

Call for Research Proposals

Housing Markets in Latin American and Caribbean Cities: Implications for Development and Macroeconomic Stability

1. Justification and Background

Well-functioning urban housing markets can foster development, poverty reduction, and improvements in quality of life. Specific housing and residential public regulation, government policies and institutions in sectors such as transport, urban development, urban land titling and basic public service provision and specific programs in public housing and housing finance affect the proper functioning of housing markets. These policies, institutions and regulations can contribute to increased home ownership and the emergence of well-functioning rental markets and better housing conditions, as well as improved access to basic services for the poor, but they may also increase the cost and availability of formal housing, especially for low-income households.

Recent studies have established strong links between access to adequate housing, home ownership and a series of indirect welfare outcomes such as improved access to credit, increased productivity in family-owned businesses, improved labor market insertion, and ultimately increased household income. Despite these strong documented benefits associated with adequate housing and home ownership, there remain many questions regarding the appropriate policy tools for improving the efficiency of housing markets and access to adequate housing, particularly among the poorest segments of population. Public housing programs demand significant resources, and if not implemented properly they can be regressive and can unnecessarily crowd out private investment. The policy mix between housing and residential regulation and the provision of basic urban public goods is also a key determinant of housing and residential development and penetration.

This research project will fund a series of studies to assess developments in urban housing market developments in LAC, focusing particularly on identifying government and market failures that hamper their development and the impact of these developments on broader development outcomes, growth and business cycles.

Well-functioning housing markets both require macroeconomic stability and are conducive to it. Housing services are largely non-tradable, however, and there is a history of boom-bust cycles driven by policy shocks and transmitted through expansion and subsequent contraction of the non-tradable sector in LAC. It is therefore interesting to investigate the extent to which the housing sector is the ultimate driver of those fluctuations.

In addition, housing markets affect the severity of business cycles through their effects on the labor market. In many economies movements in employment in the construction sector contribute not only to amplifying the cycle, but also to generating “poverty traps” that hurt the long-term growth prospects of the economy. Moreover, changes in employment are usually the motivation for applying fiscal policy in response to crisis.

2. Objective

This Research Project will support studies that examine the main drivers of housing markets and analyze the factors constraining the penetration of the formal housing market among the poorest segments of the population. Selected studies will also examine the role of public regulation and programs in housing provision and financing and, in related sectors, address the importance and channels of transmission of housing shocks for overall economic growth and the business cycle. The ultimate objective of the research papers is to identify and discuss market and regulation failures that hamper the development of housing markets and policy options to address them.

The project will support country studies that aim to cover up to four main areas: The first area aims to describe urban housing markets in the largest metropolitan areas of a LAC country. The second and third areas should relate to an empirical analysis of determinants of the housing market, distinguishing between demand and supply-side factors. Studies should aim to address the fundamental questions of what constrains the consumption and production of housing in LAC, especially formal housing, and what are the most effective policies for easing those constraints. The fourth area should investigate the importance of the housing market for overall economic growth and the business cycle in LAC countries. In each of these areas, studies should identify and discuss policy options for addressing market and regulatory failures and promoting housing market development.

3. Scope and Methodology

Each research paper should include or aim to cover up to four sections/areas, as described below, and should include a closing section on policy implications. Due to data limitations and budget limitations, the number, depth and extension of the areas cover may vary from country case to country case. Preference will be given to proposals that aim to rigorously cover most areas.

The **first section/area** should cover the salient features of the housing sector, attempting to identify possible market or government failures in the national housing market. This section should present facts and figures that provide a clear and accurate picture of the sector, including how it works and how well it functions. This section will describe the state of housing in the country, including formal private and public housing supply, rental markets, informal home ownership, slum prevalence, incremental and self-built housing, access to urban amenities, characteristics of housing finance, home ownership and life satisfaction and home ownership and income distribution. When possible, statistics will be reported by cities and by income level, benchmarked to international comparators, and presented in time series. When possible, housing outcomes will be related to differences in population growth, urbanization, demographic trends, segregation, and political regime, among others. This first section should also include a subsection reporting a detailed description of zoning restrictions and other restrictions on urban land use and their evolution over time, as well as other key supply-side bottlenecks.

The **second section/area** should aim to explore the determinants of housing demand and household choices regarding formal vs. informal housing solutions, incremental vs. non-incremental, ownership vs. rental housing, etc. This section should further discuss how these choices are driven by affordability issues vis-à-vis preferences. This section should also aim to shed light on the influence of demographic factors (such as migration and changes in household composition and size) on housing demand. This section may also include an analysis of the policies and programs that have been used to increase formal housing choices, policies to support incremental construction, or policies to promote rental markets, and will analyze the impact of such policies and programs. In this section the use of cross-section or household-level panel data (so as to estimate, for instance, dynamic, semi-structural demand equations) will be particularly appreciated.

