

XXXIII IAHS – Secondary Markets, Sustainable Habitat and Social Capital: The Criticality of Community and Culture

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Abstract

Are the poor worth investing in? Sustainable development implies that invested resources should be recyclable indefinitely.

Contemplation of Target 11, of the UN Millennium Development Goal7 - to improve the lives of 100 million slum dwellers, establishes an imperative for the significant scaling up of shelter delivery, and, theoretically, having met the target the habitat established would, not fall into disrepair over time, or become unsafe to live in.

What guarantee could any investor obtain, that the habitat established under the initiative will be sustainable? Investments made by governmental or non-governmental entities in the delivery of housing tend not to focus beyond the utility value of the shelter provided, and this often only in the short term, and seldom are they concerned with the sustainability of the delivery system, i.e. the recyclability of invested resources.

It is often stated that the real fruit of an apple tree is its seed. The flesh may provide temporary benefit, but the it is the seed which represents the capacity for sustainability and for exponential growth. What is the seed of a housing delivery system: a house? or the potential to reproduce houses exponentially. Housing delivery has to satisfy more than a primary market.

This paper advocates that a creation of a secondary market for housing is essential for scaling up delivery, furthermore, it asserts that a successful secondary market is the evidence of sustainable development, economically, socially and environmentally.

The paper is motivated by evaluations of work undertaken by Habitat for Humanity in Africa and the Middle East. It does not purport to be a scientific assessment of the subject, rather it is intended to stimulate dialogue and direct further research in the arena of culture, social capital and sustainable housing delivery.

1 Introduction

An estimated 1 billion people currently live in life and health threatening dwellings and neighbourhoods. Clearly there is an imperative for exponential delivery, and implied therein, a great need for appropriate housing delivery systems that have the ability to recycle resources and ‘reproduce’ exponentially. At the same time we also need to ensure that the housing stock and living environments established in this generation need to be sustained to serve multiple generations. Housing and the Environments. Intra-generational returns on investment need to be borne in mind if long term alleviation is to be realised. Concerns have been raised that much focus has been given to satisfying primary market for housing, and that governmental and NGO investors have not insisted upon the recyclability of resources invested. The short sightedness of this approach has meant that little concern is vested in the long term sustainability, both of habitat created, and of the delivery system itself. Critics suggest that the much lauded low housing landscapes of South Africa may even constitute the next generation’s slums!

Habitat for Humanity by virtue of its involvement as a ‘builder’ (implementer of housing stock) a ‘banker’ (financier and lender) and ‘social developer’ (community based management) is concerned with the short term delivery and long term sustainability (economic, social and environmental). HFH has collated anecdotal evidence of the potential of a secondary market to facilitate and sustain delivery to cause loan to value (appreciation) and the role of social capital in maintaining well-being, creating value and mitigating risk.

This paper therefore serves to explore the following:

- The importance of secondary market for delivery system sustainability
- The impacts of Urbanisation upon secondary market development and sustainability
- The significance of the secondary market for wealth creation amongst the urban poor
- That the vitality of the secondary market is evidence of both a sustainable delivery system and of sustainable habitat
- That social capital is a critical variable in determining the sustainability of habitat, and by implication the viability of a secondary market.

2 The Purpose of a Secondary Market

Housing represents significant potential for asset and wealth accumulation, particularly for poor families who invest savings and other resources in their home. But without an effective secondary property market the economic benefits cannot be properly realised . A secondary market is also critical for by converting illiquid on-balance sheet credits into potentially liquid asset-backed securities, thereby creating stability for the housing finance system and a mechanism for sustainable supply of housing finance.

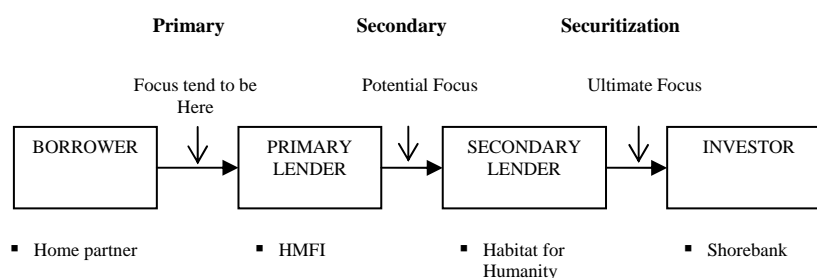


Figure 1. Primary and Secondary Housing markets [1]

2.1 The value of secondary markets to the Low Income Homeowners:

Where a secondary market exists in which houses may be traded, a house may, apart from its social and utility value, possess a value based on such a market. This value has the ability to provide the homeowner:

