

ISA International Housing Conference

Glasgow 1-4/09/2009

Housing Markets in Brazil: recent trends and governmental responses to the 2008 crisis

Adauto Lucio Cardoso, Professor - Instituto de Pesquisa e Planejamento Urbano e Regional [Urban and Regional Research and Planning Institute] - Rio de Janeiro Federal University, Brazil.

adauto.lucio@terra.com.br

Tel.: + 55 21 2598 1676.

José Agostinho Leal, Researcher - Instituto de Pesquisa e Planejamento Urbano e Regional [Urban and Regional Research and Planning Institute] - Rio de Janeiro Federal University, Brazil.

jaaleal@gbl.com.br.

Keywords: housing market, housing policy, Brazil

In accordance with global trends, the Brazilian formal housing market experienced huge growth from 2005 to October 2008. This growth might be explained by several factors, such as:

- changes in the law regarding property rights, issued by the Federal Government;
- changes in Central Bank regulation of the use of resources from the special housing finance system;
- a positive economic climate ensured by economic growth and a gradual decrease in interest rates.

Another important issue is the fact that several big property companies have obtained fresh money on the stock market, and developed strategies for broadening their market shares, by geographical dispersion and also by diversification of their portfolios, offering products for high, middle and low income groups.

As a reflection of the global crisis, some indicators show that the housing market has undergone change since October 2008: home sales as well as the shares of the companies that have opened their capital have been declining. Nevertheless, considering that the special system in Brazil for housing finance has not fully adopted the American model, that is, based on securitization of mortgage lending, and also in view of the fact the Brazilian economy has not been so deeply affected by the global crisis, it seems that the housing market still has potential to overcome the bad times. Moreover, in order to face the global crisis, the Brazilian government has proposed a new economic plan in an attempt to induce growth by subsidies for social housing that will be produced by private enterprise.

This paper aims to present and discuss some specific aspects that could explain why the international crisis appears not to have had the same consequences for the housing market in Brazil as those observed in other countries.

1. Impacts of the crisis on the housing market

Until the aggravation of the crisis in September 2008, the Brazilian economy had been presenting clear signs of growth and stability. In the 4-year period, 2004-2008, the average annual GDP growth rate was 4.6%, equal to the world average¹ in the period, while the inflation rates remained stable, varying from 3% to 5% per year. The crisis was manifested immediately through an alteration in the exchange rate, a devaluation of the “real” against the dollar, and an accentuated fall in the value and volume of the shares traded on the stock market. It was further verified that there was an accentuated retraction of credit and a rise in interest rates², which caused an impact mainly on small to medium firms.

The fall in the international price of commodities significantly affected the export capacity of the Brazilian economy. However, the substantial accumulated international reserves allowed the Central bank to intervene in the exchange market to seek to counterbalance the immediate effects of the capital flight, thereby guaranteeing, to a certain extent, the purchasing power of the “real”.

The crisis spread, featuring reduction in the employment rate, incomes and consumption – the most significant impact being on the automobile industry, followed by the financial sector. The construction sector was also affected, with prospects, in December 2008, of curtailment of investment programmes. The unemployment rate reached 8.9% in April 2009, around 1 percentage point above that in the same period of 2008. However, it must be stressed that this index is much lower than that of 2007, when it exceeded 10%. There was an important reduction in the investments scheduled for various sectors of the economy, and the prospects in May 2009 were for a decline in GDP of around 1.1% for the year⁴.

However, just as has occurred in other emerging countries, the Brazilian economy has been much less affected by the crisis than the developed ones. The most recent indicators are already showing signs of recovery, with a reduction in interest rates⁵, employment growth⁶, a resumption of industrial production, against a backdrop of consumption that is still high, albeit at a lower level in relation to 2008.

There are optimistic prospects as of the end of the first semester of 2009, which are the result of a set of factors: a relative stabilization of the North American crisis and a rise in commodity prices, signalling improvement of the international economic climate ; on the other hand, a series of government measures aimed at attenuating the impact of the crisis have taken effect: tax relief in some sectors, such as, the automobile industry; injection of liquidity into smaller banks so as to boost credit; maintenance of credit lines by the federal government banks (Banco do Brasil and Caixa Econômica Federal), the latter compensating for the retraction on the part of the private banks; expansion of finance for long term investment by the BNDES [National Economic and Social Development Bank]; maintenance of the Programa de Aceleração do Crescimento –

¹ Higher than the annual average of 2.6% that had prevailed in the period 1982-2003. According to COUTINHO (2009).

² The annual interest rates practised by the banking sector were 26.3% (corporate entities) and 47.7% (private individuals) in April 2008, having reached 31.4% and 57.9% respectively, in November 2008, considered as the height of the crisis. According to *Jornal do Comércio*, 05/08/2009, p. A-4.

⁴ Against a forecast, prior to the crisis, of growth around 4.5%. However, even this decline leaves Brazil in a better situation than Russia (-6%), South Korea (-4.5%) and Mexico (-3.7%), according to IMF estimates. According to COUTINHO (2009).

⁵ In July 2009, the interest rates were 27.5% (corporate entity) and 45.6% (private individual). See note 2, above.

⁶ In May 2009, there occurred a return to significant growth in formal employment, which had not happened since October 2008.

PAC [Growth Acceleration Programme], the government infrastructure investment programme launched in 2005; maintenance of the investments in energy, under the responsibility of state-run companies, primarily, Petrobras; and, finally, the launch in April 2009 of the housing programme, Minha Casa Minha Vida [My Home My Life], with which we shall deal below. Besides this, the maintenance of the pace of reduction of the Central Bank basic interest rate, is also a positive sign for the economic actors, making long term credit more viable and on better terms.

Considering these dimensions, one may say that the general outlook for the Brazilian economy is not so dramatic as that observed in the developed countries.

In view of this general picture, what has happened to the housing market?

In the first place, it is important to stress that, in the Brazilian case, the formal production of housing, whether by private enterprise⁷, or by the government, does not account for the major part of the total production⁸. Although there are no consolidated data for the whole country, there is a certain consensus that around 50% to 80% of the total production is generated through self-management or self-help building processes, with a greater or lesser degree of informality⁹. It is considered, moreover, that, even in the period the Banco Nacional de Habitação – BNH [National Housing Bank] acted more consistently in the regulation of housing finance (1964-1982), the number of homes produced through the Sistema Financeiro de Habitação [Housing Finance System] accounted for around 22% of the total in the period¹⁰.

The data available for production by private sector are made available by the Câmara Brasileira da Indústria da Construção – CBIC [Brazilian Chamber of the Construction Industry] and refer to collections conducted in the most important cities, based on information supplied by the property companies. As they do not always adopt the same methodology, it is possible to suppose that some of the cases are relatively underestimated, given that they may not include production by small and micro-enterprises. This underestimation, however, must not amount to much, given that the part missing from the research refers to small scale production¹¹. As it is the only information available and it can be regarded as a reasonable approximation of the total production, in this work, we take the information referring to the cities of São Paulo, Rio de Janeiro, Belo Horizonte, Porto Alegre, Curitiba and Recife¹².

