table 2 provides a simulation of the change in the maximum possible payment rate for greenfield projects and for the purchase of existing dwellings in the case of a 55 square meter dwelling in one of the municipalities of the Santiago metropolitan areas.⁶ Results show that the payment rate for greenfield projects increased by 3% while the payment rate for existing dwellings increased by 15%. The supplementary savings subsidy accounts for most of the increase, especially for greenfield projects; for households who contributed the minimum savings, the payment rate actually decreased compared to D.S.174 (-0.3% for greenfield projects but almost 10% for existing dwellings).

27. The main reported challenge with the implementation of D.S.49 concerns the number of households that obtained a subsidy but have not been able to find a project to actually build the dwelling. MINVU officials reported to the OECD that about half of the applications for D.S.49 were submitted without a project, indicating that there was demand for the new application mode. However, out of 35 000 households that applied for D.S.49 without a project since its introduction in 2012, 20 000 were estimated to not have found a project as of August 2014.

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⁵ To ensure comparability between the two subsidies, the comparisons takes into account the localization subsidy and the supplementary subsidies to improve public spaces provided by D.S.174-I.

⁶ Subsidy amounts are different in some municipalities of the capital region, but changes in subsidy amounts after the reform are marginal.
Table 2. Subsidy payment rates in D.S.49 vs D.S.174-I
Simulation for 55 square meters dwelling eligible for the location increment in the "La Pintana" municipality of the capital region. Values expressed in USD.

<table>
<thead>
<tr>
<th></th>
<th>Dwelling in greenfield project</th>
<th>Existing dwelling</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>D.S.49</td>
<td>D.S.174</td>
</tr>
<tr>
<td>Main subsidy with localization</td>
<td>24 354</td>
<td>15 536</td>
</tr>
<tr>
<td>Savings</td>
<td>1 260</td>
<td>1 260</td>
</tr>
<tr>
<td>Savings subsidy</td>
<td>1 050</td>
<td>n.a.</td>
</tr>
<tr>
<td>Localization subsidy</td>
<td>See main subsidy</td>
<td>8 398</td>
</tr>
<tr>
<td>Densification subsidy</td>
<td>4 619</td>
<td>4 619</td>
</tr>
<tr>
<td>Equipment subsidies</td>
<td>n.a.</td>
<td>504</td>
</tr>
<tr>
<td>Additional square meters</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total subsidy</td>
<td>30 022</td>
<td>29 057</td>
</tr>
<tr>
<td>Dwelling Cost/Price</td>
<td>31 282</td>
<td>30 316</td>
</tr>
</tbody>
</table>

Note: The subsidy is computed for a hypothetical household of four members with no disabilities whose dwelling is eligible for the localization and densification supplements and who makes the minimum savings contribution to maximize the “premio al ahorro adicional”. Subsidy values – set in “Unidad de Fomento (UF) – were first converted in Chilean Pesos (at the 2014 average provided by the Central Bank of Chile (23 960.6 CLP per UF) and then converted into US dollars at the average exchanges rate for 2014 (570.636 CLP per USD source: http://stats.oecd.org/index.aspx?queryid=169).

Sources: OECD elaboration of MINVU data.

28. A number of factors may have contributed to this situation. Experts and officials interviewed by the OECD acknowledged that, when D.S.49 was introduced in 2011, much of the construction industry was absorbed by the reconstruction process after the earthquake and Tsunami that hit Chile in 2010 as well as by a mining boom in the north of the country. At the same time, the booming economy and population growth fed upward trends in land prices, especially in the nation’s capital. As a result, real estate prices were growing rapidly in 2012 and 2013, as shown in Figure 6.