- Collateral Asset for accessing credit (home improvement , education or business loans)
- A Safety-net – tradeable in times of financial hardship
- Legacy for dependents

The above value is only realisable if there is an operating secondary market. Current ineffectiveness of secondary residential market undermines the ability for the poor to derive the above economic value/benefits. [2]:

2.2 The value of secondary markets to Finance Institutions and Housing supply:

“...the total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least \$US9.3 trillion - wealth that also constitutes by far the largest source of potential capital for development. De Soto, [3]

Value of Unexploited Low Income Secondary market in South Africa: \$10 billion [4]

Delivery of affordable loan financed housing depends on the functionality of the secondary market, i.e. the ability to realise security in land title and mortgage contracts. Such securities enable [5,6]:

- Providing liquidity to the banking system by converting illiquid on-balance sheet credits into potentially liquid asset-backed securities
- Mobilizing longer term funding for housing lenders by tapping long term capital markets
- Extending broader access to housing credit through repackaging risk (restructuring and reallocating various housing finance risks so that they are more efficiently borne throughout the economy
- Developing the national capital markets through the issuance of debt securities (not simply government credits)

2.3 Pre-Conditions to the Development of a Secondary Market

- There must be a suitable legal and regulatory regime, (e.g. land titling, cession of loans)
- There must be a functioning Primary market
- There must be a functioning Capital market

2.4 Barriers to Realizing a Secondary Market

Economic Barriers include:

- High levels of economic vulnerability cause income instability and fluctuations in repayments.
- Cost of living in another area: Limited alternative/affordable housing limits relocation.
- Lack of other housing options: Where rental, subletting options are not available
- National Subsidy Programme: artificially distort the market by competing with accommodation provided by the market (such as rental and/or subletting).

Social/Cultural Barriers:

- Scarcity of and length of time to access to land and housing prohibits selling.
- The social or symbolic value of the house exceeds economic value.
- Strong sense of community and place: Attachment to community prevents relocation
- Inheritance – property retained for legacy purposes.

Environmental

- Inability to realise value due to the poor quality of the house and the living environment.

3 Sustainable Habitat

3.1 Defining Sustainable Habitat

“Sustainable habitat is about maintaining and enhancing the quality of human life – social, economic and environmental – while living within the carrying capacity of supporting ecosystems and the resource base” (Modified from Barton [7])

“Sustainable Development, both inter and intra-generational, is development that does not require resources beyond its own (environmental) capacity, is equitable, promotes social justice, and is created through inclusive decision-making procedures “ Modified form Burgess, Jencks[8]

Sustainability implies that a system does not consume more resources than it produces. A sustainable housing delivery system, therefore, should generate sufficient resources to perpetuate its own existence. The evidence of proper functioning secondary markets suggests that the capital required to finance the provision of new housing is able to be generated from such a market. The sustainability of such resources are in turn dependent upon economic, social (cultural) and environmental (built) determinants. Accordingly, the secondary market may serve as a useful proxy for gauging the sustainability of Human Habitat.

3.2 Secondary Market as a Proxy for Sustainable Habitat

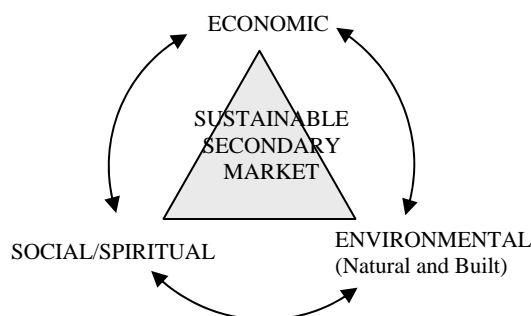


Figure 2. Sustainable Housing Market

Figure 2. illustrates the relationship between Economic determinants (e.g. Income/ Repayments/Credit Supply), Social Determinants (Enforcement of Norms and Values, Cultural reinforcement of selling property) and environmental; Determinants (Quality of the House and Living Environment)

Sustainability of the secondary Market is dependent on how each of these performs and how they reinforce each other.