As can be noted in the graphics below, the impact of the crisis on the sector has not been immediate: until December 2008, new launches housing starts continued to take place. This fact certainly corresponds to a delay between the decision to invest and the occurrence of the crisis, leading to what, in many cases, is not possible, that is suspend the scheduled investments. Graphic 2 shows, however, a drop in the pace of sales (more important in São Paulo where the market has a scale significantly greater than that in other cities) between October and November 2008, and this persisting in

⁷ Here we are based on an analysis about the limits to capitalist housing production as proposed by TOPALOV (1978; 1987), considering its consequences for the coexistence, in capitalist economies, of diverse forms of housing production. Also see BALL (1981; 1986). For the Latin American case, see JARAMILLO (no date) and for the Brazilian case, RIBEIRO (1997).

⁸ For Latin America, ROJAS (2007) estimates that the formal production accounts for only 30% of the total housing stock, including as much production by the market as that by the State.

⁹ For Latin America, ROJAS (2007) estimates that the formal production accounts for only 30% of the total housing stock, including as much production by the market as that by the State. For Brazil, the data are varied. The Ministério das Cidades estimates that between 40% and 70% of the residential stock (varying according to the cities and regions) are irregular. In the City of São Paulo, for example, around 50% of the 3 million properties are irregular. Also see MARICATO (2003).

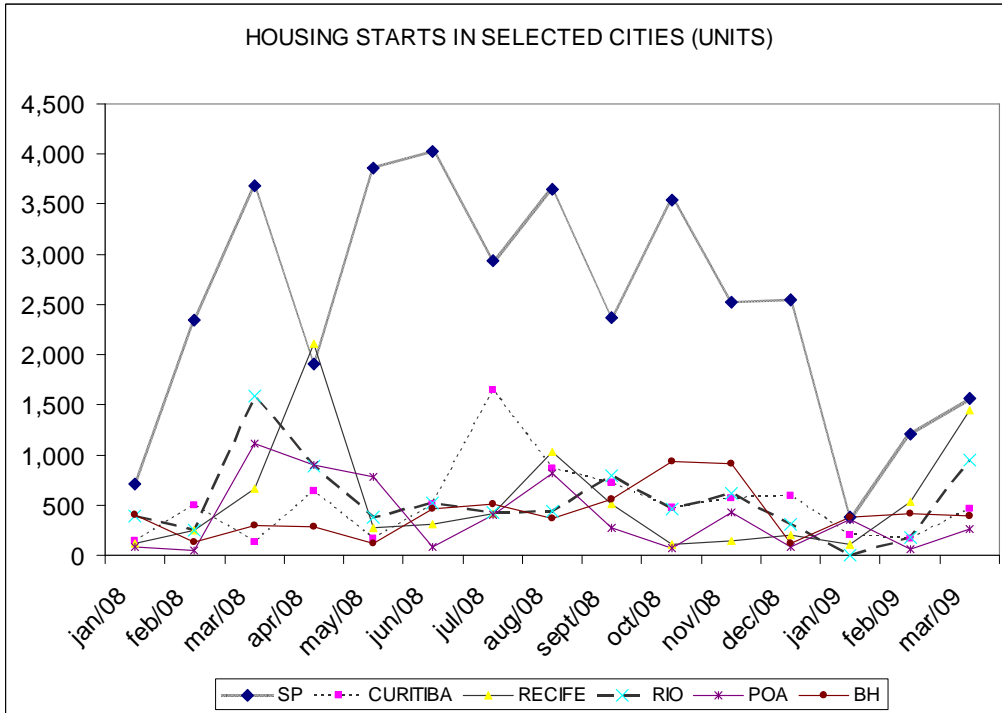
¹⁰ According to AZEVEDO (1988).

¹¹ Studies conducted by the author about the case of Rio de Janeiro estimated that the data regarding informal production amounted to around 80% of the total.

¹² We have the three largest cities in the country and some regional coverage, given that Porto Alegre and Salvador are cities located in the South, and Recife is in the Northeast.

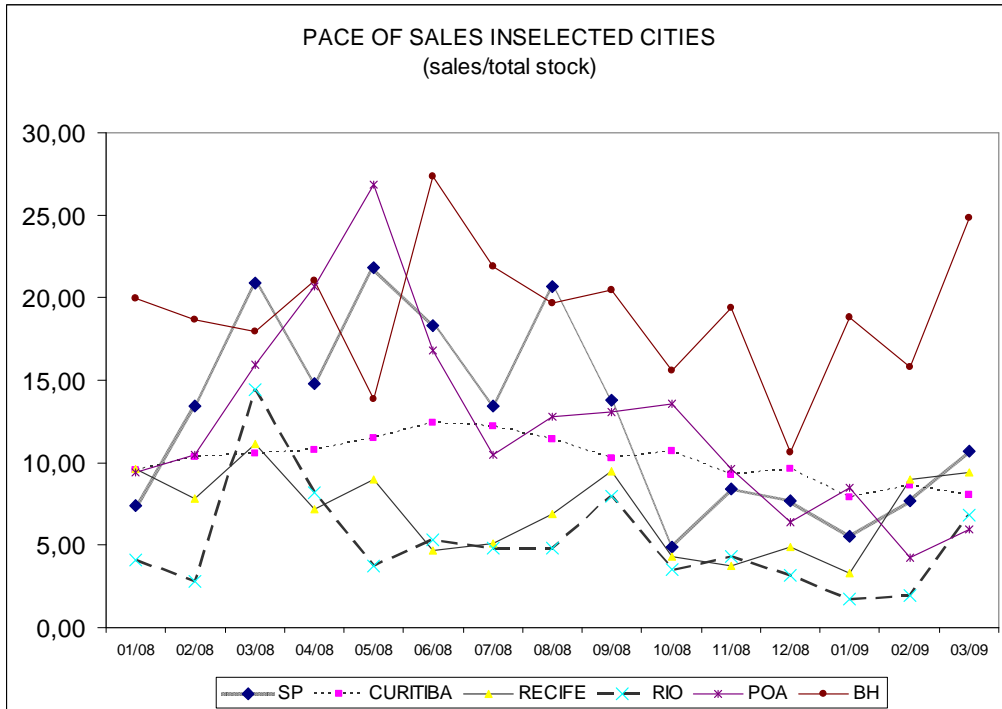
the first months of 2009, which meant an expansion of the stocks not commercialized. However, in March 2009 a recovery in sales and starts was identified.

Graphic 1



Source: CBIC

Graphic 2



Source: CBIC

Another important element for us to understand what has happened to the housing market can be made through the periodization of the trajectory of the credit. According to RIBEIRO (2009): from mid-2007 till September 2008, as much the expansion rate of housing credit as total credit, in relation to the GDP, grew strongly, reaching approximately 35%; thereafter, the expansion rate of total credit began to fall rapidly to 20% in May 2009. However, contrary to what occurred with the expansion rate of total credit, the expansion rate of housing credit continued to grow, reaching 40% at the beginning of 2009, and remaining at this level till May 2009.

Analysis of these data showed that, despite the outbreak of the global crisis, the expansion rate of housing credit not only did not decline, but, rather, it grew a little more, ending up stabilizing at a relatively high level.

In order to understand the reasons why the housing market seems not to have been severely affected by the global crisis, it is necessary to have a vision of the financial model adopted in Brazil and how this behaved over the years just prior to the crisis.

2. The housing finance and the housing market in Brazil (1964-2003)

The model of finance adopted in Brazil as of 1966 was based on a system of compulsory savings – the Fundo de Garantia de Tempo de Serviço – FGTS [Assurance Fund for Period of Work], and voluntary savings – the Sistema Brasileiro de Poupança e Empréstimo – SBPE [Brazilian System of Savings and Loans], both of which are submitted to public regulation in the ambit of the Sistema Financeiro da Habitação [Housing Finance System].