29. The additional requirements for public spaces introduced by D.S.49 – which are likely to help further improve the quality subsidized housing but also increase construction costs – were identified in OECD review interviews as one of the reasons why many households are not able to find developers to build their dwellings. Under strong competition from more profitable segments of the real estate market, profit margins in the development of subsidized housing in the D.S.49 segment have been eroded by the higher required standards.
Figure 6. Real house prices in Chile and in the Santiago Metropolitan Area

Real housing price index


30. An increase in the subsidy amount and corresponding dwelling price could help attract more developers to supply subsidized dwellings, but there is a risk that subsidies are capitalized in land prices. Strengthening incentives for densification projects could build in plots of better located land, while reducing the costs of connection to utilities and public services.

31. Importantly, D.S.49 no longer sets separate amounts for land, site development, urbanization, and construction costs; under D.S.174-I these supplementary subsidies could only be used for their specific purpose and any unused part could not be used for construction costs. Removing the limitations on the share of the total subsidy amounts spent on the various types of costs should, other things being equal, allow better access to more expensive land closer to urban centres. Yet these changes to the design of the subsidy alone are unlikely to increase the number of subsidized dwellings built in better located areas due to the rise in land prices.

32. Government officials reported that SERVIUs – the regional service provider – have been using some of their own land for subsidized housing in more central location (OECD, 2012). Land use regulation could be used as a complementary strategy; the government could, for example, impose quotas for subsidized housing in new development projects.

33. The new application process introduced by D.S.49 has shortened the period over which eligibility to the subsidy is established, but there is no data to determine whether the total amount of time necessary to obtain a dwelling has increased or decreased compared to D.S.174. Officials and experts met by the OECD recognized that under D.S.174-I the EGIS typically had pre-selected the best projects and candidates before submitting the application for the subsidy, so they were able to have the project approved in a relatively short time upon application. However, it usually took the EGIS many months of preparation to pull the project and the applicants together. In other words, the change in the application process might simply have brought to light the total amount of time needed to obtain a dwelling.

34. With the available data it is not possible to determine whether the lack of project proposals in D.S.49 was driven by the changes in the application mode or by the concurrent developments in the
construction industry discussed above. In any case there seems to be merit in the direct monitoring of the demand for the subsidy sought by the reform, without an initial filtering of projects from the coordinating entities. The possibility to apply without a project makes the programme more inclusive for households that would not have been integrated in projects pre-selected by the coordinating entities, provided that enough projects are developed to match this application mode and SERVIUs has sufficient capacity to provide the necessary technical assistance.

35. Compared to D.S.174-I, D.S.49 more strongly links priority in the assignment of the subsidy to elements that are easier to verify (living conditions, household composition and time on the waiting list). Linking FPS eligibility scores to official records rather than relying solely on self-assessment could bring further benefits in terms of targeting, even though care needs to be taken to take the incidence of informality into account. Data provided by MINVU (Table 3) show that 73% of D.S.49 recipients vs. 69% of D.S.174-I recipients belonged to the bottom quintile of the FPS vulnerability score.

Table 3. Proportion of beneficiaries by quintiles of FPS in D.S.49 and D.S.174-I

<table>
<thead>
<tr>
<th>FPS quintiles</th>
<th>D.S.174-I</th>
<th>D.S.49</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent households 2010</td>
<td>Percent households 2011-2014</td>
</tr>
<tr>
<td>1</td>
<td>69.2</td>
<td>72.62</td>
</tr>
<tr>
<td>2</td>
<td>20.5</td>
<td>18.80</td>
</tr>
<tr>
<td>3</td>
<td>7.2</td>
<td>6.45</td>
</tr>
<tr>
<td>4</td>
<td>2.5</td>
<td>1.88</td>
</tr>
<tr>
<td>5</td>
<td>0.6</td>
<td>0.26</td>
</tr>
</tbody>
</table>

Sources: OECD elaboration of MINVU data.