The **third section/area** on housing supply should aim to identify the constraints that households and developers face in adopting building techniques and types of architecture that lower building costs,

Call for Research Proposals:

Housing Markets in Latin American and Caribbean Cities:
Implications for Development and Macroeconomic Stability



VPS - RES

improve building quality, and reduce environmental impacts. This section should also try to focus on the relative affordability/costs of traditional vs. new building techniques, the functioning of the market for construction materials and the effects of market failures, taxation and regulation on materials costs. Studies may also aim to analyze the effects of government housing and residential programs, policies and regulation on the supply of housing. The functioning of the construction materials market should also be considered as a driver of demand for the incremental housing market. The use of microeconomic data sets at the level of households and firms would be particularly appreciated. Data should be either time series (so as to estimate, for instance, dynamic, semi-structural supply equations) or panel data and cross-sections of more disaggregated data (at the firm level, for example).

The **fourth section/area** should cover the role of the housing sector as a determinant of economic growth and the business cycle. Studies should aim to use theoretical and/or empirical models that explain facts and establish causality. Data permitting, studies should also aim to include and use quarterly time-series data for house prices and quantities, as well as other relevant macroeconomic variables, including but not limited to residential investment, durable consumption, non-tradable consumption and output, and labor market indicators to be combined with national account data. In this section the use of microeconomic data sets at the level of household and financial institutions will be particularly appreciated. Studies that aim to quantify the effects of housing regulation and market failures on economic and growth and employment generation will also be particularly appreciated.

Finally, studies should conclude with a section that emphasizes policy implications. Each study should identify and discuss policy options to address market and regulation failures and promote housing market development.

In general, submitted proposals can focus on a single country or a group of countries with similar characteristics. Similarly, proposals can cover one or more of the four parts suggested, but precedence will be given to the proposals that aim to rigorously cover most of the sections described above.

4. Selection Criteria

Research institutions or teams of individual researchers may present a proposal for this project. The final number of proposals accepted will depend on the quality and the proposed budget of the proposals received. Each approved research proposal will receive financial support from the IDB of up to US\$25,000. Proposed budgets will be evaluated taking into account the scope of work proposed. Projects that seek extra funding to complement financing by other institutions are strongly encouraged.

Proposals should include a detailed background section and literature review, data templates (in Excel format) to be used in the study, with a preliminary assessment of data availability, and a detailed description of the methodologies and empirical strategies to be used for each section or area that will be covered. The bibliography of this call for proposals lists several references for the empirical strategies used in the literature.

Final papers will be considered for dissemination as IDB working papers and may be included in a book or a special journal issue on housing markets in LAC. For studies with only IDB funding, other forms of dissemination or publication should be explicitly approved by the coordinators until the journal issue option has been fully defined. Proposals may include suggestions for further dissemination of the final version of the paper and its policy implications.

5. Proposal Submission

Research institutions or individual researchers interested in submitting a proposal should pre-register before **March 5, 2010** by [clicking here](#). If unable to pre-register before the due date for proposals (March 26), please send an email to red@iadb.org. Proposals are due **Friday, March 26, 2010**.

Call for Research Proposals:

Housing Markets in Latin American and Caribbean Cities:
Implications for Development and Macroeconomic Stability



VPS - RES

Proposals should be submitted using the [Web Submission Form](#). **Please note that there are two options within the submission form: one for institutions and another for teams of individual researchers. Please make sure to choose appropriately.**

The following information will be required for submitting your proposal:

- The proposal with all the technical aspects involved in the development of the study, based on the Terms of Reference outlined in this Call for Proposals.
- A budget indicating the time and resources that will be used within the context of the research work plan. **The budget is requested as a separate file and should not be included in the proposal.** The budget proposed should disaggregate items financed by the IDB contribution and those financed by the research institution or by the team of individual researchers. The budget should distinguish among amounts assigned to professional honoraria, “overhead” and other major categories of research expenditures.
- The name and Curricula vitae (three pages maximum per researcher) of the research leader and other researchers involved. The research team should demonstrate its ability to meet the objectives of the project, including relevant experience. Please note that for proposals submitted by institutions, subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from the project coordinators, but the research leader (of each subject) should lead the entire project until its full completion. Conditions regarding the substitution of researchers apply only to contracts with institutions and not to contracts with individual researchers.
- If an institution submits the proposal, it must provide the name and contact information of its legal representative, with authority to sign contracts with the IDB, if selected to conduct the study.
- If a team of researchers submits the proposal, the IDB will enter into a separate agreement with each individual. For this reason, a detailed budget including honoraria and expenses for each researcher is required.

Note: ALL proposals and research papers should be submitted in English.