The FGTS is collected via compulsory contribution from salary earners (8% of the corporate payroll), the revenue being aimed at the formation of a savings fund in order to act as insurance against unemployment, and it may also be accessed by the workers in cases of death or retirement. In accordance with the legislation that regulates its use, the FGTS resources are allocated to investment in housing to attend the low-income population and also to finance investment in sanitation. For the worker, the resources are remunerated at 3% interest per year, plus compensation for inflation. In the case of utilization for housing finance, the interest varies from 6% to 8.16% per year, depending on the income range attended, plus the inflation over the period. The Fund was administrated by the Banco Nacional de Habitação until its extinction in 1986, whereupon its operational control was transferred to the Caixa Econômica Federal. Between 1986 and 1994, there was a succession of Ministries and Secretaries managing the Federal Government's housing policy, which denoted great political and institutional instability¹³, until the creation of the Ministry of the Cities in 2003.

The resources of savings accounts are administrated by the banking system (public and private), remunerated at 6% interest per year plus compensation for inflation, and are guaranteed by the Federal Government¹⁴. The savings account resources are channelled primarily into housing finance for the medium income sectors, with minimum interest of 10% per year, varying according to income bracket, plus compensation for inflation. According to the norms in force, the banks must invest 65% of the resources in housing finance.

¹³ After the extinction of the BNH, the housing policy was subordinated to various organs: Ministério da Habitação, Urbanismo e Meio Ambiente – MHU (1987), Ministério de Habitação e do Bem-Estar Social – MBES (1988), Secretaria Especial de Habitação e Ação Comunitária – SEAC (1989), Ministério da Ação Social – MAS (1990), Ministério do Bem-Estar Social – MBES (1992), Secretaria de Política Urbana – SEPURB (1995), and Secretaria de Desenvolvimento Urbano – SEDUR/PR (1999-2003).

¹⁴ In case of bankruptcy of the financial agent responsible, the government would assume responsibility for indemnification of the investors.

Therefore, the model adopted was the creation of a means for raising private savings, which would be remunerated at rather low interest, but guaranteed by the Federal Government against inflation. These resources, raised by financial institutions, should primarily be channelled into investments in housing, as much in production as in consumption.

The experience of the BNH showed that, with the existence of resources available for the finance of production and consumption, the possibilities of housing production by the private sector expanded enormously, and this also began to spread into less valued districts and to reach lower income groups.

The crisis of the BNH was caused by the difficulties in operating in the conjuncture of high inflation in the early 80s, characterised by massive default, which led the Bank to adopt a policy of mortgage instalment adjustment that implied a heavy subsidy for the acquirers, a subsidy whose final responsibility ended up being assumed by the Treasury in the form of federal debt bonds, which were made available by the creation of the Fundo de Compensação das Variações Salariais – FCVS [Wage Variation Compensation Fund]. The financial crisis experienced by the Bank was the justification for its extinction in 1996¹⁵. The post-BNH institutional instability mentioned above, allied to an interest on the part of the monetary authorities in channelling savings into investment in public bonds, led to weakness in the enforcement of the regulations exercised in the financial sector. With this the banking system ceased to fulfil the 65% rule, significantly reducing the SBPE resources invested in housing.

With regard to the FGTS, the distribution of the resources among states and municipalities was made primarily according to political factors. During the Collor de Mello government (1990-1992), this trend worsened, with wasteful utilization of the resources, which almost led the system to bankruptcy in 1993¹⁶. As of 1994, greater power was conferred upon the Conselho Curador [Curator Board] of the FGTS, and stricter norms were instituted to ensure the financial health of the Fund, all releases of resources having been suspended from 1994 to mid-1995. Furthermore, it is important to stress that, as of the mid-90s until the first decade of 2000, the Fund underwent brief instability, due to a significant increase in withdrawals, which began to exceed deposits, generating recurring deficits. This was due to the combined effects of the financial crisis: on the one hand, the reduction in payroll, and, therefore, in deposits, and the increase in unemployment, meaning increased withdrawals; on the other, with an increase in withdrawals for retirement, resulting from the conclusion of the cycle of 30 years since the creation of the Fund, when the workers who had first adhered to the system as of 1964 began to retire. This situation was only overcome in the first decade of 2000, when an equilibrium is restored between deposits and withdrawals, and when the earnings on the Fund's financial investments began to compensate the past deficits. Another important aspect is that, between 1994 and 2002, the occurrence of international financial crises, which had seriously hit the Brazilian economy, led the two successive Fernando Henrique Cardoso governments to adopt measures of fiscal austerity, following prescriptions issued by the IMF, including limitation of indebtedness in the public sector. This led to a major restriction of loans from the FGTS for production of housing for the states and municipalities.

As a measure of this period of containment, the indicator that measures the relation between housing credit and GDP fell progressively, from 10%, the level in 1998, to 4%, at the end of the 90s, and then it dropped abruptly to 2% in 2001. The behaviour of

¹⁵ Others interpretations for this fact refer to the Federal Government's need, at a moment of fiscal and political crisis, to utilize FGTS resources for the negotiations with the political forces represented in the National Congress, which was hindered by the power of the bureaucracy that had controlled the BNH. As can be verified in Graphic 3, in 1987, soon after the extinction of BNH, the utilization of FGTS resources presents a significant rise.

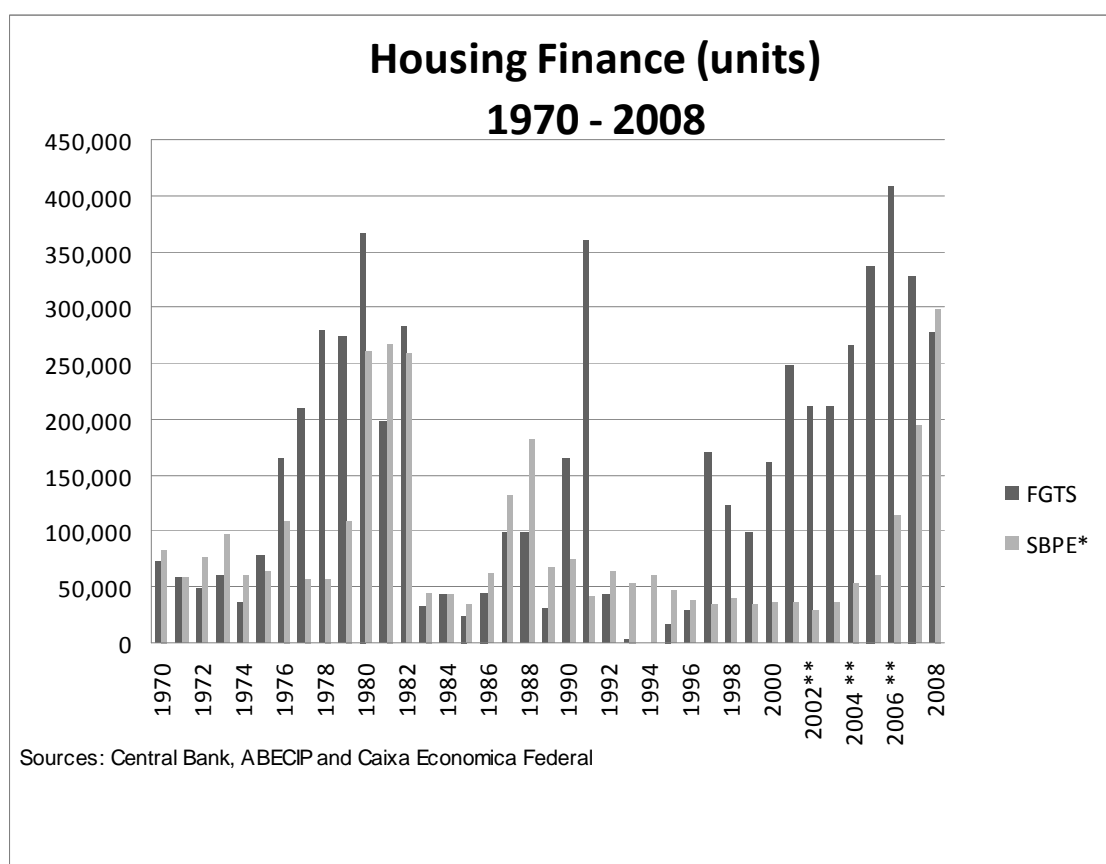
¹⁶ See VALENCA (2007).