36. D.S49 provides incentives to increase the recipient’s contribution to the cost of the dwelling – through the supplementary savings subsidy – but the minimum contribution has not increased compared to D.S.174-I and it is still low at 4% when recipients increase their savings contribution to maximize the supplementary savings subsidy. The government needs to monitor whether the government’s matching contribution encourages households to borrow the funds for the savings deposit, possibly even from loan sharks. A greater compulsory contribution, especially from relatively better off households, could be considered to reduce the overall cost of the programme and possibly discourage some of the reported irregular occupation. At the same time, before reducing D.S.49 support to vulnerable families it will be important to assess the overall level of support available to these families, as the D.S.49 subsidy is an important component of social policy for vulnerable households in Chile.
Box 3. Proposed changes to D.S.49

Chile’s Ministry of Housing and Urban Development (MINVU) reports that a considerable number of D.S.49 subsidy recipients have not been able to find a project to build their dwelling or do not have sufficient funding to complete the construction of the dwelling. MINVU considers that D.S.49 requires a number of adjustments to more effectively provide housing solutions for the most vulnerable households in Chile. As a consequence MINVU is proposing to introduce a number of modifications that can be summarized as follows:

- **Higher payment rates.** MINVU proposes to increase the main subsidy’s payment rates – especially for land plots with good access to public transport and to public services. It also proposes to add separate supplementary subsidies to finance improvements of common areas, green spaces and facilities, as well as supplementary subsidies to finance land development costs in medium scale projects located in areas with special needs. Additional subsidies would be provided also for small projects on land plots with more desirable location, for “densification projects”, for projects on own land, and for purchasing existing dwellings,

- **Structure of the subsidy amount.** MINVU proposes to set one main subsidy amount for each type of project. Correction factors will then be applied to each municipality or areas with special geographical needs, but the values will be determined through a different legal instrument, so that modifications can be introduced without having to change the law.

- **Higher contribution from recipients.** A higher minimum compulsory contribution is proposed for households in the highest eligible quintile of the vulnerability score; the matching subsidy for contributions in excess of the required minimum would also be increased.

- **Greater targeting.** MINVU plans to assign additional points to households that have been on the waiting list the longest, to households that live in poor housing conditions as well as to households with single-parents, elderly or disabled members.

- **New project types.** With the modifications, recipients would be allowed to carry out on their own the construction of the subsidized dwellings – with the necessary technical assistance – and to build small apartment buildings under co-ownership tenure.

- **Changes in application modes.** MINVU plans to remove the possibility for groups to apply without a project, but still allow the coordinating entities to propose projects with dwellings in excess of the number of applicants in the project. SERVIUs will support subsidy recipients without a project and help them find a coordinating entity and a suitable project.
In Chile the private rental market is smaller than in most OECD countries and there is no social rental housing, as shown in Figure 5. Furthermore, the proportion of households living in rental housing decreased in Chile over the past decade – at a time when it was increasing in many Latin American countries (IDB, 2014). Bias in favour of homeownership in housing policy has probably contributed to this outcome (OECD, 2012).

As in other Latin American countries (IDB, 2014), renting in Chile is a more common tenure outcome for high-income households than for low income ones. In most OECD countries the situation is the reverse and renting is more common among low-income households (Figure 7).

Most of the rental housing stock in Chile is owned by individuals rather than by professional investors: 80% of the landlords only own one property and 10% own two properties (Blanco Blanco et al, 2014).

The rental market in Chile is also characterized by a high degree of informality: 40% of rental housing in Chile was rented without a contract in 2011. Informality tends to be concentrated among low-income households. As shown in Figure 8, 56% of tenant households in the bottom quintile of the income distribution have an informal lease.
41. Promoting rental housing in Chile can help improve its low residential mobility (Chapter 1). Renting may be the preferred tenure for households whose housing needs are likely to change in the short to medium term as a result of demographic or employment changes. In the short term, renting can be a better financial alternative than ownership; capital gains resulting from increasing housing prices may be smaller than maintenance costs, property taxes and transaction costs linked to relocation.

42. Support for rental housing could also be part of a strategy to improve access to good quality housing for low-income households in Chile. Access to rental market can also help reduce the number of ‘allegados’, who are often credit-constrained and are not able to access homeownership even with the D.S.49 subsidy. Improving access to good-quality housing through subsidies for homeownership alone would be very expensive, especially in terms of location as significant resources would be needed to subsidize the purchase of well-located land for low-income households. In addition, subsidies to promote homeownership among low-income households do not always result in improved housing conditions and housing wealth. Recipients are sometimes not able to sustain the necessary maintenance costs and, even in the long term, can have limited opportunities to sell dwellings characterized by poor location and quality.