3.2.1 Development of Secondary Market Value Indicators

In the design of housing delivery programs and in pursuance of sustainable investment, Habitat for Humanity has determined four areas for which it is seeking a return. Figure 2 illustrates how each of these value areas is affected by the determinants of sustainability. The indicators are:

- Market Value (Economic): Serves as an indicator of demand or desirability. As the demand increases, so does the value. The value serves as an indicator of desirability of the location, environmental quality, amenity and social capital.
- Fund Value (Economic: This relates to a funding mechanism employed by Habitat for Humanity into which loans are repaid and from which credit is sourced. The status or viability of the fund is affected by the repayments made by lenders, and resilience against economic factors such as inflation and exchange rates.
- Social Value: Measures the value attached to social networks related to the community.
- Amenity Value (Spatial, Environmental): Qualitative and quantitative value of the living environment, shelter and settlement

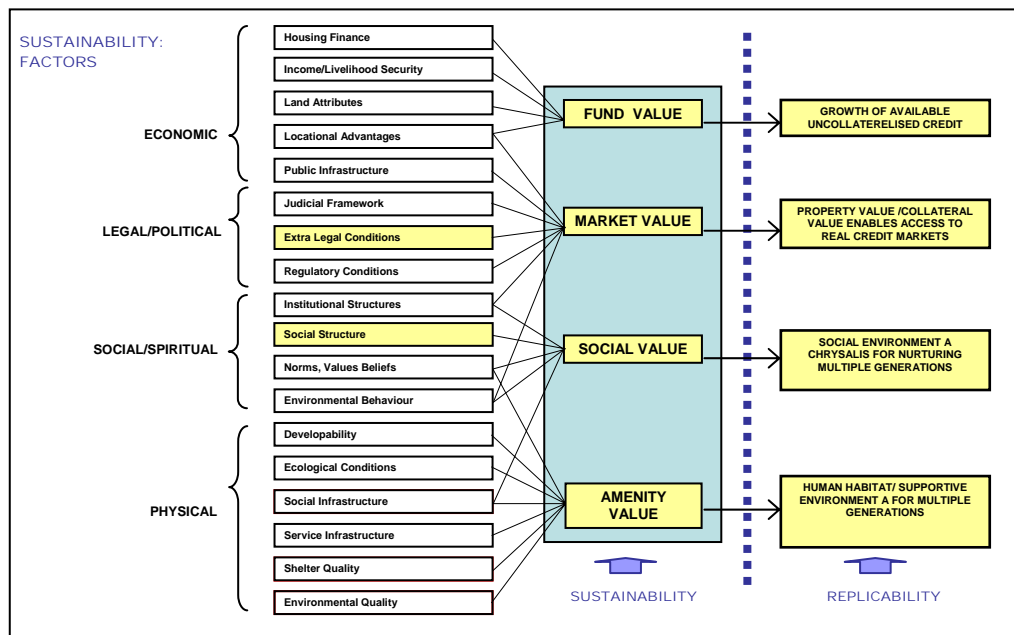


Figure 3: Secondary Market : Determinants of Value

4 Social Capital

Of the three One of the areas which receives less attention in housing development and investment is the social and spiritual determinants of sustainability. There has been great emphasis on Economic Development principles and practice, endorsed the development of livelihood strategies, micro credit and enterprise development and livelihood strategies endorsed by the ILO, ITDG, in the legal and regulatory field, DeSoto and Payne, amongst others have highlighted the importance for the

legalization and formalization of land titling systems, simpler forms of contract, development processes etc., Urban Designers, Planners and Architects have provided substantial guidelines to appropriate technology, spatial structure, responsive and sustainable urban form, however the area of social determinants remain largely unexplored. We have yet to generate guidelines, or standards which establish social norms, values and behavioral practices that are appropriate to sustaining and supporting a secondary market. This is probably the most contentious of the determinants, but in practice, is the key to success and failure of housing investment. The study of Social Capital offers some guidance.

“Social capital refers to the internal social and cultural coherence of society, the norms and values that govern interactions among people and the institutions in which they are embedded. Social capital is the glue that holds societies together and without which there can be no economic growth or human well-being” [9]

4.1 Benefits of Social Capital

Most authors agree that the benefits of social capital are caused by interconnections among people operating primarily the following three mechanisms[10] :

- Reciprocity - Linking Trust and Cooperatives Activities: based on the idea that cooperative activities enhance trust just as trust enhances the likelihood of cooperative activity
- Information Obtained via Social Capital Networks: which allows individuals to exchange useful information. Information creates benefits, and such benefits feed back into the perceived value of connection within the network
- Establishment of Community Norms and Sanctions: refers to standards of behavior within a community to which community members are expected to conform. These rules of behavior are believed to stabilize a community by making community life reasonably predictable. People know what to expect under a variety of circumstances and can carry out their needed tasks without difficulty