housing finance through the Sistema Financeiro de Habitação can be seen in Chart 1 and Graphic 3, where the system's progressive loss of capacity to leverage the production of housing is verified.

Chart 1

Housing Finance via FGTS + SBPE	
1974-1983	Average of 129,000 units/yr
1984-1993	Average of 76.000 units/yr
1994-2003	Average of 40.000 units/yr

Graphic 3



The most important innovation in this period was the creation of Carta de Crédito, a housing voucher valid as much for FGTS' resources as for SBPE – which increased the bargaining power of the borrowers vis-à-vis the construction companies, and sellers of properties in general¹⁷. This movement, with potential to expand credit, was, however, limited by the high interest rates that prevailed in the period, against a backdrop of persistence of a neoliberal policy of attracting short term foreign capital to finance public deficit. With this, it became practically unviable for low income strata, and even the medium sectors, to assume long term finance. In this period, in the private sector segment of the formal housing market, so-called “self-finance”

¹⁷ During the period of the BNH, the allocation of resources was made directly to the property developers – in the case of the SBPE – or the public organs for housing construction – in this case, the Companhias de Habitação. Access to consumption finance therefore was made through the companies and not directly by consumers.

prevailed¹⁸, that is, the adoption of strategies by companies to make their production viable through utilization of their own resources¹⁹. In general, one can conclude that these initiatives tend to be limited, affecting high income segments or more organized corporate or professional sectors.

With the retraction of credit, housing policies in the period became fragmentary, and various municipalities and some states assumed initiatives in the field of social housing, heavily concentrating their efforts on urbanization of shantytowns, slum upgrade programmes, and land tenure regularization. These programmes, although they have an important social component representing significant improvement in the living conditions for the poor, generated perverse effects. As access to newly built housing in the ambit of the market or of formal public production was being restricted, the urbanization and regularization of shantytowns acted as an incentive for the formation of new shantytowns, being the only viable alternative access to housing for a great part of the population.

With the crisis and bankruptcy of the BNH, and after a long period without a specific operant system of finance²⁰, a new model was created – the Sistema de Financiamento Imobiliário – SFI [Real State Finance System], based on the North American experience of securitization of mortgages²¹. It was conceived initially with the objective of attempting to reproduce in Brazil the successful American experience of securitizing the majority of the mortgage contracts, which was disseminated throughout the 1980s. In the USA, the new system consisted of a procedure that groups (“packages”) a large number of mortgages and issues securities representing rights to receive the respective flow of interest payments and amortizations. The issue of the majority of these mortgage-backed securities (MBS) were made by two enormous government-sponsored enterprises (GSE), Fannie Mae and Freddie Mac (which had to be nationalized at the outbreak of the 2008 crisis). These companies bought the majority of the mortgage contracts arising from financial institutions, construction companies etc and assumed the risk of default, that is, guaranteed the promised cash flow even in cases of delay or lack of payment of the instalments on the part of the mortgagors. Due to the guarantee against default, these securitizing companies charged an amount corresponding to a small percentage of the cash flow generated by the pool of mortgages, which was then passed on to the acquirers of the MBS.

In Brazil, a law promulgated in 1997, instituted the possibility of establishing securitizing companies that could issue Certificados de Recebíveis Imobiliários – CRIs [Real State Receivables Certificates]. In 1998, the Companhia Brasileira de Securitização (CIBRASEC) [Brazilian Securitization Company] was created, whose controlling shareholders are the Caixa Econômica Federal, other public banks and large national private and foreign banks. CIBRASEC would undertake to perform the function that, in the USA, was exercised by Fannie Mae and Freddie Mac. The attempt to reproduce the American model still has not prospered in Brazil in the sense of becoming a large scale system of finance and transforming the CRIs into securities negotiated in large volume, and, therefore, with enormous liquidity, like the American MBS. The SFI, nevertheless, came into operation as of the middle of the first decade of 2000, in a partial and artisanal manner, as shall be described below.

¹⁸ See CASTRO (1999)

¹⁹ These strategies involved direct finance by the incorporator, the consortium, or even the model of co-operatives. See CASTRO (1999) and BOTELHO (2007).

²⁰ The SFH continued in force, but the savings account resources were utilized more and more by the banking system in more profitable applications. Only recently (2005) there were changes in the form of regulation of the System, allied to shifts in the economic conjuncture with the fall in interest rates, which allowed resumption of housing finance based on savings account resources.

²¹ For a debate about the possibilities and limits of the SFI, see LEAL (1999).

3. Housing policy and market during the Lula Government (2003-2009)

With the election of Luiz Inácio Lula da Silva as President of the Republic, in 2002, new expectations arose regarding the institutionalization of housing policy, according to conceptions that had been debated by technicians, academics and militants of social movements in the ambit of the Fórum Nacional da Reforma Urbana [National Urban Reform Forum]²². Lula's proposal for housing had been configured in the Projeto Moradia [Housing Project], which, among other measures, proposed:²³

- Creation of the Sistema Nacional de Habitação [National Housing System], formed at the three levels of the Federation (Union, states and municipalities), which would act in a structured manner under the co-ordination of a new Ministry.
- Democratic management of the housing and urban policy, based on the creation of national, state and municipal housing boards that would define the guidelines and effect the allocation of resources under the housing policy at the three government levels.
- Approval of a bill of law, the popular initiative for the institution of the Fundo Nacional de Habitação [National Housing Fund], the banner of the housing movement that had been on the National Congress agenda since 1991.
- Resumption of housing finance for the middle classes (SBPE), aimed at concentrating the maximum amount of FGTS resources in finance for the low income category.
- Articulation of the housing policy with the policy of control and recuperation of land and property values.

The creation of the Ministério da Cidades [Ministry of the Cities] aimed to put the above proposals into practice. Appointed to the position of Minister came Olívio Dutra, a personal friend of the President and ex-mayor of Porto Alegre (a city noteworthy for the implementation of Orçamento Participativo [Participative Budget]). The Ministry was organized as 4 Secretariats – Housing, Sanitation, Transport and Mobility, and Urban Programmes, the latter responsible for the area of planning of the territory and land tenure regularization. The technical team appointed to occupy posts in the Ministry had strong links with the Fórum Nacional da Reforma Urbana and had already participated in some local administrative experiments in Partido dos Trabalhadores [Workers Party] governments.