43. An additional concern relates to the fact that more than a third of the recipients of access-to-homeownership subsidies for low-income households are young families, i.e. households headed by adults aged under 30. The subsidized dwellings often quickly become too small for these families, as they are likely to grow in size in the short to medium term: the average household size for households in the 25-29 group is 2.9 persons compared to 3.7 persons for the 35-39 group (data provided by MINVU based on CASEN 2011).

44. In response to these considerations, the government of Chile introduced a programme to support rental housing at the end of 2013. The characteristics, goals and first results of this subsidy are discussed in this chapter.
Characteristics of the rental subsidy

45. The Programa de Subsidio de Arriendo de Vivienda D.S. N° 52 de 2013 (D.S.52 henceforth) is a demand-side means-tested earmarked temporary rent subsidy directed at low- and middle-income young households. Support is subject to availability of funding. The objective of D.S.52 is to accommodate the mobility needs of young households who do not own a house and whose housing needs are likely to change in the short term. The idea is to help these households to delay their application to a homeownership subsidy by a few years – if they need to – until their housing needs are more stable.

46. Table 4 compares the characteristics of Chile’s D.S.52 to housing allowances in other OECD countries. In all OECD countries for which information is available – except for Chile and the United States – housing allowances are cash benefits to which eligible households are entitled. Housing allowances are means tested in all of the countries included in Table 4, except for Denmark; the household’s income is used as an eligibility condition in all countries while there is more variation in the use of household composition, paid rent and tenure.

Table 4. Characteristics of housing allowances in Chile and selected OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Cash transfer (CT) / Voucher (V)</th>
<th>Available to: private tenants (PT) / social tenants (ST) / owner-occupants (HO)</th>
<th>Entitlement (E) / subject to resources availability (AV)</th>
<th>Eligibility based on: income (I), household composition (HC), rent level (R)</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>CT</td>
<td>PT</td>
<td>E</td>
<td>I + HC + R</td>
<td>18%</td>
</tr>
<tr>
<td>Chile</td>
<td>V</td>
<td>PT</td>
<td>AV</td>
<td>I + HC + R</td>
<td>0.1%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>CT</td>
<td>PT + HO + ST</td>
<td>E</td>
<td>I + HC + R</td>
<td>4%</td>
</tr>
<tr>
<td>Denmark</td>
<td>CT</td>
<td>PT + ST</td>
<td>E</td>
<td>none</td>
<td>23%</td>
</tr>
<tr>
<td>Germany</td>
<td>CT</td>
<td>PT + ST + HO</td>
<td>E</td>
<td>I + HC + R</td>
<td>12%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>CT</td>
<td>PT + ST + HO</td>
<td>E</td>
<td>I + R</td>
<td>15%</td>
</tr>
<tr>
<td>Norway</td>
<td>CT</td>
<td>PT + HO + ST</td>
<td>E</td>
<td>I + R</td>
<td>5%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>CT</td>
<td>PT + HO</td>
<td>E</td>
<td>I + HC</td>
<td>12%</td>
</tr>
<tr>
<td>United States</td>
<td>V</td>
<td>PT + ST</td>
<td>AV</td>
<td>I</td>
<td>1%</td>
</tr>
</tbody>
</table>

(1) Disaster relief programs not included.

Notes: Coverage is defined here as the number recipient households or income units as a percentage of the total number of households in the country. The number of recipients for the Czech Republic does not include recipients of the “Supplement of housing” because they are generally recipients of the housing allowance included in the table.