6. Coordination and Schedule

The IDB project team consists of the following individuals: César Bouillon (technical coordinator), Arturo Galindo, and Fernando Cuenin. David E. Dowall, University of California at Berkeley, will act as external advisor for the research project.

The tentative schedule of activities is as follows:

- **March 8, 2010:** Due date for **pre-registration**
- **March 26, 2009:** **Due date for receiving proposals.** Institutions and researchers should ensure that complete documentation is submitted through the [Web Submission Form](#).
- **April 16, 2009:** Announcement of selected research proposals.
- **April 27-28, 2009:** Initial **videoconferences** with selected research teams.
- **May 28, 2009:** Due date for receiving a **preliminary report** with an annotated outline of the research paper, data sources, and the methodology to be used in the study.

Call for Research Proposals:

Housing Markets in Latin American and Caribbean Cities:

Implications for Development and Macroeconomic Stability



VPS - RES

- **September 10, 2009:** Due date for receiving a **first draft** of research papers.
- **September 23-24:** First Discussion **Seminar** (location to be determined).
- **November 26, 2010:** Due date for receiving a **second draft** of research papers and delivery of the datasets utilized by the study to the IDB.
- **December 6-7, 2010:** Second Discussion **Seminar** (location to be determined).
- **January 14, 2011:** Deadline for **final version** of the research papers, including a summary that discusses policy lessons.

7. Financial Aspects

The IDB will contribute up to **US\$25,000** for each study, depending on the scope of the work proposed.

The payment schedule is as follows:

- **30 percent** within 30 days of signing the formal agreement between the IDB and the respective research center or researchers.
- **20 percent** within 30 days of presenting and approving the **first draft** of the research paper.
- **20 percent** within 30 days of presenting and approving the **second draft** of the research paper and upon delivery of the datasets utilized by the study to the IDB.
- **30 percent** upon approval by the Bank of the **final research paper**.

8. Bibliography

- Angel S. 2000. *Housing Policy Matters: A Global Analysis*. New York: Oxford University Press.
- Arriagada Luco, Camilo. 2003. La dinámica demográfica y el sector habitacional en América Latina. Cuadernos de la Cepal, Serie Población y desarrollo No 33. Santiago de Chile.
- Bank for International Settlements – BIS. 2006. Housing Finance in the Global Financial Market. CGFS Publication No. 26 (Basel: Committee on the Global Financial System).
- Biderman, Ciro. 2008. Informality in Brazil: Does Urban land Use and Building Regulation Matter? Lincoln Institute of Land Policy Working Paper 08CB1.
- Brakarz, J., M. Greene, and E. Rojas. 2002. *Cities for All*. Washington, DC: Inter-American Development Bank.
- Bramley, G. 2003. Planning Regulation and Housing Supply in a Market System. In T. O'Sullivan and K. Gibb. *Housing Economics and Public Policy: Essays in honor of Duncan MacLennan*. Blackwell Science. Oxford.
- Buckley, R. and J. Kalarickal. 2005. Housing Policy in Developing Countries: Conjectures and Refutations. *The World Bank Research Observer* 20(2): 233-257.
- Campbell, J., and Z. Hercowitz. 2005. The Role of Collateralized Household Debt in Macroeconomic Stabilization. NBER Working Papers No. 11330 (Cambridge, Massachusetts: National Bureau of Economic Research).
- Cardarelli, R., Monacelli, T., Rebucci, A. and L. Sala. 2008. Housing Finance, Housing Shocks and the Business Cycle: VAR Evidence from OECD countries. Mimeo.
- Cho, Y. 2003. Economic efficiency of multi-product structure: the evidence from Korean house building firms. *Journal of Housing Economics* (12):337–355.
- Daniere, Amrita. 1992. Determinants of Tenure Choice in the Third World. *Journal of Housing Economics* 2 (2): 159-84.
- Dowal, D. E. 2007. Brazil's urban land and housing markets: How well are they working? In *Land policies and their outcomes*. G. K. Ingram. and Y-H. Hong, eds. Cambridge, MA: Lincoln Institute of Land Policy.
- Dynan, K., and D. Kohn. 2007. The Rise in U.S. Household Indebtedness: Causes and Consequences. Finance and Economics Discussion Series Working Paper No. 37 (Washington: Board of Governors of the Federal Reserve System).
- Follain, J. R. 1985. Estimating the Demand for Housing Characteristics: A Survey and Critique. *Regional Science and Urban Economics* 15 (5): 421-32.
- Follain, J. R., and E. Jimenez. 1985. The Demand for Housing Characteristics in Developing Countries. *Urban Studies* 22.
- Fontenla, M. and F. Gonzalez. 2009. Housing demand in Mexico. *Journal of Housing Economics* 18: 1-12.
- Friedman, Joseph, Emmanuel Jimenez, and Stephen K, Mayo. 1988. "The Demand for Tenure Security in Developing Countries." *Journal of Urban Economics* 29 (2): 185-98.