4.2 Constraints of Social Capital

Generally Social Capital has positive connotation however not all social capital is good [11]. The same mechanisms that may contribute to enhance social, environmental and economic benefit may also be exploited by ‘free-riders’ or ‘rent-seekers like the Mafia, or produce solidarity around the unwillingness to repay debt as is evidenced in South Africa as well as other Africa. These activities can be detrimental to the creation and sustainability of a secondary market. The role of Government ,while peripheral to the formation of social capital, is key to creating an enabling regulatory and legal context in which the positive attributes are encouraged and negative effects militated against or controlled. Listed below are programme design criteria habitat for humanity have employed to mitigate against the risk of negative social capital. (section 5)

4.2.1 Collateral and Reputation – Economic Instruments of Social Capital

Apart from the economic benefits related to property value within a secondary market an additional benefit of social capital is that of enhanced reputation. While enhanced property value increases asset or collateral value and thereby, the opportunity to leverage credit, enhanced reputation and identity is

an outcome of social capital which brings about economic and other benefits. Reputation may be enhanced by Institutional Capacity, Mandatory savings, Home or Land Ownership, Simple Enforcement of Loan contracts and Borrower Education. Reputation reduces finance risk. Areas of high social capital tend to have lower rates of default on loans thereby reducing risk to potential lenders. Reputation thus promotes viability of a Secondary Mortgage Market by reducing risk and enhancing value.

5 Urbanisation as a Positive Development Process

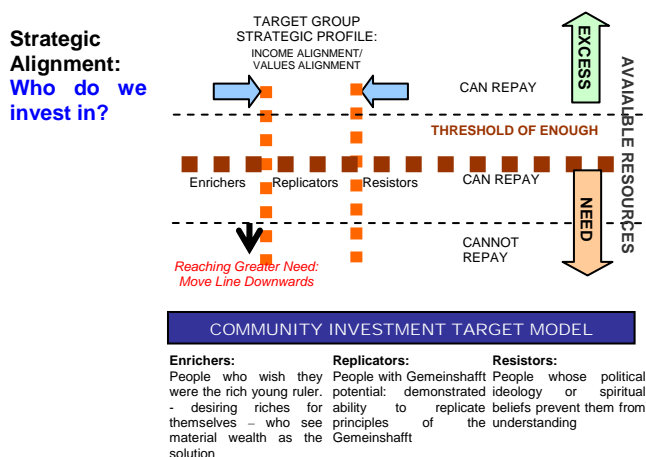
Traditional communities provided a chrysalis for enabling exchange, protecting and for nurturing future generations. This collaborative approach to life is lost when entering the modern city [12] People are thrown into a melting pot in which they are forced to interact by proximity, not by shared history, blood ties, values, or destiny. Over time, the concept of community and social capital can be eroded unless the housing development process is designed to take advantage of the social capital potential inherent in recently urbanised citizens. Table 2 attempts to the opportunities available to designers of housing programmes:

5.1 Program Design

Table 2: Implication of Urbanisation: Opportunities and Constraints

SUSTAINABILITY DIMENSION	CONSTRAINT (If unrecognised, or ignored)	OPPORTUNITY (recognised as a design determinant)
SOCIAL	Fragmentation of the Community and Family	Urban Community - across ethnic lines based upon common vision and values
	Loss of Common Culture (traditional Norms and Values under Threat)	Formation of Collective Values based on positive traditional values
	Disorientation (language, behaviour melting pot)	Processes for benefiting from heterogeneity
	Vulnerability and Trauma (physical abuse, war, genocide, famine etc)	Design Processes for Community Integration
	Patronage form of Leadership (political, Shacklord or leadership vacuum)	Design Community Based Governance Structure
	Pressure to Conform	Community/Individual Rights Balance
ECONOMIC	Urban skill deficiencies – orientation toward low skilled labour employment	Housing Process to develop skills, Create opportunity ladder and network toward economic integration
	No Credit history – No Collateral	Housing asset leverage credit/ build credit reputation
	Fatalistic Approach to development	Economic Dev. principles linked to Culture Formation
	Obstruction of upward mobility	Economic Dev. principles linked to Culture Formation
	Extra Legal (Common Law) Systems Develop	Extra Legal systems integrated into Formal Legal system to expedite social and economic development
ENVIRONMENTAL	Human Survival overrides Environmental concerns	Environment contributes to Human Survival – Linkage established and enshrined
	Environmental Degradation	Environmental Sustainability

Finally, In addition to the above program considerations, and as a result of funding limitations and demands for sustainable investment, communities need to be specifically selected against criteria which seek to enhance inherent social capital whilst diminishing risk. Figure 4 below provides an illustration of the device used for such selection.



Investment Selection Tool: Community, Location and Need

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