47. More specifically the subsidy is reserved to households of at least two members headed by adults aged under 30, for example young couples with or without children or young single parents with one or more children. As for D.S.49, eligibility to D.S.52 is based on the multidimensional vulnerability score in the FPS, which must be below 13 484 points (i.e. third quintile of the vulnerability distribution). Eligibility is also based on the household’s formal income, which needs to be between USD 360 and USD 1 125 per month (i.e. within the 2nd and the 6th decile of the income distribution). The minimum formal income requirement is intended to ensure that the household will have the necessary financial means to pay the rent. In addition, applicants need to have USD 180 in a special savings account that is used as a guarantee for the rental contract (1 month rent).
48. D.S.52 is reserved for the ‘allegados’ and for renters; homeowners are not eligible. As is the case for the homeownership subsidies, the subsidy is conditional on the availability of funding and eligible households are ranked based on a multidimensional vulnerability score, housing composition and current housing conditions.

49. The subsidy is flat and set at USD 135 per month approximately, with no variation across municipalities. While the subsidy amount does not vary with the amount of paid rent, eligible rents are capped at USD 400 per month. There is also a cap on the subsidy-to-rent ratio which cannot be higher than 0.8. The dwelling rented through the subsidies also needs to satisfy minimum quality and overcrowding standards, which are checked by the regional SERVIU, the regional service providers.

50. The subsidy is limited to 5 years even though the 60 payments can be disbursed over a period of 7 years to accommodate for the time possibly need to relocate to a different rental dwellings without losing the subsidy. After the first 3 years, however, the subsidy amount is reduced to USD 110, to encourage recipients to start considering homeownership. In fact, the principle of transitioning to homeownership is built into the rental subsidy itself as recipients receive additional points in the application for the D.S.1 homeownership subsidy. D.S.52 is earmarked and paid directly to the landlord through a dedicated bank account in Banco Estado, a state-owned bank, to which the tenant also makes its payment.

51. As a proportion of the country’s average wage, the rental allowance in Chile is higher than in other selected OECD countries for which data is available (Figure 9). It needs to be kept in mind, however, that coverage is low in Chile, as it will be shown in the next section.

**Figure 9. Average benefit payment as a proportion of gross average wages in Chile and selected OECD countries, 2012**

![Graph showing average benefit payment as a proportion of gross average wages for different countries.](source)

Source: Salvi Del Pero et al (2016) for data on average payments; OECD Benefits and Wages 2012 country chapters for information on average wages.

**Initial results and recommendations**

52. In its first year of operation, the D.S.52 pilot programme was kept small to better understand interest and use among potential beneficiaries and reactions from the market. A total of 10 000 were made available through two calls for applications in 2014. The results in Table 5 show that the number of applications for the first call was relatively low compared to the number of available vouchers and – as a result – almost all applicants were granted the voucher. A likely reason for the limited number of applications is lack of knowledge about the programme among the target population, as the measure had been launched just a few weeks before the first call. The minimum formal income requirement, which was the most common reason for rejection of applications according to findings of the review mission, could potentially also restrict the eligible population.
Table 5. Applications to D.S.52 in 2014

<table>
<thead>
<tr>
<th>Call of January-February 2014</th>
<th>Chile</th>
<th>Santiago Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of available vouchers in the call for applications</td>
<td>5 000</td>
<td>1 850</td>
</tr>
<tr>
<td>Number of applications</td>
<td>5 771</td>
<td>1 986</td>
</tr>
<tr>
<td>Number of selected applications</td>
<td>5 000</td>
<td>1 733</td>
</tr>
</tbody>
</table>

Source: Servicio de Vivienda y Urbanización Metropolitano 2014

53. Officials interviewed by the OECD reported that the most common reason for rejecting applications was that the applicant did not meet the minimum formal income requirement. Some SERVIUs also reported that the subsidy involves a considerable workload as each dwelling needs to be visited and certified. More time will be needed to understand the demand for this type of subsidy and for prospective tenants and landlords to become familiar with it.

54. With the 4 900 vouchers offered in the second call later of 2014, MINVU planned to spend about USD 1.6 million which amounts to about 0.001% of GDP for 10 000 vouchers. Of course, this is a pilot programme, but spending in other OECD countries is generally much higher (Figure 10).