In 2003, the Ministry convoked the Primeira Conferência Nacional das Cidades [First National Conference of the Cities], which received 2,500 delegates chosen through municipal, regional and state conferences that had come to mobilize over 3 thousand municipalities. The Conference approved the general principles of the government's urban policy and proposed the creation and composition of the Conselho Nacional das Cidades [National Board of the Cities], established in 2004, broadening the original proposal of the Projeto Moradia to all the urban policies.

Throughout 2003, the Secretaria Nacional de Habitação, began to develop the normative and institutional bases of the housing policy, proposing structuring of the Sistema Nacional de Habitação, whose first version was discussed in the Primeira Conferência das Cidades. However, the implementation of the housing policy – and of

²² The Fórum Nacional da Reforma Urbana (FNUR) is a coalition of social movements, NGOs and professional and academic organizations, which, since 1986, had been debating and proposing new guidelines for urban policy aimed at improving the historical status of social and urban inequalities. This movement was organized at the time of the drafting of the 1988 Constitution, and it remains active, with strong lobbies in the National Congress and also in relation to the Executive organs linked to urban policy.

²³ According to BONDUCKI (2009).

the urban policy in general – came up against strong resistance from the government’s economic team, which maintained, unaltered, the same neoliberal rules for expenditure restriction that were in force in the Fernando Henrique Cardoso government. All the guidelines proposed in the ambit of the Projeto Moradia and of the Sistema Nacional de Habitação proposal remained on paper until 2005.

In 2005, with great mobilization of the social housing movements, pressing the President of the Republic, a bill of law was passed for creation of the housing fund, denominated the Fundo Nacional de Habitação de Interesse Social – FNHIS [National Social Housing Fund]. The law that instituted the FNHIS also established the basic institutional elements for the creation of the Sistema Nacional de Habitação, based on a distribution of the functions among the 3 levels of government, in which a fundamental role was established for the municipalities in the implementation of the housing policy. In order to adhere to the system, the states and municipalities were required to be committed to the creation of a local housing fund, to be managed by a board with public participation, and also to devising a local plan for social housing that would establish the guidelines and priorities of the policy at local level. The Fund was set up in 2006, counting on commitment from the President, along with the housing social movements, to allocate resources worth R\$ 1 billion per year. The great change brought about by the Fund concerned the possibility that housing policy would begin to receive direct subsidies, thereby making housing for the low income strata viable.

It is important to emphasize the change that operated in the government’s economic policy as of 2006, with a progressive liberalization of public expenditure, without completely abandoning the previous policy. That was made viable by the international expansion of reserves that, in turn, had been made possible by the increase in exports of commodities (as well as by the significant increase in their world prices). It is in this context that, in 2007, the Lula government launched a plan aimed at promoting economic growth – the Plano de Aceleração do Crescimento - PAC, with an ambitious programme of investments in infrastructure²⁴. In the ambit of the PAC, the state-run companies have an important role, principally Petrobrás and Eletrobrás. At that moment, the Central Bank also has started to cut the basic lending rate (so far extremely cautiously, but in a relatively permanent pace), a process which should boost economic performance and stimulate greater growth in GDP²⁵. Another important element worth mentioning in the macro-economic scenario concerns the progressive reduction of poverty and inequality²⁶, resulting, in part, from income transfer programmes like “Bolsa Família”, in part from the increase in real value of the minimum salary. All these elements are important to configure a more favourable political climate for development of housing policy and expansion of finance. As an unfavourable element, it should be remembered that the substitution of Olívio Dutra as Minister of the Cities, in July 2005, in a movement that progressively tends to place the Ministry more at the service of clientelistic politics policy, favouring the political allies of the government in the Congress and reducing its capacity to develop an urban policy with autonomy and within a more universalist focus.

The FNHIS resources started to be distributed in 2006 with the modalities: construction of housing units, urbanization of shantytowns and slum upgrades, technical assistance and support for devising housing plans. The resources were distributed as shown in Chart 2 (below). As can be seen, only in 2008 was there a relative equilibrium between the investments in upgrading and construction of new units. By deliberation of the

²⁴ Progressive investments are scheduled, increasing from 1.6% of the GDP in 2007 to 2.9% in 2009.

²⁵ The real basic lending rate (i.e. not counting inflation) decreased from 12.8 % per year in 2005 to 7.3% in January 2008. Thereafter, there was a rising trend, reaching 9.2% in October of the same year, then it tended to decline again until it reached 5.5% in April 2009.

²⁶ According to IPEA data, between March 2002 and June 2009, poverty in the metropolitan areas fell from 42.5% to 31.1%, at the same time as the inequality, measured by the Gini index, dropped from 0.53 to 0.49 in the same period. According to IPEA (2009).

Conselho Curador of the FNHIS, the resources scheduled for 2009 will be allocated solely in the modality of urbanization of irregular settlements, given that the production of new units will be the object of the new Minha Casa Minha Vida programme.

Chart 2

Values in R\$ million				
Selected Proposals				
Actions	2006	2007	2008	Total
Housing Provision	72.88	298.54	485.91	857.33
Slum Upgrading	847.98	646.95	559.32	2,054.25
Technical Assistance		9.03	13.77	22.80
Housing Plan		34.66	30.22	64.88
Total	920.86	989.18	1,089.22	2,999.26

Source: Ministry of the Cities

In the ambit of the PAC, investments were scheduled in housing and sanitation (the so called "urban PAC"). However, in the housing field, slum upgrading was privileged, mainly in the large urban centres, perhaps because of its strong political visibility. The PAC investments in housing were distributed as displayed in Chart 3 (below)²⁷:

Chart 3

PAC INVESTMENTS IN HOUSING – IN R\$ Millions

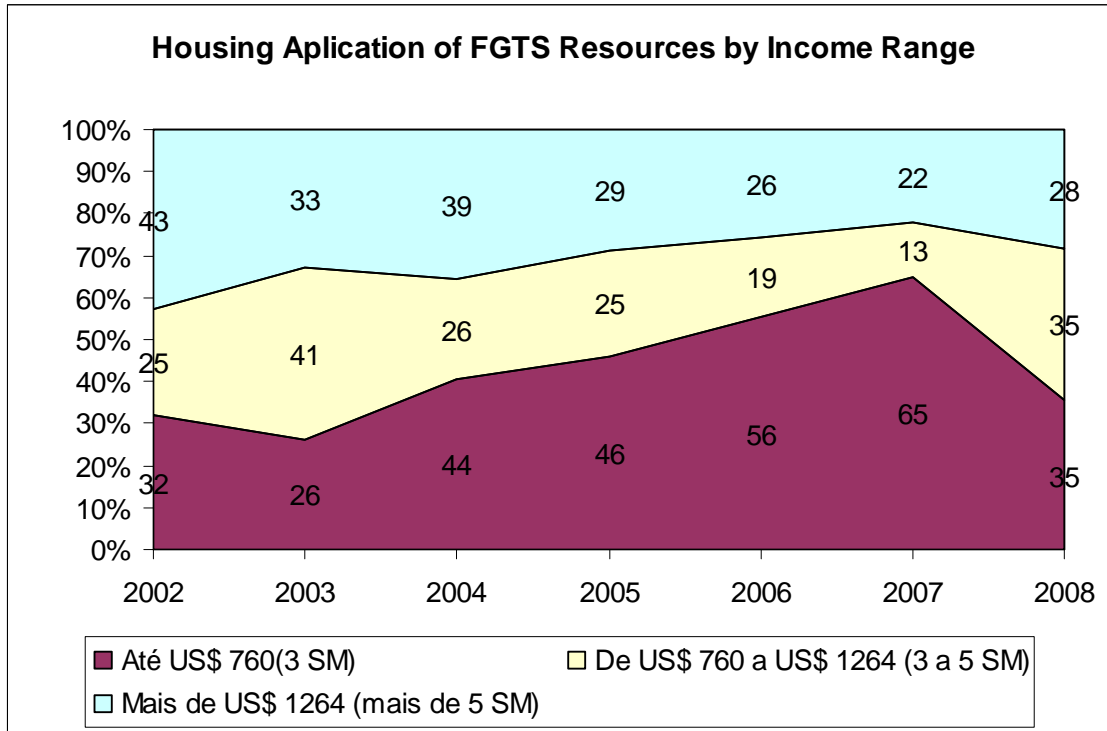
PAC - HOUSING	Federal Government	Counterpart	Total
Urbanization of Shantytowns – OGU	5,479.4	2,433.1	7,901.5
Finance – CAIXA & BNDES	2,836.4	519.4	3,355.8
FNHIS - OGU	1,847.5	398.4	2,245.9
Housing Finance – Private Individuals	23,506.0	0.0	23,506.0
Housing Finance – SBPE	53,259.2	0.0	53,259.2
Total	86,928.5	3,339.9	90,268.4