Call for Research Proposals:

Housing Markets in Latin American and Caribbean Cities:
Implications for Development and Macroeconomic Stability



VPS - RES

- Galindo, A. and E. Lora. 2005. Foundations of Housing Finance. In IDB. *Unlocking Credit: The Quest for Deep and Stable Bank Lending*. Johns Hopkins University Press: Baltimore.
- Gilbert, A. 2001. Housing in Latin America. INDES – European Union Working Paper I-7UE. Washington, DC: Inter-American Development Bank.
- Glaeser, E.L. and J. Gyourko. 2003. The impact of building restrictions on housing affordability. *Fed. Reserve Bank New York Econ. Pol. Rev.* 9 (2), 21–39.
- Goodman, A. and T. Thibodeau. 2003. Housing market segmentation and hedonic prediction accuracy. *Journal of Housing Economics* (12):181–201
- Green, R. K., S. Malpezzi, and S. K. Mayo. 2005. Metropolitan-specific estimates of the price elasticity of supply of housing, and their sources. *American Economic Review* 95(2):334–339.
- Henderson, J. V. 2007. The effect of residential land market regulations on urban welfare. Urban Research Symposium 2007. Washington, DC: The World Bank.
- Ingram, Gregory K. 1984. Housing Demand in the Developing Metropolis: Estimates from Bogota and Cali, Colombia. World Bank Staff Working Paper 633, Washington, D.C.
- Jimenez, Emmanuel. 1982. The Economics of Self Help Housing: Theory and Some Evidence from a Developing Country. *Journal of Urban Economics* 1 (2): 205-28.
- Lall, S. V., H. G. Wang, and D. da Mata. 2006. Do urban land regulations influence slum formation? Evidence from Brazilian cities. Mimeo.
- Malpezzi, S. 1999. Economic Analysis of Housing Markets in Developing and Transition Economies. In P. Chesire and E. S. Mills, eds., *Handbook of Regional and Urban Economics*. North Holland. New York.
- Malpezzi, S. 2003. Hedonic Pricing Models: A selective and applied review”. In T. O’Sullivan and K. Gibb. *Housing Economics and Public Policy: Essays in honor of Duncan MacLennan*. Blackwell Science. Oxford.
- Malpezzi, S. and S. Mayo. 1987. The Demand for Housing in Developing Countries. *Economic Development and Cultural Change* 35 (4): 687-721.
- Mehta, E. and D. Cira. 2002. Annex A: Urban Low-income housing in the Third World: A Review of the Literature in Brazil Low-income Housing: Alternatives for the Urban Poor. Washington, DC: World Bank.
- Monk, S. and C.M.E. Whitehead. 1996. Land Supply and Housing: a Case-study. *Housing Studies* 11 (3): 407-423.
- Olsen, Edgar O. 1987. The Demand and Supply of Housing Services: A Critical Review of the Empirical Literature. In E.S. Mills, ed., *Handbook of Regional and Urban Economics*. Amsterdam: Elsevier.
- Osório, L. M. 2003. Parcelamento, urbanização e regularização do solo no Rio Grande do Sul. In *A lei e a ilegalidade na produção do espaço urbano*, Fernandes and Alfonsin, coordinators. Belo Horizonte: Del Rey.
- Payne, G. 2001. Lowering the ladder: regulatory framework for sustainable development, Development in Practice.

Call for Research Proposals:

Housing Markets in Latin American and Caribbean Cities:
Implications for Development and Macroeconomic Stability



VPS - RES

-
- Quigley, J. M. 2003. Transaction Costs and Housing Markets. In T. O'Sullivan and K. Gibb. *Housing Economics and Public Policy: Essays in honor of Duncan MacLennan*. Blackwell Science. Oxford.
- Quigley, J. M. and S. Raphael. 2003. Is Housing Unaffordable? Why Isn't It More Affordable? Working Paper W03-002. University of Berkely.
- Quigley, J. M., and S. Raphael. 2005. Regulation and the high cost of housing in California. *American Economic Review* 95(2):323–329.
- Somerville, C.T., Mayer, C.J., 2003. Government regulation and changes in the affordable housing stock. *Fed. Reserve Bank New York Econ. Pol. Rev.* 9 (2), 45–62.
- Stone, M. 2006. What is housing affordability? The case for the residual income approach. *Housing Policy debate* 17 (1): 151-183.
- Thalman, P. 2003. 'House poor' or simply 'poor'? *Journal of Housing Economics* (12):291–317
- UN-HABITAT. 2003. Rental Housing: An essential option for the urban poor in developing countries. Nairobi. United Nations Human Settlements Programme.
- World Bank. 1993. Housing: Enabling markets to work. World Bank Policy Paper, Washington DC The World Bank