![Figure 10. Public spending for housing allowances](image)

Notes: information on the amount of spending on housing allowances is missing for Austria, Israel and Ireland. Information on the amount of spending in Switzerland has not been included because restricted to the city of Basel.

55. Data provided by MINVU show that 44% of the D.S.52 recipients used to live as ‘allegados’ and 46% in a condition of overcrowding before receiving the subsidies. Through the subsidy, these households were able to live independently and with sufficient living space. For households that were already renting before receiving the subsidy, the subsidy reduced the proportion of income spent on rent from 40% to 16%. As shown in Figure 11, 73% of the recipients belong to the first quintile of the income distribution, 20% to the second and the rest to the third quintile. In other words, recipients are concentrated in the bottom part of the eligible population considering that the bottom half of the lowest quintile is not eligible.

Figure 11. Recipients of housing allowances across income quintiles in Chile and selected OECD countries

Percentage of recipients by quintile of income distribution, 2013

![Graph showing distribution of recipients across income quintiles](source: Salvi Del Pero et al (2016)).

56. Overall, the design of the subsidy appears to be consistent with the government’s goal of providing “bridge support” to young households and helping them live independently in good-quality dwellings while saving to apply for a homeownership subsidy. Rental subsidies designed as a bridge to homeownership are not common in other OECD countries.

57. Many aspects of the subsidy seem to ensure a relatively smooth administration, provided some time is allowed for SERVIUs to become familiar with the subsidy and to organize the complex task of visiting the dwellings before issuing the subsidy. For example, it is simple to continue support for recipient households that relocate because payments are made through a national bank and because the 60 monthly payments can be spread over 7 years. D.S.52 also allows for some payment flexibility to avoid evictions in the face of temporary income loss: a tenant who is late with a maximum of three months of payments can pay them later without losing the subsidy. The government does not act as a guarantor for the payment of rent and the subsidy is withdrawn if tenants do not pay rent for more than three months. Withdrawal of the subsidy, however, does not result in the termination of the rental contract.

58. The design of D.S.52 should not discourage recipients from increasing their working hours or encourage them to leave paid employment. The payment rate does not change with the household’s income, and income eligibility is only verified when the subsidy is first granted. At the same time, the subsidy payment rate is about half of the minimum wage and it does not affect income taxes – from which eligible households are exempt. D.S.52 also does not lead to a reduction in social assistance, which is phased out at income levels below the D.S.52 eligible minimum income. The same cannot be said for many other OECD countries where a considerable part of wage increases are taxed away by the phasing out of housing allowances and its interaction with income taxes (Salvi Del Pero et al, 2016).

59. The initial results and some elements in the subsidy design, however, point to some aspects of D.S.52 that need to be better understood and monitored. The small overall size of the rental market in Chile
is a potential concern mentioned by experts interviewed by the OECD. Given that supply is constrained in the short run, the subsidy might increase rental prices by increasing demand for rental housing. Preferential tax treatment for owner-occupied housing compared to rental housing hinders the development supply in the rental sector and Chile should pursue greater tenure neutrality in it public support for housing and consider further shifting part of the support for owner-occupied housing to rental housing. Chile might consider using supply-side subsidies to promote the supply of affordable rental dwellings, as done in various OECD countries including Australia, Germany, New Zealand and the United States. The subsidies should be explicit, direct and transparent; implicit subsidies such as tax incentives (tax credits, exemptions, exonerations, differential rates, among others) should be used as a secondary option because they hide the real value of the subsidy and create inefficiency in the collection (OECD, 2012). Land-use regulation can also be used to increase the supply of affordable rental housing in areas characterized by stronger demand.