With regard to the FGTS, Resolution 460 of the Conselho Curador, 2004, established that the resources obtained from financial investments that exceeded the needs of the

²⁷ It is to be stressed that, in this chart, the inversions predicted in the ambit of the FGTS, FNHIS and SBPEs are computed as PAC investments. Thus, as new investments, we can consider around R\$ 8.2 billion.

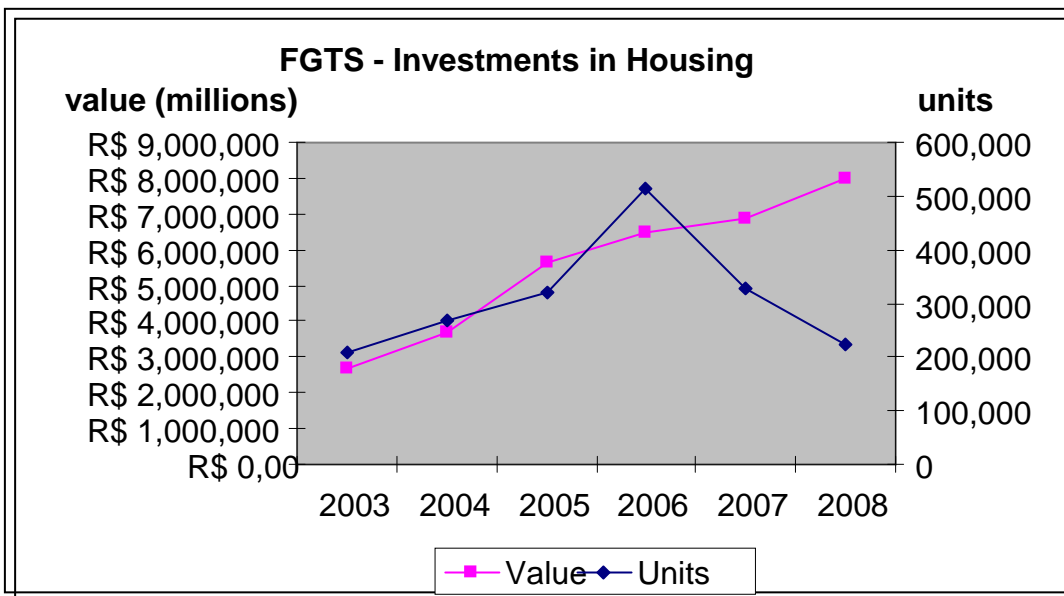
basic remuneration of the fund would be computed as subsidies, to be included in the credit operations, rendering viable the applications in social housing for those earning up to 3 minimum salaries. Resolution 460 began to have important effects as of 2005, as demonstrated in the following Graphic:

Graphic 4



In the period, besides altering the application rules, making it viable to attend the low income population, a greater expansion of housing finance operations was verified, as can be seen in the following graphic:

Graphic 5

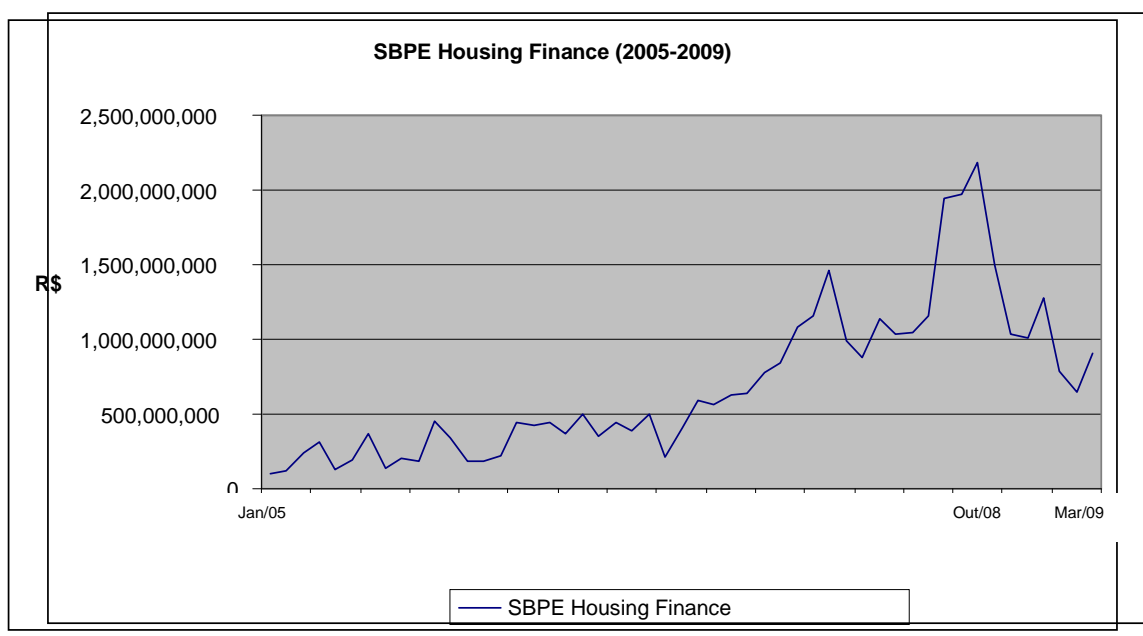


As can be verified in the graphic above, the increase in resources invested is significant. What draws attention, however, is that the number of units financed tended to fall as of 2007, which signifies a rise in the unit value of the finance. In 2008, this difference was explained, in the management reports, by a reduction in the amounts of subsidies, which are limited by the operational performance of the investments from the Fund, starting to make the resources available via allocations to other income brackets. It is possible that this was already happening in 2007. Another factor to be taken into account is the rise in the average price of housing in view of the speculative processes that characterize this market, mainly in circumstances of increased supply of finance.

