

**HOUSING DEMAND AND TENURE CHOICE IN BRAZILIAN URBAN AREAS****Maria da Piedade Morais**

Researcher, Institute of Applied Economic Research – Ipea.

E-mail: &lt;pedade@ipea.gov.br&gt;.

**Bruno de Oliveira Cruz**

Researcher, Institute of Applied Economic Research – Ipea and Director of Socioeconomic Studies-Dieps at Codeplan/DF.

E-mail: &lt;bruno.cruz@ipea.gov.br&gt;.

In Brazil, like in other Latin American countries, the governmental housing policies have emphasized the promotion of homeownership in formal housing markets as the best way of satisfying the housing needs of the population, assigning renting an inferior status.

In developed countries several studies boast the positive impacts of homeownership on children, neighborhood conditions and civic participation. There is also a huge body of literature stressing the importance of self-help housing to promote homeownership among the urban poor in Latin American cities.

Housing is both a consumer and investment good. Besides being a basic human need, housing usually corresponds to the main asset in households' portfolio all over the world. However, housing tenure conditions vary deeply across countries, irrespective of income patterns, region of the globe and levels of development. When we analyze tenure conditions in developing countries we can find a multiplicity of housing solutions, that include homeownership and renting in formal housing markets, squatting and renting in informal settlements up to the occupancy of rent-free housing, ceded by relatives and employers.

In this sense, this paper intends to analyze the main determinants of tenure choice in Brazil in formal and informal housing markets using micro-econometric techniques. The main explanatory variables to modeling the household tenure choice take into account the demographic, social and economic factors such as household life cycle, income level, wealth and labor market status, among others. The main source of information is the Brazilian Census Bureau (IBGE) 2005 National Household Survey (Pnad) microdata. This study also analyzes the tenure conditions and the various degrees of tenure security of the Brazilian

households as well as to what extent the informality in the housing market is correlated with informality in the labor market.

By modeling the tenure choice behavior of the Brazilian households the paper could contribute with several insights over the consumers preferences in the housing market, allowing for a better matching between housing supply and demand, showing the obstacles faced by the poor to access adequate housing, and helping the government in the design of housing policies better adapted to the household demand and income level, and, therefore more effective to meet the different housing needs of the Brazilian population.

Based on the literature review, the paper classifies the determinants of tenure choice into four main blocks of variables: 1) life cycle and household characteristics; 2) wealth and permanent income; 3) social vulnerability and credit constraint; and 4) location variables.

The life cycle variables such as age, marital status and household size show a good adjustment and the expected signs. The age variable presents a positive coefficient, reflecting the effects of life cycle, where an increase in age increases the probability of homeownership. The longer the time of residence in the municipality the higher the probability of homeownership, with the negative impact of being a migrant dissipating over time.

The main results show that wealth is a good predictor for formal ownership and that current income, albeit statistically significant, has very limited impact on tenure choice decisions. Life cycle variables such as age of the household head, marital status and household size increase the probability of formal homeownership.

More vulnerable households such as the poor, the afro-descendants or single women with young children have a higher probability to live in the informal sector, showing that they have limited tenure choice. The inclusion of information on tenure informality in the analysis improves the quality of the forecasts and changes the sign of the impact of afro-descendants in homeownership.

The effect of education on tenure choice is significant, but the sign of the impact depends on the specification of the dependent variable. Education enhances the probability of being in the formal housing sector, either as a renter or an owner. Recent migration has a negative impact on homeownership, but this negative impact of migration dissipates over time.

Generally, the forecast performance of the extended Multinomial Logit models, that include informal tenure arrangements in the dependent variable, was superior to the simple Logit dichotomous owner versus rent model in identifying the main determinants of tenure choice in Brazil.

One general recommendation of the paper is that policy makers should not focus exclusively on owner-occupied housing as the best housing solution, but that a wider range of housing options with different tenure arrangements, prices, qualities and locations should be available to Brazilian households, from which they can choose the solutions that better fits their housing needs. In this sense, rental housing can offer good housing solutions for young people in search of employment opportunities and newly arrived migrants, with the importance of rental markets to alleviate housing shortage increasing in urban agglomerations and fast growing urban areas.

Furthermore, policy makers should give more attention to variables such as wealth and income distribution, household composition and life cycle characteristics when designing housing policies and programs, if they want to promote economic efficiency and social inclusion in the Brazilian housing markets.

SUMÁRIO EXECUTIVO