60. Chile should improve the enforcement of its tenancy law to encourage the supply of rental housing. It is difficult for landlords in Chile to evict tenants who have rent arrears or violate the contract in other ways: government officials reported that the eviction process is long and costly and it can take up to a year plus the time needed to obtain the enforcement of the ruling. As a result landlords – who are mostly not professional property managers – may be reluctant to let their dwellings to tenants they do not know, and especially low income tenants. The government could also offer guarantees on rent arrears for subsidized rental contracts that go beyond the one-month deposit made by the tenant.

61. If support to supply of rental housing is put in place, rental support could be extended to a wider part of the population. MINVU is considering widening coverage marginally by extending eligibility for the subsidy to households headed by adults aged 30 to 35.

62. Housing allowances, however, have limitations in addressing dimensions of housing problems not related to housing affordability. For example they might not improve access to housing for very vulnerable households who are unable to find private rental contracts on account of their unstable revenues or complex social needs. In many OECD countries, social rental housing is an important form of housing support, especially for low-income and vulnerable households. It predominantly consists of rental accommodation provided at sub-market prices and allocated according to specific rules rather than according to market mechanisms (Salvi Del Pero et al, 2016). The size of the social rental housing sector in OECD countries ranges from less than 4% of the total dwelling stock in Eastern European countries (Latvia, Estonia, and Hungary), Switzerland and Portugal to over 20% in Denmark, Austria, and the Netherlands (Figure 7). In some countries – like Denmark, Austria or the Netherlands – the sector is open to a wide range of income groups; in other countries it is much more targeted to households who are not able to afford housing on the market. Regardless of the degree of formal targeting, in all OECD countries lower income households are the most likely to live in social rental housing; household survey data shows that households from the first two quintiles of the income distribution account 63% of social housing tenants on average in OECD countries (Salvi Del Pero et al, 2016).

63. Chile should consider providing support to develop a social rental housing sector to improve access to housing for vulnerable households. In most OECD countries the main providers of social rental housing are public (mostly municipal companies or municipalities) and non-profit organizations. In a few countries – such as Germany, Ireland and the United States – social rental housing is also provided by for-profit companies (Salvi Del Pero et al, 2016). The role of non-profit and for-profit providers has been increasing over time, reflecting both budgetary constraints and discontent with past outcomes in some countries (Maclennan and More 1997).

64. Public support for the provision of social rental housing in OECD countries mostly consists of transfers to local authorities for the direct provision of social rental housing and supply-side subsidies to non-government social rental housing providers – in the form of grants, public loans from special public
credit institutions, interest-rate subsidies, and government-backed guarantees. In addition, social housing providers – both governmental and not – can benefit from a number of implicit subsidies that include: tax exemptions on property, land and VAT on the cost of construction; provision of land below market-price and through the planning system, whereby authorities ask private developers to allocate a proportion of the dwellings as affordable units that are then sold to housing associations. Public support for social rental housing commonly also includes allowances granted to social housing tenants.

Box 4. Policies to support the supply of private rental housing to low-income households: examples from Germany and the United States

Social housing started as housing construction to meet housing demand from rapidly growing populations, often provided by private company owners or philanthropist for workers moving to urban areas. Intervention of the public sector in the provision of social housing only took a substantial dimension after the Second World War, when countries faced the severe supply shortages. The forms of subsidies used to deliver housing and the extent to which social housing was seen as a form of welfare support varied considerably across countries (Scanlon et. al, 2014). During the 1980s and 1990s, most countries had overcome the most severe housing shortages, leaving a greater role to non-profit and sometimes for-profit providers, funded in part by the central government and sometimes by the local administration (Pittini and Laino, 2012; Braga and Palvarini, 2013). Germany and the United States are two OECD countries with a relatively high share of for-profit social rental housing providers.