It should be noted that there are other funds for housing finance, such as the Fundo de Arrendamento Residencial – FAR [Residential Leasing Fund] and the Fundo de Desenvolvimento Social – FDS [Social Development Fund]. The FAR is formed from a mixture of FGTS resources and budget allocation, which allows some level of subsidy. On the other hand, the FDS is composed exclusively of subsidized resources and is aimed at production in a housing cooperative regime. In general, the resources allocated in this fund are hardly significant in the overall scenario of finance. From 2006 to 2009, FDS allocated R\$ 350 million, corresponding to a total of around 20,000 units. PAR, on the other hand, had results that were a little more significant, having allocated, from 1999 to 2007, an average investment of R\$ 600 million per year, with an average production of 23,000 units.

In the ambit of the SBPE, the Lula government took fundamental measures to expand production for the middle class. Law no. 10.931/2004 established a new regulation, creating the *Patrimônio de Afetação* (by this instrument, land and housing property are no longer considered as assets to be used to pay for labour or other debts in case of foreclosure) which has provided the contracts with greater legal security. Besides this, a resolution of the Central Bank began to require the banks to effectively utilize the resources from savings to finance housing, in the proportion of 65%. Between 2002 and 2008, in a more favourable economic situation, these measures generated an increase in SBPE investment in housing from a level of R\$ 230 million to R\$ 1.35 billion per month, as shown in Graphic 6. It is to be underscored that, even with the fall in SBPE investments as of October 2008, they remain at a level well above that which prevailed in 2005:

Graphic 6



These data show the importance of the expansion of housing credit in the period prior to the crisis, which is expressed in a significant expansion in the participation of housing credit in the GDP²⁸.

The last element to be highlighted concerns the process of concentration and restructuring of the capital in the real state sector, which began in 2005. At that moment, four companies issued shares on the stock market and managed to raise substantial resources, which led other enterprises to adopt the same strategy. In May 2009, there were already 22 companies with shares quoted on the stock exchange. With these resources, these companies have embarked on a process of expansion, incorporating regional firms and broadening their scope of action in various cities and regions, and beginning to control larger slices of the market. Although there have been some previous initiatives on the part of companies with broader regional expansion strategies, these, in general, have been frustrated²⁹, and the companies in the real state sector had traditionally specialized in geographically delimited markets. The present expansion was made viable by absorption, on the part of the leading companies, of regional enterprises with broad knowledge of the local markets, but which incorporate and act according to the logic of the leading company. At the moment, the 5 major companies in the sector control 58% of the Rio de Janeiro market, and 27% of that in São Paulo. Cyrella, the outstanding company in the sector, acts in 11 states.

Besides the concentration of capital and geographical expansion, these companies have also started to diversify their activities, seeking lower income markets. Originally, this process was commenced by some companies that had sought to specialize in this range of income, such as Tenda, an enterprise from Minas Gerais State that has also diversified geographically. At a second moment, the leading companies sought to develop strategies, such as incorporation of already specialized companies³⁰, and, in other cases, opening specialized subsidiaries. There are also strong indications that these companies utilized part of the resources leveraged on the stock market to invest in land, in order to make future property developments viable. Thus, it is possible that entry into the low income sectors is being rendered viable through land price gains potentialized by the acquisition of large quantities of land in peripheral areas.

In parallel to the growth of the SBPE, it was also verified that there was a significant expansion of the SFI resources, with the growth in the issue of CRIS and the expansion of the Fundos Imobiliários. According to Comissão de Valores Mobiliários [Securities and Exchange Commission] data, the net worth of the Funds rose from R\$ 2.4 billion in 2005 to R\$ 60 billion in 2009³¹. Although we do not have more detailed statistics, there are signs that the resources of the Funds are being applied in a more concentrated fashion in high-end residential projects in high-value areas or in

²⁸ Between Jan. 2004 and March 2005, the rate of expansion of housing credit oscillated at around 5%; after which, a strong growth movement began, which led to the housing credit expansion rate reaching over 20% in April 2006 (approximately equal to the expansion rate of total credit); between April 2006 and mid-2007, the expansion rate of housing credit accompanied the expansion rate of total credit (approximately 22%); from mid-2007 to September 2008, as much the expansion rate of housing credit as total credit grew vigorously, reaching approximately 35%.

²⁹ The most significant example is ENCOL, which went bankrupt in the 90s.

³⁰ Such as the shareholding takeover of Tenda by Cyrella.

³¹ According to Cetip (Center for the custody and financial liquidation of private issues), in July 2009, CRIs total balance has reached the amount of R\$ 9 billion. In March 2008, this total balance was just the amount of R\$ 3 billion. See

http://www.cetip.com.br/astec/series_v05/paginas/web_v04_10_03_consulta.asp.

commercial development schemes with potentially high profitability, such as shopping centres, hotels and commercial buildings³².

4. Conclusion: The crisis, the conjuncture and the Minha Casa Minha Vida programme

The data presented in the previous item show that, between 2005 and 2008, the real state market underwent a broad restructuring process, with expansion of the traditional forms of finance, like the FGTS and SBPE, some expansion of the SFI, albeit restricted to specific sectors, and also through concentration of the capital and diversification of activity on the part of the leading companies in the sector. It is important to emphasize that Brazil has not had – and does not have – a large securitized mortgage market, which, for a long time, was pointed out as a limit on the expansion of housing finance. Besides this, the public sector always determined the credit supply, whether via the FGTS or by the action of the Caixa Econômica Federal and other state banks still in existence. This made credit less limited, given that State institutions can respond to crisis upon a political decision, something the private sector will never do.

The relatively small impact of the crisis on the housing market can be explained by diverse factors: in the first place, by the response of the Brazilian economy as a whole, which has been less affected than those of the developed countries; secondly, by the fact that the resources earmarked for housing finance (FGTS and SBPE) have become less exposed to fluctuations in the financial market, in view of the fact that our housing credit system is not structured on the basis of mortgage securitization. Certainly, maintenance of the credit from public institutions, which always held the largest parcel of housing credit, also seems to have been a factor of great importance. Last but not least, one must also consider the positive impacts of the new housing programme.

Besides the measures utilized to cope with the crisis, already described in item 1, the Federal Government, amid great fanfare, launched the programme, Minha Casa Minha Vida. This programme was devised in the ambit of the Ministério do Planejamento e da Casa Civil³³ with the clear objective of developing anti-cyclical action, along Keynesian lines, the focus being on dynamization of building industry which would amplify effects on the economy as whole. Besides that, it also endures positive impacts on low skilled employment. After some talks with the technical staff from Ministério das Cidades, the programme was restructured, such that it incorporated some of the dispositions that were being discussed in the ambit of the Plano Nacional de Habitação [National Housing Plan], then in the process of elaboration by the Secretaria de Habitação. Thus, the programme started to direct an important part of the resources in the form of subsidies to cover the low income population, and also created the Fundo Garantidor [Guarantee Fund], aimed at covering the risk charge of the financial agents, allowing a significant reduction in the cost of finance. The proposal for tax relief on construction materials was also adopted so as to cut production costs.

A fundamental objective of the programme was to bring about an immediate effect on the economy. The programme abandoned the strategy, in force till then, of strengthening public sector action in the production of housing, and began to privilege production by the private sector. In order to make this significant transfer of resources viable – R\$ 17 billion in subsidies – the structure of the Programa de Arrendamento Residencial (PAR) was utilized, increasing the level of subsidies originally scheduled in this programme. With this the resources are allocated to the Caixa Econômica Federal, which distributes them through its network of branches with national capillarity to the

³² According to BOTELHO (2009).

