

DRI POLICY BRIEFING

# Housing Affordability: Top-Down Design and Spontaneous Order

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## Executive Summary

Urban planners are often suspicious of spontaneous order, associating it with chaos and anarchy. Though top-down design is indispensable for the construction of city infrastructure, it too often imposes excessive regulatory standards, which make housing unaffordable to the poor. In rapidly urbanizing countries, poor migrants from the countryside are especially hard hit: forced to either allocate a large share of their already meager budgets toward housing that meets government standards, or to enter the informal housing market, often characterized by its lack of legal oversight and poor municipal services. Subsidized housing provided to low-income households by governments rarely helps, as often this housing is too limited in scope.

However, cases in Indonesia, Vietnam and China illustrate a different possibility. In these cases, governments meet the infrastructural needs of low-income households without regulating housing consumption. These resulting spontaneous settlements successfully resolve the housing problem, as each household is free to make their own tradeoffs regarding floor space or other housing consumption factors, without compromising their access to municipal services.

A mix of top-down designed infrastructure and spontaneous neighborhood development is therefore best for keeping cities accessible to the poor. If governments focus on improving access to public services, households are free to decide on specific land uses depending on their individual income levels.

## Minimum Regulatory Standards Contribute to Unaffordable Housing Prices and Directly Result in Slums

City planners have a legitimate task to predict future population densities, and use these projections to plan infrastructure. However, too often these projections are used to justify ill-designed zoning plans, which end up constraining floor space and over-regulating housing consumption.

A wiser and cheaper alternative would be to adjust the capacity of existing infrastructure as population levels grow. This would avoid creating minimum housing consumption standards, which tend to push poor households out of formal housing markets into informal alternatives, which in turn keep them in further hardship.

Requiring people to consume a certain amount of floor space is therefore equivalent to outlawing poverty: it obviously doesn't work!

## Affordable Housing Provided by Government Rarely Solves the Problem

One direct and effective way to help the poor find housing which meets minimum housing standards is to provide cash subsidies. However, such demand-side subsidies are seldom used, mostly because they have one important political liability: the numbers are too transparent to be easily spun.

As a result, politicians resort to opaque and ineffective supply-side subsidies like “public housing” or “inclusionary zoning”. Public housing is notorious for inadequate design and poor upkeep, and inclusionary zoning never reaches a scope large enough to accommodate all low-income households.

## Spontaneous Settlements Unconstrained by Regulations Provides an Alternative Solution

In some countries that face rapid urbanization, a variety of spontaneous developments have emerged as solutions to the housing problem. By abandoning top-down design, low-income households can adjust their housing consumption to affordable levels.

For example, the Indonesian government exempts *kampongs* (former rural villages now absorbed into expanding cities) from city zoning codes. The residents of *kampongs* instead abide by their own “good neighbor norms”, while the government focuses upon infrastructure upgrades for the community. As a result, housing in *kampongs* have consistently improved over the years while being entirely demand driven, and are well equipped with safe water supply, sanitation, storm drainage and social services.

Vietnamese cities have adopted similar policies. As its cities expand, planners carefully avoid encroaching on existing villages while connecting them to the citywide infrastructure network. Urban villagers are free to expand their houses vertically, sometimes renting rooms to new families to cater to local demand. This elastic housing supply allows the majority of Hanoi’s low-income households settle in formal housing with public services provided by the government.

Despite these success stories, spontaneous settlements do not always succeed. When they arise without the cooperation of the government, the settlements may end up isolating residents from infrastructure, services and the urban labor market though providing affordable housing for low-income residents.

The El Mounira settlement in Cairo is such an example of land use not recognized by the government. Located just 5km from the city center, the neighborhood of El Mounira has a high demand for residential houses yet the government prohibits its development in the name of protecting underlying land. As a result, farmers sell their fields illegally to informal developers who build apartments for the low-income population of Cairo. As the settlement grows, more households move to the area without links to metropolitan infrastructure and reestablishing services proves impossible without major surgical civil work.

## Lessons

From the above cases, a number of simple lessons can be derived and applied to other cities with growing housing needs from low-income residents:

- (1) Introduce the concept of selected residential enclaves free from minimum regulatory standards for plot size, floor area, floor area ratio and street width.
- (2) Increase housing mobility by decreasing transaction costs when buying, selling, or renting housing units.

(3) Connect all existing settlements, legal or illegal, to the metropolitan infrastructure network.

(4) Instead of citywide minimum standards, use a system of rating locations—with higher ratings representing higher neighborhood standards.

Households have different needs for land-use determined by market forces. Acknowledging such needs and providing essential public services should be the role of the government. While top-down design remains indispensable to the planning of infrastructure, most real estate development should be the product of spontaneous order that emerges in response to market forces.