In Germany, for example, a substantial part of the social rental sector consists of privately owned dwellings that receive a subsidized loan from a state-owned bank often combined with state-specific measures, usually consisting of interest rate reductions. Dwellings built through these subsidies must be rented at rates below the market level to low-income and vulnerable households for a period of 12-20 years (Scanlon and Kochan eds., 2011). While subsidies have considerably decreased in the last decade, Germany benefits from the large rental stock constructed through the extensive supply subsidies provided in the past. For example, until 2005 private landlords could deduct part of the total cost of newly built dwellings from taxable income (10% per year for the first two years, 3% for the next ten years). Rental housing also benefits from some tax exemptions. Landlords can deduct mortgage interests, depreciation and rehabilitation costs against rental income and offset losses on rental property from other sources of income (relative gearing) (Crook and Kemp eds., 2011; de Boer and Bitetti, 2014). The social housing stock has been declining over time as the construction of new social rental dwellings declined and many dwellings reached the end of the temporary subsidization. In addition, some of the municipalities that owned social housing stock and other social housing providers have sold part of their stock to private equity firms that tend to opt-out of the social housing status.

Subsidies to support the construction of rental housing for low-income households also exist in the United States of America. The LIHTC programme provides tax credits for federal tax liabilities to developers that build moderate- or low-income housing projects. The subsidized dwellings must be rented to low- and moderate-income households for at least 15 years and at a rent that is usually 15% below the market rate in the metropolitan area. The tax credits are issued annually for the first 10 years after the subsidized units are occupied. The annual tax credit is about 9% of the depreciable cost for new construction or renovation (or 4% of the cost for a purchase). LIHTC projects typically generate limited operating income, so there is little scope for using tax credits against it. However, LIHTC developers – typically non-profit community development corporations or developers specializing in low- and moderate-income housing – can sell the tax credits by selling ownership interests in the development (usually as limited partnership). On average the sale of ownership interests finances a third of the total project costs; the rest is usually financed through private mortgages and additional government subsidies, such as state tax credits, public loans, tax-exempt bonds and public grants. (Crook and Kemp eds. 2011).

* Based on EU-SILC 2012 data for Austria, the Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Luxembourg, Norway, Poland, Portugal, the Slovak Republic Slovenia, Spain, and the United Kingdom.

65. In addition to public subsidies, the sources of financing for social rental providers also include rental income, debt finance and equity contributions. Debt finance is raised by pooling financing though special circuits in some countries, as do the Housing Bank in Norway and the Caisse d’Epargne in France (Scanlon et al, 2014), or by raising funds directly on financial markets using the value of the housing stock as collateral to borrow (e.g. Finland, the Netherlands, and the United Kingdom). The main source of equity capital for social housing providers is the existing dwelling stock, complemented by land and other assets.
In some countries, like Austria, social housing providers also raise equity from their tenants; some tenants may benefit from low-interest public loans to finance this payment.

Box 5. Summary of recommendations to strengthen the D.S.49 ad D.S.52 programmes

The following actions can be considered to further strengthen the D.S.49 programme (subsidies to access to homeownership for low-income households):

- Strengthen targeting and further link eligibility conditions to official records and information that is easy to verify.
- Strengthen quality requirements, especially those concerning access to transport and public services.
- Consider using land regulation to impose quotas for subsidized housing in new real estate developments.
- Increase the required recipient’s contribution to the cost of the dwelling, especially for the relatively better-off.
- Consider complementing support for access to housing for low-income households with social rental housing.

Possible actions to strengthen support for rental housing costs, presently regulated by D.S.52, include:

- Improve tenure neutrality of housing support.
- Expanding support to households headed by adults older than 30.
- Monitor the D.S.52 minimum formal income requirement to understand whether the target group is properly identified.
- Consider providing supply-side subsidies to support the development of Chile’s rental housing market.
- Consider providing support to develop social rental housing to improve access to housing for low-income and vulnerable households.

While beyond the scope of this review, some of the broader policy issues raised in the 2012 OECD Survey of Chile (OECD, 2012) remain relevant. Among these: further improving the targeting of housing subsidies to low-income households; further reducing tax distortions in favour of housing; further promoting spatial integration by encouraging the development of under-used land and improving public transport and social services in poorer neighbourhoods; making sure that land planning and the allocation of building permits do not hinder the responsiveness of housing supply; making sure tenancy law strikes a balance between the interests and rights of tenants and landlords.
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