³³ Remembering that Minister Dilma Roussef, of the Casa Civil, is the official government candidate in the next presidential elections.

companies that set up projects along the lines – and within the cost constraints – set by Minha Casa Minha Vida. The selection of the purchasers is made with the participation of the state and municipal administrations, which organize the registration of the applicants that are forwarded to the Caixa Econômica, which, in turn, allocates the units that are ready within the scale of priorities defined by the programme.

The advance of the programme, from the point of view of the resources allocated in the form of subsidies, is quite significant. The impact on the construction sector has also been substantial, the business associations stressing the importance of the plan. And there has been an immediate recuperation of previously scheduled investments, which began to seek adaptation to the standards established by the new programme.

The investments scheduled in the programme and their relation with the housing deficit can be seen in Chart 4 (below)

Chart 4

Income Range (R\$)	Accumulated Deficit (%)	Goals of Minha Casa, Minha Vida (%)	Accumulated Deficit (absolute value, in thousands)	Goals of Minha Casa, Minha Vida (absolute value, in thousands)	% of Accumulated Deficit Attended
Up to 1,395	91%	40%	6,550	400	6%
1,395 to 2,790	6%	40%	430	400	93%
2,790 to 4,600	3%	20%	210	200	95%
	100%	100%	7,200	1,000	14%

The impacts of the programme on the economy already seem to have achieved their basic objectives, changing the perception of the economic agents regarding the activity of the public sector and indicating the possibility of making investments that, in other circumstances, certainly would have been more restrained. On the other hand, considering that the companies of the sector had been investing heavily in land reserves, the credit supply, and, mainly, that of subsidy, can make the utilization of these assets viable, ones that used to be exposed to serious risk of devaluation in a conjuncture of crisis.

On the other hand, the programme can have problematic results, from the point of view of housing policy, for various reasons:

- It inverts the logic of strengthening the role of public sector as a promoter, which was the basis of the Sistema de Habitação de Interesse Social;
- As shown in the table above, the distribution of the subsidies does not reproduce the housing deficit, with an important part of the subsidies channelled into “less poor” sectors;
- It creates a programme with major subsidies and with a certain orientation towards low income, but without including mechanisms of transparency and accountability, as has also been implemented by the SNHIS, by means of the conjugation among Fund, Board and Plan.
- There are no guarantees that the resources will be utilized fully respecting the scheduled attendance ranges, it being quite possible that the concentration of

the private enterprise demand in projects for the higher income sectors – with greater construction cost – leads to a distortion of the results in relation to the established objectives.

Considering all these elements and also the need for agility in the utilization of the resources, there are strong possibilities of quality losses in the final result, leading to great housing complexes set up in peripheral areas with low accessibility and infrastructure problems. One may suppose, in this case, that these complexes come to be focuses of social problems in the future, differing little from shantytown areas that, today, concentrate the poverty and violence in the cities.

References:

- AZEVEDO, Sérgio. Vinte e dois anos de política de habitação popular (1964/1986): criação, trajetória e extinção do BNH. *Revista de Administração Pública*, v.22, n.4. Fundação Getúlio Vargas, out./dez. 1988, pp 122-170.
- BALL, Michael. Housing analysis: time for a theoretical refocus. *Housing studies*. London: vol. 1, i. 3, p.147-166, 1986.
- BALL, Michael. The development of capitalism in housing provision. *International Journal of Urban and Regional Studies*, 1981 p. 145-177.
- BONDUCKI, Nabil. Do Projeto moradia ao programa Minha Casa Minha Vida. *Teoria e Debate*, n. 82. São Paulo: Fundação Perseu Abramo, 2009.
- BOTELHO, Adriano. *O urbano em fragmentos. A produção do espaço e da moradia pelas práticas do setor imobiliário*. São Paulo: FAPESP / Anablume, 2007.
- CASTRO, Carolina M. P. A explosão do autofinanciamento na produção de moradia em São Paulo nos anos 90. São Paulo: Universidade de São Paulo, Tese de Doutorado em Arquitetura e Urbanismo, 1999.
- COUTINHO, Luciano. A Crise Financeira Internacional, os Impactos sobre a Economia Brasileira e o Papel do BNDES. Apresentação no Senado Federal em 27 de maio de 2009. Disponível em http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/download/apresentacoes/senado_federal_coutinho.pdf acessado em 23/07/2009.
- HEREDA, Jorge. (2004). *Síntese do Diagnóstico Habitacional Brasileiro*. Brasília. Ministério das Cidades. Secretaria Nacional de Habitação. Disponível em <http://www.fehab.com.br/APRES/>. Último acesso: 24 de setembro de 2005.
- INSTITUTO DE PESQUISA ECONÔMICA APLICADA (IPEA). Desigualdade e pobreza no Brasil Metropolitano durante a crise internacional: primeiros resultados. *Comunicado da Presidência*, n. 25. Brasília, agosto de 2009. Disponível em [WWW.ipea.gov.br](http://www.ipea.gov.br), acessado em 06 de agosto de 2009.
- JARAMILLO, Samuel. *Produccion de vivienda y capitalismo dependiente: el caso de Bogotá*. Bogotá, Universidad de los Andes, s/ data,.
- LEAL, J. A. A. Financiamento Habitacional e os Requisitos para Desenvolver o Mercado de Títulos Hipotecários no Brasil: uma análise a partir da experiência americana e chilena. *Anais do IX Encontro Nacional da ANPUR*, 2001. Rio de Janeiro: ANPUR (Associação Nacional de Pós-Graduação e Pesquisa em Planejamento Urbano e Regional), v. 3, p. 1436-1445, 2001.

- MARICATO, E. . Metrópole, legislação e desigualdade. *Estudos Avançados*, São Paulo - IEA USP, v. 17, n. 48, p. 151-166, 2003
- RIBEIRO, Luiz Cesar de Queiroz. **Dos cortiços aos condomínios fechados**: as formas de produção da moradia na cidade do Rio de Janeiro. Rio de Janeiro: Civilização Brasileira, 1997.
- RIBEIRO, Alex. Juros, inflação e bolhas imobiliárias. *Valor Econômico* (newspaper). Page A2, 08 jul 2009.
- ROJAS, Eduardo. Scaling up housing programs for the poor. Apresentação no Seminário Housing the Urban Poor, organizado pelo Wilson Center, Washington, maio 2007. Disponível em <http://www.wilsoncenter.org/events/docs/Scaling%20up%20housing%20programs%20for%20the%20poor%20in%20Latin%20America.pdf>. Acessado em 12/08/2008.
- ROJAS, Eduardo. Scaling up housing programs for the poor. Apresentação no Seminário Housing the Urban Poor, organizado pelo Wilson Center, Washington, maio 2007. Disponível em <http://www.wilsoncenter.org/events/docs/> . Acessado em 12/08/2008.
- TOPALOV, Christian. **Le logement en France**: histoire d'une marchandise impossible. Paris: Presses de la Fondation Nationale des Sciences politiques, 1987.
- TOPALOV, Christian. **Les promoteurs immobiliers**. Paris: Mouton, 1974.
- VALENÇA, Marcio M. Poor politics poor housing. Policy under the Collor government in Brazil. *Environment and Urbanization*, vol 19 (2), p. 391-408, 2007